

Consolidated Financial Statements of

**THE CORPORATION OF THE CITY OF
LONDON**

December 31, 2010

THE CORPORATION OF THE CITY OF LONDON

Consolidated Financial Report

December 31, 2010

INTRODUCTION

The accompanying Consolidated Financial Statements and all other financial information included within this financial report are the responsibility of the management of the City of London. The City's Financial Statements contained in this report have been prepared in accordance with the accounting principles and disclosure requirements of the Canadian Institute of Chartered Accountants guidelines contained in the Public Sector Accounting Handbook.

The City Treasurer is responsible for submitting annually to the Audit Committee and Council audited financial statements. These financial statements include the consolidated results of the City of London for the fiscal year ending December 31, 2010.

Finance staff are responsible for the coordination and completion of the annual financial statements in a timely, accurate and efficient manner as well as providing support and related financial information to external auditors during the year-end audit.

The Consolidated Financial Statements of the City of London provide important information about the overall financial condition of the City. The purpose of the consolidated financial statements is to present the results of transactions of the City, taking into consideration the accounting for all City Funds and associated city business enterprises.

The audited Consolidated Financial Statements for City operations include:

- Auditors' Report
- Consolidated Statement of Financial Position
- Consolidated Statement of Operations
- Consolidated Statement of Change in Net Debt
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements
- Consolidated Schedule of Segment Disclosure – Operating Revenues
- Consolidated Schedule of Segment Disclosure – Operating Expenses



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of London which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations, net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit 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 London as at December 31, 2010, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

July 25, 2011

THE CORPORATION OF THE CITY OF LONDON
Consolidated Statement of Financial Position
As at December 31, 2010, with comparative figures for 2009

(all dollar amounts in thousands of dollars)

	2010	2009
Financial assets		
Cash and cash equivalents (Note 2)	\$ 247,173	\$ 250,122
Accounts receivable		
Taxes receivable (Note 3)	29,034	30,476
Other receivables	81,047	62,647
Land held for resale	16,323	16,344
Investments (Note 4)	79,545	103,074
Loans receivable (Note 5)	28,809	29,678
Investment in government business enterprises (Note 6)	220,807	195,221
Total financial assets	702,738	687,562
Financial liabilities		
Accounts payable and accrued liabilities	127,495	107,294
Deferred revenue (Note 7)	146,317	169,824
Accrued interest on long-term debt	2,490	2,329
Long-term debt (Note 8)	276,368	266,163
Long-term liabilities (Note 9)	2,688	4,188
Capital lease obligations (Note 10)	3,156	3,263
Urban works payable (Note 11)	48,259	45,973
Employee benefits payable (Note 12)	105,701	100,942
Landfill closure and post-closure liability (Note 13)	23,162	23,319
Total financial liabilities	735,636	723,295
Net debt	(32,898)	(35,733)
Non-financial assets		
Tangible capital assets (Note 14)	3,098,434	2,881,221
Inventories of supplies	2,670	2,885
Prepaid expenses	12,009	11,333
Total non-financial assets	3,113,113	2,895,439
Accumulated surplus (Note 15)	\$ 3,080,215	\$ 2,859,706

Contingent liabilities, loan guarantees, commitments (Notes 16, 17, 18)

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

THE CORPORATION OF THE CITY OF LONDON
Consolidated Statement of Operations
For the year ended December 31, 2010, with comparative figures for 2009

(all dollar amounts in thousands of dollars)

	Budget	2010	2009
	(Unaudited)		
Revenues			
Net municipal taxation	\$ 470,310	\$ 476,790	\$ 464,260
User charges	229,689	215,788	195,813
Transfer payments			
Provincial	179,850	238,957	171,471
Federal	27,226	54,479	21,260
Other municipalities	4,327	9,473	4,614
Investment income	708	6,790	6,566
Penalties and interest	5,747	8,055	7,369
Development charges earned	-	29,111	19,877
Developer contributions of tangible capital assets	-	35,435	60,292
Other	23,455	22,161	27,859
Equity in earnings of government business enterprises (Note 6)	-	8,968	7,617
Total revenues	941,311	1,106,007	986,998
Expenses			
General government	72,077	80,791	74,720
Protection to persons and property	156,587	169,432	153,507
Transportation services	88,237	147,473	129,905
Environmental services	85,865	129,747	140,513
Health services	20,915	20,695	20,017
Social and family services	199,810	199,616	198,955
Social housing	39,735	51,914	44,031
Recreation and cultural services	57,278	69,501	68,176
Planning and development	13,865	16,329	16,964
Total expenses	734,370	885,498	846,788
Annual surplus before transition adjustment	206,941	220,509	140,210
Government business enterprise - transition adjustment upon new accounting standard adoption (Note 6)	-	-	(8,638)
Annual surplus	206,941	220,509	131,572
Accumulated surplus, beginning of year	2,859,706	2,859,706	2,728,134
Accumulated surplus, end of year	\$ 3,066,647	\$ 3,080,215	\$ 2,859,706

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

THE CORPORATION OF THE CITY OF LONDON
Consolidated Statement of Change in Net Debt
For the year ended December 31, 2010, with comparative figures for 2009

(all dollar amounts in thousands of dollars)

	Budget	2010	2009
	(Unaudited)		
Annual surplus	\$ 206,941	\$ 220,509	\$ 131,572
Acquisition of tangible capital assets	(274,324)	(305,890)	(221,614)
Developer contributions of tangible capital assets	-	(35,435)	(60,292)
Amortization of tangible capital assets	119,154	119,154	112,721
Proceeds from sale of tangible capital assets	-	1,647	2,279
Loss on disposal of tangible capital assets	-	3,311	6,174
	(155,171)	(217,213)	(160,732)
Change in supplies inventory	-	215	(1,817)
Change in prepaid expenses	-	(676)	1,392
	-	(461)	(425)
Change in net debt	51,771	2,835	(29,585)
Net debt, beginning of year	(35,733)	(35,733)	(6,148)
Net debt, end of year	\$ 16,038	\$ (32,898)	\$ (35,733)

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

THE CORPORATION OF THE CITY OF LONDON
Consolidated Statement of Cash Flows
For the year ended December 31, 2010, with comparative figures for 2009

(all dollar amounts in thousands of dollars)

