

Consolidated financial statements of

**The Corporation of the
City of Pickering**

December 31, 2013

The Corporation of the City of Pickering

December 31, 2013

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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, 2013, 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, 2013 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 16, 2014

The Corporation of the City of Pickering

Consolidated statement of financial position as at December 31, 2013

	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	54,141,827	45,111,221
Investments (Note 3)	38,949,562	36,956,156
Taxes receivable	16,150,622	17,047,859
Accounts receivable	3,786,196	3,266,085
Investment in Veridian Corporation (Note 4(b))	47,658,449	44,723,364
Promissory notes receivable (Note 5)	25,069,000	25,069,000
	185,755,656	172,173,685
Liabilities		
Accounts payable and accrued liabilities	18,730,167	12,451,636
Other current liabilities	96,129	92,048
Deferred revenue (Note 6)	54,587,493	49,179,733
Long-term liabilities (Note 9)	18,049,763	17,775,020
Post-employment benefit liability (Note 8(a))	4,092,800	3,652,600
WSIB benefit liabilities (Note 8(b))	991,559	907,759
	96,547,911	84,058,796
Net financial assets	89,207,745	88,114,889
Non-financial assets		
Tangible capital assets (Note 10)	205,294,283	192,638,717
Prepaid expenses	281,689	593,381
Inventory	295,933	239,019
	205,871,905	193,471,117
Accumulated surplus (Note 11)	295,079,650	281,586,006

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

The Corporation of the City of Pickering

Consolidated statement of operations as at December 31, 2013

		2013	2012
	Budget (Note 17)	Actual	Actual
	\$	\$	\$
Revenues			
Residential and farm taxation	37,902,203	38,034,035	35,562,752
Commercial and industrial taxation	9,853,990	10,273,366	9,888,025
Taxation from other governments	7,984,919	8,578,659	8,004,984
User charges	8,968,612	8,494,817	8,976,906
Government grants and fees	4,086,911	6,183,653	2,137,551
Other contributions and donations	2,380,565	3,218,128	894,383
Development charges and developer contributions earned	4,307,397	2,544,284	1,309,568
Contributed tangible capital assets	-	4,916,745	1,747,105
Investment income	178,500	506,444	316,542
Penalties and interests on taxes	2,650,000	2,509,162	2,740,853
Fines	897,000	866,162	945,702
Interest on promissory notes	1,426,850	1,426,852	1,426,852
Sale of Land	1,100,000	-	-
Equity share of Veridian Corporation earnings (Note 4 (c))	-	4,862,085	4,177,240
Other	167,610	253,073	297,209
Gain on disposal of tangible capital assets	-	394	-
	81,904,557	92,667,859	78,425,672
Expenses (Note 19)			
General government	15,076,057	14,109,587	12,895,782
Protection to persons and property	21,915,845	21,901,042	20,810,361
Transportation services	12,490,259	12,205,455	11,240,547
Environmental services	3,725,913	3,346,577	3,627,664
Social and family services	625,033	651,004	664,397
Recreational and cultural services	24,622,900	24,211,894	23,537,837
Planning and development	3,630,767	2,748,656	2,385,419
Loss on disposal of tangible capital assets	-	-	171,222
	82,086,774	79,174,215	75,333,229
Annual (deficit) surplus	(182,217)	13,493,644	3,092,443
Accumulated surplus, beginning of year	281,586,006	281,586,006	278,493,563
Accumulated surplus, end of year	281,403,789	295,079,650	281,586,006

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

The Corporation of the City of Pickering

Consolidated statement of change in net financial assets as at December 31, 2013

	Budget (Note 17)	2013 Actual	2012 Actual
	\$	\$	\$
Annual (deficit) surplus	(182,217)	13,493,644	3,092,443
Acquisition of tangible capital assets	(23,296,778)	(24,369,658)	(15,405,915)
Amortization of tangible capital assets	10,681,500	9,728,484	9,503,116
(Gain) loss on disposal of tangible capital assets	-	(394)	171,222
Proceeds on disposal of tangible capital assets	-	215,553	41,234
	(12,797,495)	(932,371)	(2,597,900)
Transfer of assets under construction to tangible capital assets	-	1,589,032	891,526
Assets under construction expensed	-	181,417	100,952
	-	1,770,449	992,478
Acquisition of inventory of supplies	-	(1,252,086)	(1,122,183)
Use of inventory of supplies	-	1,195,172	1,112,422
Acquisition of prepaid expenses	-	(274,189)	(993,225)
Use of prepaid expenses	-	585,881	1,017,887
	-	254,778	14,901
Change in net financial assets	(12,797,495)	1,092,856	(1,590,521)
Net financial assets, beginning of year	88,114,889	88,114,889	89,705,410
Net financial assets, end of year	75,317,394	89,207,745	88,114,889