	2010	2009
Cash provided by (used in)		
Operating Activities		
Annual surplus	\$ 220,509	\$ 131,572
Items not involving cash		
Amortization of tangible capital assets	119,154	112,721
Developer contributions of tangible capital assets	(35,435)	(60,292)
Loss on disposal of tangible capital assets	3,311	6,174
Change in employee benefits payable	4,759	5,760
Change in landfill closure and post-closure liability	(157)	487
Equity in (earnings) loss of government business enterprises	(8,968)	1,021
Amortization of debenture discount	265	375
Change in non-cash assets and liabilities		
Taxes receivable	1,442	(6,468)
Other receivables	(28,400)	(17,085)
Land held for resale	21	(19)
Accounts payable and accrued liabilities	20,201	7,334
Deferred revenue	(23,507)	10,436
Accrued interest on long-term debt	161	(471)
Urban works payable	2,285	7,008
Inventories of supplies	215	(1,817)
Prepaid expenses	(676)	1,392
Net change in cash from operating activities	275,180	198,127
Capital Activities		
Proceeds from sale of tangible capital assets	1,647	2,279
Acquisition of tangible capital assets	(303,625)	(219,888)
Net change in cash from capital activities	(301,978)	(217,609)
Investing Activities		
Net decrease in investments	23,529	20,845
Repayment of loans receivable	869	708
Repayment of promissory note receivable from government business enterprises	517	486
Increase in government business enterprises	(19,635)	-
Dividends from London Hydro Inc. (Note 6 (a)(v))	12,500	12,000
Net change in cash from investing activities	17,780	34,039
Financing Activities		
Long-term debt issued	45,393	-
Long-term debt repayments	(35,452)	(41,763)
Increase in long-term liabilities	-	1,188
Repayments of long-term liabilities	(1,500)	(4,680)
Repayments of capital lease obligations	(2,371)	(2,505)
Net change in cash from financing activities	6,070	(47,759)
Net change in cash and cash equivalents	(2,948)	(33,202)
Cash and cash equivalents, beginning of year	250,122	283,324
Cash and cash equivalents, end of year	\$ 247,173	\$ 250,122

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

1. Significant Accounting Policies

The consolidated financial statements of the Corporation of the City of London (the "Corporation") are prepared by management, in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant accounting policies are as follows:

a) Reporting Entity

These consolidated statements reflect the assets, liabilities, revenues and expenses of the Corporation and include all organizations that are accountable to the Corporation for the administration of their financial affairs and resources and are owned or controlled by the Corporation except for the Corporation's government business enterprises or partnerships which are accounted for on the modified equity basis of accounting.

(i) Consolidated Entities

The following local boards are consolidated:

London Police Services Board
London Transit Commission
London Public Library Board
London & Middlesex Housing Corporation
Old East Village Business Improvement Area
London Downtown Business Association
London Convention Centre Corporation
Covent Garden Market Corporation
Public Utility Commission
Museum London

The transactions and balances between the Corporation and the related boards have been eliminated.

(ii) Equity Accounting

Government business enterprises are accounted for by the modified equity method. Under the modified equity method, the accounting principles of government business enterprises are not adjusted to conform to the Corporation's accounting principles and inter-organizational transactions and balances are not eliminated. However, inter-organizational gains and losses are eliminated on assets remaining with the government reporting entities at the reporting date. The Corporation recognizes its equity interest of the government business enterprises' income or loss in its Consolidated Statement of Operations with a corresponding increase or decrease in its investment account. All dividends received will be reflected as reductions in the investment account.

The government business enterprises and partnerships during the year were:

London Hydro Inc.
Fair-City Joint Venture Partnership
City-YMCA Joint Venture

(iii) Proportionate Consolidation

The Lake Huron and Elgin Area Water Boards have been consolidated on a proportionate basis, based upon the water flow used by the Corporation in proportion to the entire flows provided by the joint boards.

Middlesex-London Health Unit is consolidated on a proportionate basis based upon a percentage of grant money provided by the Corporation in comparison to the Province and the County of Middlesex.

(iv) Accounting for School Board Transactions

Although the Corporation collects taxation on behalf of the School Boards, the taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these financial statements.

During the year, **\$158,431** of taxation was collected on behalf of school boards (2009 - \$159,632) and remitted to the school boards during the year.

(v) Trust Funds

Trust funds and their related operations administered by the Corporation are not included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations, as they are reported on the Trust Fund Statements of Continuity and Balance Sheets.

Total net assets of Trust Funds administered by the Corporation amounted to **\$3,252** (2009 - \$3,120).

b) Basis of Accounting

(i) Accrual Accounting

Revenues and expenses are reported on the accrual basis of accounting. Revenues are recognized as they are earned and 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.

(ii) Deferred Revenue

The Corporation receives contributions pursuant to legislation, regulations or agreement that may only be used for certain programs or in the completion of specific work. In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed.

(iii) Land Held For Resale

Land held for resale is recorded at the lower of cost and net realizable value. Cost includes amounts for improvements to prepare the land for sale or servicing.

(iv) Non-Financial Assets

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost of the tangible capital assets, excluding land, is amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life – Years
Landfill and land improvements	5 - 60
Buildings and building improvements	15 - 40
Leasehold improvements	Lease term
Machinery, equipment and furniture	5 - 15
Vehicles	5 - 7
Water and wastewater infrastructure	15 - 100
Roads infrastructure - Base	60
- Surface	15
Computers	3
Computers under capital lease	3

Annual amortization is charged in the year of acquisition and in the year of disposal using the half year rule. Assets under construction are not amortized until the asset is available for productive use.

ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are recorded as revenue.

iii) Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

iv) Interest capitalization

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

v) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

vi) Inventories of supplies

Inventories of supplies held for consumption are recorded at the lower of cost and replacement cost.

(v) Budget Figures

London City Council completes separate budget reviews for tax supported operating and capital, as well as, water and wastewater budgets each year. The approved operating budgets for 2010 are reflected on the Consolidated Statement of Operations. For capital spending, budgets are set for individual projects with funding for these activities determined annually, transferred from reserve funds or by the application of grants or other funds available to apply to capital projects. Capital budgets are allocated to operating budgets for spending that is not specific to the acquisition of a tangible capital asset. The budgeted annual portion for acquisitions of tangible capital assets is recorded on the Consolidated Statement of Change in Net Debt.

(vi) Use of Estimates

The preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles 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 reporting date and the reported amounts of revenues and expenses during the year. These estimates and assumptions, including employee benefits payable, assessment appeals, claims provisions, landfill closure and post-closure liabilities, are based on management's best information and judgment and may differ significantly from future actual results.

c) Government Transfers

Government transfer revenue is recorded once it is authorized by the transferring government, the Corporation is eligible to receive the transfer and the amount can be reasonably estimated. Any amount received but restricted is recorded as deferred revenue in accordance with Section 3100 of the Public Sector Accounting Handbook and recognized as revenue in the period in which the resources are used for the purpose specified.

Government transfers include social assistance program funding representing 80% of certain social service program costs, social service administration funding covering 50% of certain administration costs and transfers for social housing totaling approximately 20% of costs of the program.

In addition, the Corporation periodically receives senior government capital funding in the form of infrastructure grants and receives ongoing funding from both senior levels of government as a result of an allocation of gas tax funds.

d) Pension Agreements

- (i) The Corporation makes contributions to the Ontario Municipal Employees' Retirement System Pension Fund (OMERS), which is a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by employees based on length of service and rates of pay. Employers and employees contribute jointly to the plan.

Since any surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees, the Corporation does not recognize any share of the OMERS pension surplus or deficit in these consolidated financial statements.

The amount contributed to OMERS for 2010 was **\$20,295** (2009 - \$19,031) for current service. Employer's contributions for current service are included as an expense in the Consolidated Statement of Operations.

- (ii) Effective February 2, 1989, the London Transit Commission commenced participation in OMERS for all active employees at that date, as well as for all new employees. The predecessor contributory defined benefit pension plan which covered substantially all Commission employees up to January 31, 1989 is continued for pension benefits earned to that date.

e) Tax Revenues

In 2010 the Corporation received **\$476,790** (2009 - \$464,260) in property tax revenues for municipal purposes. The authority to levy and collect property taxes is established under the Municipal Act, 2001, the Assessment Act, the Education Act, and other legislation.

The amount of the total annual property tax levy is determined each year through Council's approval of the annual operating budget. Municipal tax rates are set annually by Council for each class or type of property, in accordance with legislation and Council-approved policies, in

order to raise the revenues required to meet operating budget requirements. Education tax rates are established by the Province each year in order to fund the costs of education on a Province-wide basis.

Taxation revenues are recorded at the time tax billings are issued. Additional property tax revenue can be added throughout the year, related to new properties that become occupied, or that become subject to property tax, after the return of the annual assessment roll used for billing purposes. The Corporation may receive supplementary assessment rolls over the course of the year from the Municipal Property Assessment Corporation that identify new or omitted assessments. Property taxes for these supplementary/omitted amounts are then billed according to the approved tax rate for the property class.

Taxation revenues in any year may also be reduced as a result of reductions in assessment values arising from assessment and/or tax appeals. Each year, an amount is identified to cover the estimated amount of revenue loss attributable to assessment appeals, tax appeals or other deficiencies in tax revenues (e.g., uncollectible amounts, write-offs, etc.).

f) Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, long-term debt, loans receivable, long-term liabilities and urban works payable. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

g) Investments

Investments are recorded at amortized cost less any amounts written off to reflect a permanent decline in value. Investments consist of authorized investments pursuant to provisions of the Municipal Act and comprise government and corporate bonds, debentures, pooled investment funds and short-term instruments of various financial institutions. Investments with original maturity dates greater than 90 days are classified as investments in the Statement of Financial Position.

Investment income earned on available current funds, reserves and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balances.

h) Employee Benefits Payable

The Corporation provides employee benefits including sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, life insurance and extended health and dental benefits for early retirees which will require funding in future periods.

There are also contributions to a multi-employer, defined benefit pension plan, OMERS, which are expensed when contributions are made.

The costs of termination benefits and compensated absences are recognized when the event that obligates the Corporation occurs; costs include projected future income payments, healthcare continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The costs of other employee benefits are actuarially determined using the projected benefits method pro-rated on service and management's best estimate of retirement ages of employees, salary escalation and expected health costs.

Past service costs from plan amendments related to prior period employee services are accounted for in the period of the plan amendment. The effects of a gain or loss from

settlements or curtailments are expensed in the period they occur. Net actuarial gains and losses related to the employee benefits are amortized over the average remaining service life of the related employee group. Employee future benefit liabilities are discounted at the Corporations' cost of borrowing using estimated rates for debt with maturities similar to expected benefit payments in the future. The costs of workplace safety and insurance obligations are actuarially determined and are expensed immediately in the period the events occur.

i) Loan Guarantees

Periodically the Corporation provides loan guarantees on specific debt held by related authorities not consolidated in the Corporation's financial statements. Loan guarantees are accounted for as contingent liabilities and no amounts are accrued in the consolidated financial statements of the Corporation until the Corporation considers it likely that the borrower will default on the specified loan obligation. Should a default occur the Corporation's resulting liability would be recorded in the consolidated financial statements.

j) Environmental Provisions

The Corporation has a formal environmental assessment and reclamation program in place to ensure that it complies with environmental legislation. The Corporation provides for the cost of compliance with environmental legislation when costs are identified and can be reasonably measured.

k) Provision for Landfill Rehabilitation

The *Ontario Environmental Protection Act* sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post-closure care of landfill sites. This requirement is being provided for over the estimated remaining life of the landfill sites based on usage, and is funded through tipping fees. The annual provision is reported as an operating expense, and the accumulated provision is reported as a liability on the Consolidated Statement of Financial Position.

2. Cash and Cash Equivalents

	2010 \$	2009 \$
Cash on deposit	221,936	246,338
Cash equivalents	25,237	3,784
	<u>247,173</u>	<u>250,122</u>

Cash equivalents are comprised mainly of bankers' acceptances, guaranteed investment certificates and term deposits with original maturities of 90 days or less and are recorded at cost.

3. Taxes Receivable

Taxes receivable are reported net of allowance for doubtful accounts. Balances as at December 31 were as follows:

	2010	2009
	\$	\$
Taxes receivable	36,201	36,804
Penalties and interest	1,780	1,908
Allowance for doubtful accounts	(8,947)	(8,236)
	<u>29,034</u>	<u>30,476</u>

4. Investments

Investments are comprised of the following:

	2010		2009	
	\$		\$	
	Cost	Market Value	Cost	Market Value
Pooled investment funds	2,620	2,948	2,766	2,802
Treasury bills	5,013	5,017	5,733	5,734
Guaranteed investment certificates	4,020	4,020	14,084	14,083
Deposit Note	5,000	4,980	-	-
One Fund pooled securities	5,000	4,877	10,000	9,366
Asset backed securities	21,946	22,476	22,379	22,894
Strip bonds	-	-	14,334	16,235
Corporate bonds	11,523	12,051	7,510	8,032
Government bonds	24,297	25,038	25,712	26,822
Other investments	126	126	556	561
	<u>79,545</u>	<u>81,533</u>	<u>103,074</u>	<u>106,529</u>

Guaranteed investment certificates mature on dates ranging from 2011 – 2012 and yield interest rates from 1.35% to 5.06% (2009 - 0.45% to 3.25%).

Deposit notes are issued directly by the bank for the bank's own general funding purposes with maturity dates in 2015 and interest rates ranging from 2.0% to 5.0%.

Asset backed securities are mortgage bonds (bonds secured by a mortgage on a property) with maturity dates ranging from 2011 to 2018 with interest rates ranging from 2.75% to 4.10%.

Corporate bond maturities range from 2011 – 2021 with interest rates ranging from 3.66% to 5.45%.

Government bond maturities range from 2015 – 2019 with interest rates ranging from 4.0% to 5.75%.

The cost of certain investments exceeds market values at December 31, 2010. Given the current volatility of the investment marketplace, management is monitoring the situation, but is of the opinion that the loss in value is a temporary decline.

5. Loans Receivable

	2010 \$	2009 \$
Non-interest bearing, 10-year loan to the Western Fair Association to construct the Equestrian Tunnel, repayable in annual installments of \$275,000 - matures December 31, 2012	550	825
Subordinate Loan – City of London Arena Trust	<u>28,259</u>	<u>28,853</u>
	<u>28,809</u>	<u>29,678</u>

The Corporation previously transferred a capital asset to the City of London Arena Trust, in return for a subordinate loan. This investment is secured by a mortgage charge and assignment of the borrower's interest in the Ground Lease of the John Labatt Centre building, an assignment of the borrower's interest in the Participatory Occupancy Lease, a general assignment of all present and future subleases, a security interest in the Capital Repair Fund, and a security interest in the trust fund. Repayments vary and are based on an available cash flow calculation within the 50 year agreement. During the year, **\$433** (2008 - \$732) was received as a payment on the loan.