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

The Corporation of the City of Pickering

Consolidated statement of cash flows as at December 31, 2013

	2013	2012
	\$	\$
Operating transactions		
Annual surplus	13,493,644	3,092,443
Non cash items		
Amortization of tangible capital assets	9,728,484	9,503,116
(Gain) loss on disposal of tangible capital assets	(394)	171,222
Equity share of Veridian Corporation	(4,862,085)	(4,177,240)
Contributed tangible capital assets recorded in revenue	(4,916,745)	(1,747,105)
Change in non-cash operating items:		
Decrease in taxes receivable	897,237	180,190
(Increase) decrease in accounts receivable	(520,111)	295,296
Increase in accounts payable and accrued liabilities	6,278,531	347,154
Increase in other current liabilities	4,081	6,789
Increase in deferred revenue	5,407,760	4,852,046
Increase in post-employment benefit liability	440,200	434,000
Increase in WSIB benefit liabilities	83,800	80,900
Increase in inventory	(56,914)	(9,761)
Decrease in prepaid expenses	311,692	24,662
	26,289,180	13,053,712
Capital transactions		
Acquisition of tangible capital assets (net of transfers and contributions)	(17,682,464)	(12,666,332)
Proceeds on disposal of tangible capital assets	215,553	41,234
	(17,466,911)	(12,625,098)
Investing transactions		
Increase in investments	(1,993,406)	(3,296,182)
Dividends received from Veridian Corporation	1,927,000	1,927,000
	(66,406)	(1,369,182)
Financing transactions		
Proceeds from debentures issued	2,873,000	2,332,000
Principal repayment of debentures	(2,598,257)	(3,688,667)
	274,743	(1,356,667)
Increase (decrease) in cash and cash equivalents	9,030,606	(2,297,235)
Cash and cash equivalents, beginning of year	45,111,221	47,408,456
Cash and cash equivalents, end of year	54,141,827	45,111,221
Cash and cash equivalents consists of		
Cash	9,041,969	5,260,557
Cash equivalents	45,099,858	39,850,664
	54,141,827	45,111,221

The accompanying notes to the consolidated financial statements are an integral part of this financial statement.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

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 Chartered Professional Accountants of Canada. Significant accounting policies adopted by the City are as follows:

(a) Reporting entity

(i) Consolidated financial 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 Canadian public sector accounting standards 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) Adoption of new accounting standards

As at January 1, 2013, the City adopted revised PS 3410 - Government transfers, and PS 3510 - Tax revenue on a prospective basis. There was no impact on the consolidated financial statements as a result of the adoption of these new standards.

(c) 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.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

1. Significant accounting policies (continued)

(c) Basis of accounting (continued)

(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.

(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, 2013

1. Significant accounting policies (continued)

(c) Basis of accounting (continued)

(ix) Government transfers

Government transfers are recognized as revenue by the City in the period in which the transfers are authorized and any eligibility criteria are met, unless 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.

(x) Tax revenue

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

(xi) Intangible assets

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

(xii) 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, post-employment benefits liability 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:

	2013		2012	
	Region	School board	Region	School board
	\$	\$	\$	\$
Taxation	94,868,875	42,950,054	89,946,477	41,533,945
Payments in lieu of taxes	6,373,083	407,968	6,057,029	446,744
	101,241,958	43,358,022	96,003,506	41,980,689

3. Investments

	2013		2012	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Long-term investments	38,949,562	39,098,870	36,956,156	37,660,143

Long-term investments are comprised of deposit notes, bonds, and guaranteed investment certificates.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

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:

	2013 (000's)	2012 (000's)
	\$	\$
Financial position		
Assets		
Current	82,508	86,594
Capital and intangibles	200,901	191,528
Other	19,344	21,919
Total assets	302,753	300,041
Liabilities		
Current	53,089	49,230
Long-term debt	112,197	115,553
Other	21,252	26,202
Total liabilities	186,538	190,985
Shareholders' equity		
Share capital	67,260	67,260
Contributed capital	25	25
Retained earnings	48,930	41,771
Total equity	116,215	109,056
Total liabilities and equity	302,753	300,041
Financial activities		
Commodity revenue	246,386	245,349
Commodity expenses	(246,386)	(245,349)
Distribution revenue	48,985	50,608
Operating expenses	(36,309)	(34,012)
Other income (expense)	(686)	(6,140)
Loss from discontinued operations	(131)	(268)
Net earnings for the year	11,859	10,188

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

4. Investment in Veridian Corporation (continued)

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

	2013	2012
	\$	\$
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	36,349,434	31,487,349
Accumulated dividends received	(20,296,002)	(18,369,002)
Increase in value of investments	1,108,821	1,108,821
Total investment	47,658,449	44,723,364

(c) *Equity in Veridian Corporation*

	2013	2012
	\$	\$
Balance, beginning of year	72,835,384	70,585,144
Equity share of net earnings for the year	4,862,085	4,177,240
Dividend received from Veridian Corporation	(1,927,000)	(1,927,000)
Balance, end of year (Note 11)	75,770,469	72,835,384

(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, 2013 (2012 - \$1,212,000), based on management's best estimate of the future transformation connection revenue shortfall. HONI is expected to 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, 2013

4. Investment in Veridian Corporation (continued)

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

(iii) Environmental matters

In 2008, Environment Canada issued its final regulations governing the management of PCBs. Under the regulations, assets remaining to be disposed of by 2025 primarily consist of pole-mounted distribution line transformers. Costs associated with the removal and destruction of PCB-contaminated transformers and remediation of chemically contaminated lands has been incurred over the past four years. As at December 31, 2013, the Corporation's remaining liability was nil (2012 - \$206,000) for equipment testing and future remediation. Replacement of contaminated distribution equipment is expected to be completed by 2025.

(e) *Lease commitments*

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

	\$ (000's)
2014	34
2015	34
2016	27
2017	3
2018	3
Thereafter	66
	<hr/> 167

5. Promissory notes receivable

	2013	2012
	\$	\$
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 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
	<hr/> 25,069,000	<hr/> 25,069,000

Interest revenue earned from these notes receivable totaled \$1,426,852 (2012 - \$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 City has signed an inter-creditor agreement confirming the subordinated ranking of these promissory notes to the senior debt financing issued by Veridian.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

6. Deferred revenue

	2013	2012
	\$	\$
Obligatory Reserve Funds		
Development charges	39,412,848	37,486,012
Parkland	1,641,537	1,433,507
Federal gas tax	6,225,560	6,017,337
Third party/Developer's Contributions Reserve Fund	2,765,122	2,670,168
	50,045,067	47,607,024
Other unearned revenues	4,542,426	1,572,709
	54,587,493	49,179,733

Continuity of deferred revenue is as follows:

	2013	2012
	\$	\$
Balance, beginning of year	49,179,733	44,327,687
Restricted funds received	6,752,288	6,668,447
General funds received	3,839,952	767,617
Interest earned	864,886	928,717
	11,457,126	8,364,781
Earned revenue transferred to operations	6,049,366	3,512,735
Balance, end of year	54,587,493	49,179,733

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:

	2013	2012
	\$	\$
Roads and streetlights	510,015	572,089
Community facilities, libraries and parks	1,675,255	1,885,809
Protection services	831,469	639,809
Municipal building	10,790	15,838
	3,027,529	3,113,545

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

8. Post-employment benefits liability

(a) Post-employment benefits 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:

	2013	2012
	\$	\$
Accrued benefits liability, beginning of year	3,652,600	3,218,600
Current service costs	353,800	341,000
Interest on accrued benefits	244,400	236,100
Amortization of actuarial losses	219,900	219,900
Benefits paid during the year	<u>(377,900)</u>	<u>(363,000)</u>
Accrued benefits liability, end of year	<u>4,092,800</u>	<u>3,652,600</u>
Accrued benefit obligation	6,570,400	6,350,100
Unamortized actuarial losses	<u>(2,477,600)</u>	<u>(2,697,500)</u>
Accrued benefits liability, end of year	<u>4,092,800</u>	<u>3,652,600</u>

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

(i) Discount rate

The present value as at December 31, 2013 of the future benefits was determined using a discount rate of 3.75% (2012 - 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 7.6% (2012 - 7.8%) and decrease by 0.2% (2012 - 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, 2013