6. Investment in Government Business Enterprises and Partnerships

The Corporation holds a 100% interest in London Hydro Inc., a 50% interest in the Fair-City Joint Venture Partnership and a 73.8% interest in the City-YMCA Joint Venture Partnership based upon investments as follows:

		2010 \$	2009 \$
London Hydro Inc.	(a)	188,682	182,133
Fair-City Joint Venture Partnership	(b)	12,907	13,088
City-YMCA Joint Venture Partnership	(c)	<u>19,218</u>	<u>-</u>
		<u>220,807</u>	<u>195,221</u>

a) Investment in London Hydro Inc.

	2010	2009
	\$	\$
Financial Position		
Current assets	65,995	62,630
Regulatory assets	23,486	4,404
Capital assets	199,270	194,969
Future income taxes	8,256	9,302
Total assets	297,007	271,305
Current and other liabilities	45,315	54,904
Regulatory liabilities	18,422	17,593
Deferred revenue	11,770	7,261
Employee future benefits	9,864	9,414
Long-term debt	22,954	-
Long-term debt due to City of London	70,000	70,000
Total liabilities	178,325	159,172
Net assets	118,682	112,133
Financial Activities		
Revenues	58,748	54,204
Operating expenses	(46,759)	(44,008)
Other income (expenses)	(587)	1,016
Income tax expense	(2,353)	(2,885)
Net earnings	9,049	8,327
Dividends	(2,500)	(22,000)
Transition adjustment upon new accounting standard adoption	-	(8,638)
Net assets, beginning of year	112,133	134,444
Net assets, end of year	118,682	112,133
Add back promissory note due to the Corporation	70,000	70,000
Investment in London Hydro Inc.	188,682	182,133

i) Rate Regulated Operations – Transition adjustment

Effective January 1, 2009, London Hydro Inc. has adopted the amended sections of the CICA Handbook Section 1100, Generally Accepted Accounting Principles, CICA Handbook Section 3465, Income Taxes and Accounting Guideline 19 – “Disclosures by Entities Subject to Rate Regulation”.

The amendment to CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized. This change has been applied on a retroactive basis without restatement of prior periods. As a result of this change, opening retained earnings decreased by \$8.6 million and regulatory liabilities and future income tax assets increased by \$12.0 million and \$3.4 million respectively at January 1, 2009.

ii) **Regulatory Assets and Liabilities**

The Ontario Energy Board allows distribution companies to recover amounts incurred in preparation for opening of the electricity market, as well as amounts comprising variances between amounts charged by the Independent Electricity Market operator and amounts charged to retail customers. Costs associated with the discretionary metering activities under the Provincial Smart Meter Program have been authorized to be recovered through the rates. Net regulatory amounts recoverable totalled **\$23,486** (2009 - \$4,404). The current portion recoverable is **\$2,536** (2009 - \$1,752). Net regulatory liabilities for 2010 were **\$18,422** (2009 - \$17,593).

iii) **Letters of Credit**

London Hydro Inc. has provided **\$6,600** (2009 - \$6,600) in bank standby letters of credit to the independent Electricity System Operator, as required by regulation.

- iv) London Hydro has a committed 364 day extendable operating revolving loan facility of \$10.0 million. As at December 31, 2010 the amount drawn down under this loan facility was \$3.0 million (2009 - nil). In addition London Hydro Inc. entered into an interest rate swap agreement for an unsecured loan of \$20.5 million to fund its Smart Meter capital expenditure program. Principal repayments on this loan commenced in October 2010 and are being amortized over a 10 year period ending March 31, 2020.

v) **Related Party Transactions**

The Corporation has contracted with London Hydro Inc. to provide billing and collection services for water and wastewater charges on a cost recovery basis. Expenses for the year were **\$3,134** (2009 - \$3,200) and are included on the Consolidated Statement of Operations. At December 31, 2010, the Corporation has a receivable of **\$5,982** (2009 - \$6,217) for water and wastewater charges collected by London Hydro Inc.

The Corporation also charged London Hydro Inc. rent totalling **\$100** (2009 - \$100) and received interest of **\$4,200** (2009 - \$4,200) on the promissory note receivable. Both amounts were recorded as revenues on the Consolidated Statement of Operations. The Corporation also received **\$2,500** (2009 - \$2,000) in dividend payments, which were recorded as a reduction in the investment in government business enterprises. In 2009, the Corporation received a special dividend of \$20,000 from London Hydro, \$10,000 paid in 2009; the second \$10,000 was paid in 2010. The \$20,000 special dividend was recorded as a reduction in the investment in government business enterprises in 2009.

b) **Fair-City Joint Venture Partnership**

- i) On September 1, 2000, the Corporation entered into a joint venture with the Western Fair Association, to construct and operate a four-pad arena complex. The joint venture is in the form of a partnership, referred to as the Fair-City Joint Venture and the investment is held in the Civic Investment Reserve Fund.

In return for a contribution of **\$5,000** and a twenty-year loan of **\$12,000**, the Corporation received an initial equity interest of 50% of the partnership. However, once the partnership has repaid **\$5,000** of the above-noted loan, the Corporation's equity interest will decrease proportionately based on additional repayments, until the loan is completely repaid and the equity interest has decreased to 30%. During the first five years of operation, 100% of profits were paid to the Western Fair Association. In the current year \$48 (2009 - nil) of profit was available and distributed to the Corporation.

- ii) The Corporation also has an Ice Rental Agreement with the Fair-City Joint Venture Partnership for 240 hours per year. **\$1,793** was paid for ice rental in 2010 (2009 - \$1,676) which was recorded as an expense in the Consolidated Statement of Operations.

Summary financial information is as follows:	2010 \$	2009 \$
Financial Position		
Current assets	1,458	1,078
Capital assets	17,959	17,698
	<u>19,417</u>	<u>18,776</u>
Accrued liabilities	1,142	884
Reserves	254	114
Partners' capital	601	656
Long term debt	8,166	8,543
Total liabilities	<u>10,163</u>	<u>10,197</u>
Net Assets	<u>9,254</u>	<u>8,579</u>
Financial Activities		
Revenues	3,527	3,328
Operating expenses	2,703	(2,591)
Net earnings	<u>824</u>	<u>737</u>
Capital contribution (reduction) to reserve	(140)	267
Net earnings available to Venturers	684	1,004
Contribution from Venturers	(57)	-
Distribution to Venturers	48	-
Net assets, beginning of year	8,579	7,575
Net assets, end of year	<u>9,254</u>	<u>8,579</u>
City's Portion of Net Assets – 50%	4,627	4,290
Promissory note due to City of London	<u>8,280</u>	<u>8,798</u>
Investment in Fair-City Joint Venture Partnership	<u>12,907</u>	<u>13,088</u>

c) City-YMCA Joint Venture Partnership

- i) The Corporation entered into a joint venture agreement with the YMCA of Western Ontario (YMCA) in April 2009 to construct and operate the Stoney Creek Community Centre.

The Corporation was responsible for contributing the land, contributing costs related to construction of the building and running the construction project. The YMCA was responsible for contributing costs related to construction of the building. The City's contributed share of the project was \$19,710 or 73.8%.

Construction of this facility was completed in October 2010.

The Joint Venture (JV) has entered into a 40 year lease with the YMCA. The basic rent to be paid to the JV by the YMCA is nominal annual rent. The JV does not earn any other type of revenue. In accordance with the lease agreement, the JV is not responsible for any costs, expenses or outlays relating to the premises. All capital and operating costs are the responsibility of the tenant, the YMCA.

At the end of the 40 year lease term, the JV will transfer the land and building representing the facility to the YMCA for zero consideration. The transfer of the land and building will result in the dissolution of the JV in 2049.

	2010
	\$
Financial Position	
Capital Assets	\$26,711
Accumulated Amortization	(668)
Net Assets	26,043
Financial Activities	
Amortization of capital assets	668
Net loss	(668)
Total assets upon completion of facility	26,711
Net assets, end of year	26,043
City's portion of net assets – 73.8%	19,218
Investment in City-YMCA Joint Venture Partnership	19,218

7. Deferred Revenue

Deferred revenue on the Consolidated Statement of Financial Position is comprised of the following:

	2010	2009
	\$	\$
Funds deferred to future periods for specific purposes by legislation, regulation or agreement:		
Development Charges Act		
- Recreation and transit	8,383	8,383
- Capital infrastructure	83,197	80,026
Federal and Provincial Gas Tax	30,042	38,663
Recreational Land (The Planning Act)	2,388	2,448
Capital infrastructure for transit and cultural services	6,063	22,811
	130,073	152,331
Other deferred revenue:		
Subsidy advances from Provincial Ministries for future periods	6,338	7,487
Prepaid deposits	361	875
Other deferred revenues	9,545	9,131
	146,317	169,824

8. Long-term Debt

Provincial legislation restricts the use of long-term debt to financing capital expenses only. Provincial legislation allows the Corporation to issue debt on behalf of school boards, other local boards, municipal enterprises and utilities. The responsibility of raising amounts to service these liabilities lies with the respective organization. The debt is a joint and several obligation of the Corporation and the respective organization.

a) Long-term debt is as follows:

	2010	2009
	\$	\$
Long-term debt issued by the Corporation at various rates of interest ranging from 3.00 % to 6.45 % (2009 - 3.00% to 6.45%) with maturity dates ranging from October, 2011 to June, 2024	159,812	185,800
Long-term debt issued by Ontario Infrastructure Projects Corporation at various rates of interest ranging from 2.4% to 4.4% (2009 – 2.40% to 2.82%) with maturity dates ranging from December, 2014 to March, 2030	119,585	83,691
Long-term debt, assumed by unconsolidated local Boards, other municipalities, municipal enterprises and utilities	(3,029)	(3,328)
Long-term debt at the end of the year	276,368	266,163

Principal repayments are summarized as follows:

Recoverable From	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Beyond \$	Total \$
General municipal revenues	24,581	23,478	19,035	16,265	13,338	62,374	159,071
Water user rates	288	303	320	337	360	1,208	2,816
Wastewater user rates	6,740	6,630	5,129	4,165	3,759	36,620	63,043
Benefiting landowners	190	175	157	205	-	-	727
Discretionary reserve funds	5,370	5,025	4,190	3,487	3,107	20,405	41,584
Obligatory reserve funds	1,106	1,080	1,087	942	908	4,004	9,127
	38,275	36,691	29,918	25,401	21,472	124,611	276,368

b) Total charges which are included in the Consolidated Statement of Operations are as follows:

	2010 \$	2009 \$
Interest on long-term debt	12,907	13,617
Amortization of debenture discount	265	375
Interest on capital lease obligations	184	187
	13,356	14,179

9. Long-term Liabilities

The Corporation has committed to provide capital grants to The University of Western Ontario and Fanshawe College. Although most capital grants are subject to annual budget approval and are therefore not liabilities, the Corporation has committed to these multi-year grants in advance which are included in long-term liabilities.

	Last year of commitment	2010 \$	2009 \$
University of Western Ontario	2012	1,500	2,500
Fanshawe College	2010	-	500
OMEX Insurance	2015	1,188	1,188
		2,688	4,188

10. Capital Lease Obligations

	2010 \$
2011	1,957
2012	1,182
2013	184
Minimum lease payments	3,323
Less amount representing interest at rates ranging from 5% to 9.42% (2009 – 5% to 9.42 %)	167
Present value of net minimum capital lease payments	3,156

11. Urban Works Payable

The Corporation operates a system of funding developer claims for construction of infrastructure works. The claimable works generally benefit areas beyond the boundaries of the subdivision or development which triggers the requirement for the works, and the cost of these works are shared through development charge collections administered by the Corporation through the Urban Works Reserve Fund (the "Fund").

Claims are subject to approval by the Corporation. Payment of approved claims are further subject to annual limits, and are only payable when sufficient funds have been accumulated to liquidate claims. Liquidation of approved claims may be delayed indefinitely, until sufficient funds have accumulated to allow for their settlement.

As at December 31st of each year, the value of all completed work is recognized as a liability in the Consolidated Statement of Financial Position. Repayment of this liability remains subject to all of the rules of the Fund, including a reliance on development charges received as the source for repayment. Payments for the infrastructure projects are made from both the urban works reserve fund and the urban works storm management reserve fund. At December 31st there is \$80 (2009 - \$483) in the urban works reserve fund and \$3,858 (2009 - \$4,206) in the urban works storm water management reserve fund to fund this liability.

		<u>Roads</u> \$	<u>Sanitary Sewer</u> \$	<u>Storm Sewer</u> \$	<u>Storm Water</u> \$	<u>Total</u> \$
Urban Works Payable	Dec 31, 2008	9,835	11,112	7,556	10,463	38,966
Expenses :						
Value of Construction Work Completed	2009	3,509	3,565	3,857	3,700	14,631
Payments :						
From Urban Works Reserve Funds	2009	(741)	(1,373)	(3,031)	(2,478)	(7,623)
Urban Works Payable	Dec 31, 2009	12,603	13,304	8,382	11,684	45,973
Expenses :						
Value of Construction Work Completed	2010	187	338	5,414	2,427	8,365
Payments :						
From Urban Works Reserve Funds	2010	(2,009)	(1,135)	(1,040)	(1,896)	(6,079)
Urban Works Payable	Dec 31, 2010	10,781	12,507	12,756	12,215	48,259

The estimated future repayments of developer claims are as follows:

2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Beyond \$	Total \$
<u>10,309</u>	<u>11,308</u>	<u>11,907</u>	<u>6,375</u>	<u>7,003</u>	<u>1,357</u>	<u>48,259</u>

12. Employee Benefits Payable

Employee future benefits are liabilities of the Corporation to its employees and early retirees for benefits earned but not taken as at December 31. Details are as follows:

		2010 \$	2009 \$
Post employment and post retirement benefits	a)	58,160	52,380
Workplace Safety and Insurance Board Obligation	b)	25,505	24,970
Vacation credits	c)	13,586	12,887
Vested sick leave benefits	d)	8,450	10,705
		<u>105,701</u>	<u>100,942</u>

Reserve funds and reserves have been established to partially provide for these employee benefit liabilities. The Reserve Fund balances at the end of the year are **\$16,277** (2009 - \$16,866), and the Reserve balances at the end of the year are **\$30,600** (2009 - \$28,296).

a) Post Employment and Post Retirement Benefits

The Corporation provides benefits, such as health, dental and life insurance to qualified retirees until they reach 65 years of age and provides certain benefits to employees on long-term disability. The liabilities reported in these financial statements are based on the most recent actuarial valuation performed as of December 31, 2009, with an extrapolation to December 31, 2010.