8. Post-employment benefits 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:

	2013	2012
	\$	\$
Accrued WSIB liability, beginning of year	907,759	826,859
Current service cost	127,800	124,100
Interest on accrued benefits	37,300	34,200
Benefits paid during the year	<u>(81,300)</u>	<u>(77,400)</u>
Accrued WSIB liability, end of year	<u>991,559</u>	<u>907,759</u>

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

(i) Discount rate

The present value as at December 31, 2013 of the future benefits was determined using a discount rate of 3.75% (2012 - 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, 2013 was \$2,790,875 (2012 - \$2,532,549). 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:

	2013	2012
	\$	\$
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>18,049,763</u>	<u>17,775,020</u>

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

9. Long-term liabilities (continued)

- (b) The above long-term liabilities have maturity dates of July 12, 2016, 2017, 2021 and 2022, November 21, 2018, July 15, 2014, December 23, 2014, October 15, 2015 and 2020, September 29, 2016 and 2021 and October 16, 2018 and 2023 with various interest rates ranging from 1.10% to 5.45%. Principal repayments are summarized as follows:

	\$
2014	2,876,995
2015	2,475,239
2016	2,443,716
2017	2,116,834
2018	4,053,382
Thereafter	4,083,597
	<hr/> 18,049,763 <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 \$642,118 (2012 - \$744,814).

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 2013 amounted to \$4,916,745 (2012 - \$1,747,105).

(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 \$13,470,090 (2012 - \$4,242,525).

During the year, there were no write-downs of assets (2012 - \$Nil) and no interest was capitalized during the year (2012 - \$Nil).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

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	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning 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
Add:													
Additions during the year	1,691,052	2,276,768	689,750	1,300,471	3,254,773	2,964,970	174,930	193,735	379,201	445,994	-	10,998,014	24,369,658
Less:													
Disposals/transfers during the year	12	107,960	475,960	737,377	536,067	-	43,308	306,051	133,000	169,203	-	1,770,449	4,279,387
Balance, end of year	56,372,270	70,083,399	8,563,606	11,915,010	117,796,899	85,507,171	14,279,989	1,281,034	20,271,816	2,317,496	550,515	13,470,090	402,409,295
Accumulated amortization													
Balance, beginning 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
Add:													
Amortization	-	1,780,251	571,889	851,496	2,866,936	2,071,765	349,881	146,691	665,939	396,698	26,938	-	9,728,484
Less:													
Accumulated amortization on disposals	-	61,535	428,048	737,377	438,584	-	23,820	306,051	129,161	169,203	-	-	2,293,779
Balance, end of year	-	37,979,511	5,642,046	6,834,238	74,403,071	49,898,953	8,126,417	759,631	12,215,213	1,065,126	190,806	-	197,115,012
Net book value of tangible capital assets	56,372,270	32,103,888	2,921,560	5,080,772	43,393,828	35,608,218	6,153,572	521,403	8,056,603	1,252,370	359,709	13,470,090	205,294,283

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

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, 2013

11. Accumulated surplus

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

	2013	2012
	\$	\$
Capital fund	9,649,524	8,645,992
Operating fund	125,210	125,170
Equity in Veridian Corporation	75,770,469	72,835,384
Tangible capital assets	205,294,283	192,638,717
Post-employment benefits liability	(3,913,800)	(3,473,600)
Internal loans	(3,027,529)	(3,113,545)
Net long-term liabilities	(18,049,763)	(17,775,020)
WSIB benefit liabilities	(991,559)	(907,759)
Reserves set aside for special purposes by Council		
Working capital	400,000	400,000
Self insurance	892,707	962,707
Replacement of capital equipment	1,572,987	1,426,012
Contingencies	1,584,339	1,514,339
Rate stabilization	16,169,680	15,793,551
City's share for development charge	1,127,979	3,165,288
Continuing studies	427,855	720,472
Vehicle replacement	790,159	197,215
Easement settlement	17,595	17,595
Eastern branch	55,000	180,000
Move Ontario	2,723	40,883
Economic stabilization	-	830,000
Land Purchase	99,403	99,403
Seaton Development Review	1,470,988	1,905,948
Financial Systems	454,647	314,647
Senior Centre	150,000	75,000
Accessibility Initiatives	15,032	13,713
Reserve funds set aside for special purpose by Council		
Recreation programs and facilities	153,960	151,468
Acquisition of tangible capital assets	1,501,128	1,477,697
Squash courts	7,107	2,088
WSIB	2,790,875	2,532,549
Animal shelter	261,136	228,882
Men's slow pitch	143,983	141,652
Operations Centre	133,532	419,558
	295,079,650	281,586,006