The significant assumptions used in the actuarial valuations are as follows:

	2010 %	2009 %
Discount rate	5.0	5.0
Rate of compensation increase	3.0	3.0
Healthcare cost increases	4.5 – 10.0	4.5 – 10.0

The benefit obligation continuity is as follows:

	2010 \$	2009 \$
Liability for post employment and post retirement benefits:		
Accrued benefit obligation, January 1	69,627	58,303
Current period benefit cost	3,618	3,212
Retirement interest expense	3,582	3,338
Actuarial loss	-	5,093
Plan amendments	252	2,222
Benefits paid	(2,905)	(2,541)
Accrued benefit obligation, December 31	74,174	69,627
Unamortized actuarial loss	(16,014)	(17,247)
Liability for post employment and post retirement benefits	58,160	52,380
Post employment and post retirement benefits expense:		
Current period benefit cost	3,618	3,212
Retirement interest expense	3,582	3,338
Plan amendment	252	2,222
Amortization of actuarial loss	1,233	1,714
Total post employment and post retirement benefit expense	8,685	10,486

The actuarial loss is amortized over the expected average remaining service life of the related employee group of 13 years (2009 – 14 years).

b) Workplace Safety and Insurance Board Obligation

The Corporation is a Schedule 2 employer under the Workplace Safety and Insurance Act, and as such assumes responsibility for financing its workplace safety insurance costs. The accrued obligation is determined using the estimated value of future benefit costs provided by WSIB and any additional information known to the Corporation about future obligations.

c) Liability for Vacation Credits

Under the provisions of certain employee vacation plans, some vacation credits are earned as at December 31 but are generally unavailable for use until a later date. In addition, the provisions of certain plans allow the accumulation of vacation credits for use in future periods. The approximate value of these credits as at December 31, 2010 is **\$13,586** (2009 - \$12,887).

d) Liability for Vested Sick Leave Benefits

Under the sick leave benefit plan, certain unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Corporation's employment. The liability for these accumulated days, to the extent that they have vested and could be taken in cash by an employee on termination, amounted to **\$8,450** (2009 - \$10,705) at the end of the year. During the year **\$1,632** (2009 - \$836) was paid to employees who left the Corporation's employment.

Reserve funds and reserves have been established to partially provide for this past service liability. The Reserve Funds balance at the end of the year is **\$6,724** (2009 - \$7,500), and the Reserves balance at the end of the year is **\$108** (2009 - \$134). An amount of **\$831** (2009 - \$1,044) has been contributed in the current year and is reported in the Consolidated Statement of Operations.

Anticipated future payments for vested sick leave to employees who are eligible to retire are as follows:

2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Thereafter \$	Total \$
<u>2,763</u>	<u>1,214</u>	<u>1,410</u>	<u>1,427</u>	<u>946</u>	<u>690</u>	<u>8,450</u>

13. Landfill Closure and Post-Closure Liability

The Public Sector Accounting Handbook Section 3270: *Solid Waste Landfill Closure and Post-Closure Liability*, sets the standard for anticipated closure and post-closure costs for existing and closed landfill sites. This liability is the estimated cost to date, based on a volumetric basis, of the expenses relating to those activities required when the site or phase stops accepting waste.

The Sanitary Closure costs include final cover and vegetation, completing facilities for drainage control features, leachate monitoring, water quality monitoring, and monitoring and recovery of gas. Post-closure care activities include all activities related to monitoring the site once it can no longer accept waste, including acquisition of any additional land for buffer zones, treatment and monitoring of leachate, monitoring ground water and surface water, gas monitoring and recovery, and ongoing maintenance of various control systems, drainage systems, and final cover.

The estimated liability for the care of landfill sites is the present value of future cash flows associated with closure and post-closure costs.

Key assumptions in determining the liability at December 31, 2010 for landfills are as follows:

Active (W12A) landfill is expected to reach capacity in 2023	
Remaining capacity of active (W12A) as at December 31, 2010	3.0 million tonnes
Expected closing cost in 2010 dollars	\$2,000
Inflation rate	3.0%
Discount rate	5.0%
Estimated time required for post-closure care - active landfill	75 years
Estimated remaining time required for post-closure care – closed landfills	35-40 years

	2010 \$	2009 \$
Active landfill (W12A) closure, site rehabilitation and monitoring obligation	<u>14,059</u>	14,061
Closed landfills site rehabilitation and monitoring obligation	<u>9,103</u>	<u>9,258</u>
	<u>23,162</u>	<u>23,319</u>

A Reserve Fund has been established to partially provide for this sanitary landfill site closure and post-closure liability. The Reserve Fund balance at the end of the year is **\$14,077** (2009 - \$13,391).

14. Tangible Capital Assets

Cost	Balance at December 31, 2009	Additions	Disposals	Balance at December 31, 2010
Land	335,029	13,192	905	347,316
Landfill and land improvements	103,217	20,309	2,694	120,832
Buildings and building improvements	693,459	81,094	2,295	772,258
Leasehold improvements	3,386	288	-	3,674
Machinery, equipment and furniture	308,993	14,232	21,345	301,879
Vehicles	89,732	14,932	7,329	97,335
Water infrastructure	532,990	36,870	2,381	567,479
Wastewater infrastructure	1,009,431	27,713	4,798	1,032,347
Roads infrastructure	871,439	61,943	20,835	912,547
Computers	5,721	2,720	1,145	7,295
Computers under capital lease	10,836	609	3,127	8,318
Assets under construction	228,247	177,611	110,188	295,670
Total	4,192,480	451,513	177,044	4,466,949

Accumulated Amortization	Balance at December 31, 2009	Amortization Expense	Amortization Disposal	Balance at December 31, 2010
Landfill and land improvements	41,591	10,684	2,694	49,581
Buildings and building improvements	273,114	22,123	2,292	292,945
Leasehold improvements	825	473	-	1,298
Machinery, equipment and furniture	155,821	19,455	21,018	154,258
Vehicles	45,319	8,437	6,917	46,840
Water infrastructure	153,829	8,957	1,741	161,046
Wastewater infrastructure	300,172	15,164	3,362	311,974
Roads infrastructure	332,200	28,998	19,602	341,596
Computers	3,253	1,921	1,145	4,029
Computers under capital lease	5,135	2,940	3,127	4,948
Total	1,311,259	119,154	61,898	1,368,515

	Net book value December 31, 2009	Net book value December 31, 2010
Land	335,029	347,316
Landfill and land improvements	61,626	71,251
Buildings and building improvements	420,345	479,312
Leasehold improvements	2,561	2,376
Machinery, equipment and furniture	153,171	147,621
Vehicles	44,413	50,495
Water infrastructure	379,162	406,433
Wastewater infrastructure	709,259	720,372
Roads infrastructure	539,239	570,950
Computers	2,468	3,267
Computers under capital lease	5,702	3,370
Assets under construction	228,247	295,670
Total	2,881,221	3,098,434

a) Assets under construction

Assets under construction having a value of **\$295,670** (2009 - \$228,247) have not been amortized. Amortization of these assets will commence when the asset is put into service.

In the year that an asset is placed into service, the total cost of the developed asset is transferred to each respective asset category as an addition and removed from assets under construction as a disposal.

b) Contributed Tangible Capital Assets

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is **\$35,435** (2009 - \$60,292) comprised predominantly of roads infrastructure in the amount of **\$21,348** (2008 - \$4,353) and water and wastewater infrastructure in the amount of **\$11,942** (2009 - \$54,926).

c) Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

d) Works of Art and Historical Treasures

The Corporation manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at Corporation sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

e) Write-down of Tangible Capital Assets

There were no write-downs of tangible capital assets during the year (2009 - \$nil).

15. Accumulated Surplus

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

	2010	2009
	\$	\$
Surplus (deficit):		
Invested in tangible capital assets	3,100,027	2,884,817
Other	(203,657)	(174,789)
Local boards	572	447
Equity in government business enterprise	220,807	195,221
Unfunded		
Landfill closure and post closure liability	(23,162)	(23,319)
Employee benefits payable	(105,652)	(99,760)
Net long-term debt	(240,019)	(228,219)
Accrued interest on long-term debt	(2,087)	(639)
Total surplus	2,746,831	2,553,759
Reserves set aside by Council:		
Working capital	8,101	8,101
Contingencies	65,251	67,311
General operations	15,004	15,984
Total reserves	88,356	91,396
Reserve funds set aside for specific purpose by Council:		
Infrastructure renewal	84,955	76,838
Acquisition of vehicles	17,135	15,779
Acquisition of facilities	16,162	14,558
Recreational programs & facilities	310	192
Self insurance	14,629	14,738
Sick leave	6,724	7,500
Industrial over sizing	25,999	21,350
Other purposes	79,113	63,596
Total reserve funds	245,028	214,551
Accumulated surplus	3,080,215	2,859,706

The Corporation has chosen to reflect items on a gross rather than a net basis. As such the Corporation has reserve funds and reserves to satisfy certain obligations listed as unfunded in the preceding table, as more fully described in notes 12 and 13.

16. Contingent Liabilities**a) Legal Actions**

As at December 31, 2010, certain legal actions and other contingent liabilities are pending against the Corporation. The final outcome of the outstanding claims cannot be determined at this time. However management believes that ultimate disposition of these matters will not materially exceed the amounts recorded in these financial statements.

Estimated costs to settle claims are based on available information and projections of estimated future expenses developed from the Corporation's historical experience. Claims are reported as an operating expense in the year of the loss, where the costs are deemed to be likely and can be reasonably determined. Claims are reported as a liability in the Consolidated Statement of Financial Position.

b) Public Liability and Property Loss Self Insurance

The Corporation and its various Boards and Commissions are jointly self insured for liability, property and casualty claims for varying amounts ranging up to \$500 for any individual claim.

Insurance is also purchased for claims in excess of these limits to a maximum of \$50,000 for liability claims. The insured and self insured organizations are: Museum London, London Convention Centre Corporation, Covent Garden Market Corporation, London Police Services Board, Middlesex-London Health Unit, London Transit Commission and London & Middlesex Housing Corporation.

The Corporation has made provision for a reserve fund for self insurance which as at December 31, 2010 amounted to **\$14,629** (2009 - \$14,738) and is reported in Note 15 of the Financial Statements. The contribution for the year of **\$3,205** (2009 - \$2,886) has been reported in the individual revenues on the Consolidated Statement of Operations.

Claims expensed during the year amounting to **\$3,311** (2009 - \$3,194) have been reported with individual expenses on the Consolidated Statement of Operations. The payment of these expenses was funded through the self insurance reserve fund.

There were unsettled liability claims against the Corporation as at December 31, 2010 to be paid from the self insurance reserve fund. In the opinion of legal counsel, the probable outcome of these claims cannot be determined at this time.

17. Loan Guarantees

The Corporation has entered into an agreement which guarantees the borrowings of the Grand Theatre up to a maximum of **\$750** (2009 - \$750) in exchange for a mortgage on the land and building of the Grand Theatre.

The Corporation has entered into an agreement which under certain conditions guarantees the borrowings of Orchestra London up to a maximum of **\$500** (2009 - \$500) for the period ending December 2014.

The Corporation entered into agreements which, under certain conditions, guarantee a \$7,000 loan from the Pacific & Western Bank of Canada to the trustee of the City of London Arena Trust. The outstanding principal of this loan at December 31, 2010 is **\$5,256** (2009 - \$5,536).

The Corporation has entered into an agreement, which under certain conditions guarantees a \$6,000 leasehold mortgage from the Bank of Montreal to the YMCA of Western Ontario, related to the Stoney Creek Community Centre. The outstanding principal of this loan at December 31, 2010 is **\$5,933**.

The Corporation has entered into an agreement, which under certain conditions, guarantees to assume the purchase and payment of block power on behalf of the Joint Water Boards. The Corporation has posted performance letters of credit as a condition of its contract in the amount of **\$5,000**. There is no amount outstanding and no anticipated loss from this guarantee.

No amounts have been accrued in the consolidated financial statements of the Corporation with respect to these guarantees, as it is not anticipated at December 31, 2010 that the Corporation will need to make any payments as a result of providing the guarantees.

18. Commitments

- a) Section 474.18 of the Municipal Act, 2001, requires that the Corporation make annual payments to the County of Middlesex for an indefinite period as compensation for the reduction of income due to the dissolution of the London-Middlesex Suburban Roads Commission. The amount paid in 2010 was **\$1,185** (2009 - \$1,203). Payments are based on the base year of 1997 at \$1,000 and are calculated contingent on annual assessment and tax rate increases.
- b) The Corporation has future commitments on the Downtown Rehabilitation Program, which is a program that allows for future reductions in property taxes. The future commitments are as follows:

2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Beyond \$	Total \$
<u>1,579</u>	<u>1,367</u>	<u>1,920</u>	<u>1,671</u>	<u>1,340</u>	<u>3,055</u>	<u>10,932</u>

c) Contractual Obligations

The Corporation is committed to the following fleet and equipment purchases and minimum annual operating lease payments for premises and equipment as follows:

2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	Beyond \$	Total \$
<u>11,106</u>	<u>5,012</u>	<u>4,023</u>	<u>2,614</u>	<u>2,241</u>	<u>4,458</u>	<u>29,454</u>

The Corporation has the following outstanding commitments remaining on facilities and infrastructure contracts as at December 31, 2010:

	2010 \$	2009 \$
Sanitary Sewer	10,880	7,174
Police	-	737
Roads	9,511	12,476
Water	19,099	46,356
Storm Sewer	7,913	4,573
Recreation Facilities	1,306	3,963
General Government	1,043	2,738
Waste Disposal and Recycling	7,656	523
Commercial and Industrial	4,137	3,968
Transit	3,491	21,502
Cultural Facilities	329	161
Parks	392	1,254
Fire and Emergency Measures	850	1,505
	<u>66,607</u>	<u>106,930</u>

The majority of payments on these outstanding commitments will be made in 2011.

d) Derivatives

The Corporation has the following derivative contracts as at December 31:

- Contract, expiring October 31, 2012, for average daily natural gas purchases of 199 gigajoules, with a remaining contract value of \$873
- Contract, expiring October 31, 2013, for average daily natural gas purchases of 199 gigajoules, with a remaining contract value of \$896
- Contract, expiring April 30, 2011, for total electricity purchases of 1,461 megawatt hours, with a remaining contract value of \$64

These derivative contracts were purchased to provide price certainty for the majority of the Corporation's natural gas and electricity needs over the terms of the contracts. The values of these contracts are not reflected as assets or liabilities in these financial statements.