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 2013 were \$3,339,622 (2012 - \$3,122,703).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

13. Trust Funds

Trust funds administered by the City amounting to \$333,943 (2012 - \$325,969) 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 is a principal shareholder in Veridian Corporation (Note 4). The City receives electricity and services from Veridian Corporation and its subsidiary.

	2013	2012
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	1,426,852	1,426,852
Property taxes levied	45,714	48,329
Expenses		
Electrical energy and services	2,127,282	1,986,034
Balances		
Accounts payable and accrued liabilities	562,535	369,049
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, 2013

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 consolidated financial statements for any liabilities which may result.

17. Budget figures

The 2013 Budget adopted by Council on February 25, 2013 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 consolidated Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council on February 25, 2013 with adjustments as follows:

	2013			2013
	Council approved budget	Non TCA expenditures from capital	Amortization	Budget presented in statements
	\$	\$	\$	\$
Revenue				
Taxation	55,741,112	-	-	55,741,112
Capital	10,863,082	-	-	10,863,082
Other	15,300,363	-	-	15,300,363
	81,904,557	-	-	81,904,557
Expenditures				
General government	14,314,298	213,000	548,759	15,076,057
Protection to persons and property	21,162,567	14,000	739,278	21,915,845
Transportation services	8,208,895	50,000	4,231,364	12,490,259
Environmental services	1,376,025	-	2,349,888	3,725,913
Social and family services	625,033	-	-	625,033
Recreational and cultural services	21,195,189	615,500	2,812,211	24,622,900
Planning and development	3,630,767	-	-	3,630,767
	70,512,774	892,500	10,681,500	82,086,774
Annual surplus (deficit)	11,391,783	(892,500)	(10,681,500)	(182,217)
Capital expenditures	(24,189,278)	892,500	-	(23,296,778)
Transfers from reserve and reserve funds	5,277,291			
Dividend from Veridian Corporation	1,927,000			
Principal repayment of debt	(3,341,920)			
Debt proceeds	8,810,124			
Prior year operating fund surplus	(125,000)			

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

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 and maintenance of the storm water system.

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, 2013

19. Segmented information (continued)

							2013
	Protection to persons and property	Public works services	Recreational and cultural	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	137,792	1,519,874	4,328,335	-	149,742	47,910	6,183,653
User charges	2,216,492	135,784	5,088,595	396,605	23,528	633,813	8,494,817
Tax related revenues	-	-	-	-	-	59,395,222	59,395,222
Developer revenue	-	1,864,499	342,142	938	-	336,705	2,544,284
Contributed tangible capital assets	-	4,916,745	-	-	-	-	4,916,745
Equity Share of Veridian Corp	-	-	-	-	-	4,862,085	4,862,085
Gain (loss) on disposal of tangible capital assets	12,415	(88,348)	(47,573)	-	-	123,900	394
Other revenues	1,104,939	1,204,882	1,807,491	7,792	-	2,145,555	6,270,659
Total revenue	3,471,638	9,553,436	11,518,990	405,335	173,270	67,545,190	92,667,859
Expenses							
Salaries and wages	18,098,061	4,514,728	14,221,731	2,399,256	268,814	8,497,422	48,000,012
Materials and supplies	2,237,525	3,970,397	6,132,421	167,376	89,840	3,584,248	16,181,807
Contracted services	712,892	1,004,854	543,862	175,972	89,294	1,319,136	3,846,010
Amortization	685,749	5,846,480	2,702,792	-	-	493,463	9,728,484
Other	166,815	215,573	611,088	6,052	203,056	215,318	1,417,902
Total expenses	21,901,042	15,552,032	24,211,894	2,748,656	651,004	14,109,587	79,174,215
Annual (deficit) surplus	(18,429,404)	(5,998,596)	(12,692,904)	(2,343,321)	(477,734)	53,435,603	13,493,644

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2013

19. Segmented information (continued)

2012

	Protection to persons and property	Public works services	Recreational and cultural	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 of tangible capital assets	(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