19. Provincial Offences Court Administration and Prosecution

On March 26, 2001, pursuant to Bill 108, the Corporation assumed responsibility for Provincial Offences Court Administration and Prosecution. The Province of Ontario transferred the responsibility for the administration and prosecution of provincial offences in London-Middlesex to the Corporation. This transfer was part of the Province's strategy to realign provincial and municipal roles in the delivery of public services. As a result, the Corporation was required to establish its own administration, prosecution office and courtrooms to deal with charges laid under the Provincial Offences Act.

	2010 \$	2009 \$
Revenues		
Fines	<u>5,304</u>	<u>5,341</u>
Expenses		
Salary, wages and benefits	1,343	1,301
County share of net revenues	298	311
Occupancy costs	319	319
Provincial government cost recovery	432	388
Administration costs	914	912
Equipment and maintenance	<u>241</u>	<u>246</u>
Total expenses	<u>3,547</u>	<u>3,477</u>
Excess of revenues over expenses	<u>1,757</u>	<u>1,864</u>

These results comprise part of the other revenue and protection to persons and property expenses that are included in the Consolidated Statement of Operations.

20. Child Care and Hostel Subsidy Balance Reconciliation

The Corporation has a service contract with the Ministry of Community and Social Services and the Ministry of Children and Youth Services. A reconciliation report summarizes, by business unit code, all revenues and expenses and identifies any resulting surplus or deficit that relates to the Service Contract. A review of this report shows overall programs to be in a surplus position as at December 31, 2010. Any unspent amounts are reflected as accounts payable and accrued liabilities in the Consolidated Statement of Financial Position.

Program Funded	2010 Subsidy Received \$	2010 Subsidy Spent \$	Unspent Funds \$
Child Care – Day Nurseries Act	19,914	19,914	-
Early Learning Child Care	2,100	2,100	-
Best Start Child Care	5,533	5,533	-
Homelessness Programs	544	544	-
Domiciliary Hostels	215	215	-
Energy Emergency	269	269	-
Claw backs	-	(3)	3
Total	<u>28,575</u>	<u>28,572</u>	<u>3</u>

These results comprise part of the provincial transfer payments revenue and the social and family services expenses that are included in the Consolidated Statement of Operations.

21. Budget Data - unaudited

Budget data presented in these consolidated financial statements are based upon the 2010 operating and capital budgets approved by Council. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The chart below reconciles the approved budget with the budget figures as presented in these consolidated financial statements.

	Budget Amount \$
<u>Revenues</u>	
Approved budgets:	
Operating	829,400
Capital	209,025
	1,038,425
Consolidated Boards and Commissions	104,345
Adjustments:	
Transfers from operating fund	(35,535)
Transfers from reserves and reserve funds	(129,072)
Transfers from capital fund	(320)
Proceeds on debt issue	(29,918)
Netting for financial statement presentation purposes	(6,614)
Total revenues	941,311
<u>Expenses</u>	
Approved budgets:	
Operating	829,400
Capital	209,025
	1,038,425
Consolidated Boards and Commissions	106,484
Adjustments:	
Transfers to capital fund	(36,473)
Transfers to reserves and reserve funds	(60,325)
Debt principal repayments	(32,803)
Reduction due to Tangible Capital Assets (TCA)	(274,324)
Netting for financial statement presentation purposes	(6,614)
Total expenses	734,370
Annual surplus as budgeted	206,941
Amortization	119,154
Revised annual surplus for budget purposes	87,787

22. Revenues

The following is a breakdown of the Corporation's revenues:

	2010 \$	2009 \$
Net municipal taxation and user charges		
Net municipal taxation	468,342	455,908
Payments-in-lieu-of-taxes	8,448	8,352
	476,790	464,260
User charges	215,788	195,813
	<u>692,578</u>	<u>660,073</u>
Transfer payments		
Operating	11,428	4,253
Capital infrastructure	43,051	17,007
Government of Canada - total	<u>54,479</u>	<u>21,260</u>
Unconditional	2,341	8,160
Conditional – operating	179,299	151,986
Capital infrastructure	57,317	11,325
Province of Ontario - total	<u>238,957</u>	<u>171,471</u>
Other municipalities	<u>9,473</u>	<u>4,614</u>
	<u>302,909</u>	<u>197,345</u>
Investment income		
Investment income - operating	765	426
Investment income - reserves and reserve funds	6,025	6,140
	<u>6,790</u>	<u>6,566</u>
Other revenues		
Provincial Offences Fines	5,332	5,397
Government Business Enterprises	3,683	3,254
Ontario Lottery & Gaming Corporation	3,825	3,930
Other contributions - operating	8,016	17,363
Other contributions - capital	1,870	2,890
Loss on sale of tangible capital assets	(3,311)	(6,174)
Donations	1,227	799
Miscellaneous sales	1,519	400
	<u>22,161</u>	<u>27,859</u>

23. Expenses by Object

The Consolidated Statement of Operations represents the Corporation's expenses by function. The following classifies those same expenses by object.

	2010	2009
	\$	\$
Salaries, wages and fringe benefits	349,182	331,805
Net long-term debt interest charges	13,356	14,179
Materials and supplies	106,472	104,273
Contracted Services	102,587	106,347
Rents and financial expenses	18,401	15,818
External transfers	176,839	161,645
Amortization	119,154	112,721
Total Expenses by Object	<u>885,991</u>	<u>846,788</u>

24. Segmented Information

The City of London is a diversified municipal government institution that provides a wide range of services to its citizens, including police, fire, roadways, public transit, water, wastewater, solid waste and recycling, social and community services. For management reporting purposes the Corporation's operations and activities are organized and reported by Fund. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations.

City services are provided by departments and their activities are reported in these funds. Certain departments that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

a) Protection

Protection is comprised predominantly of the Police Services and Fire departments. The mandate of the Police Services department is to ensure the safety and security of the lives and property of citizens through law enforcement, victims' assistance, public order maintenance, crime prevention and emergency response. The Fire department is responsible for providing proactive fire and injury prevention education programs, comprehensive inspection programs and fire code enforcement. In addition, the department responds to emergency calls for assistance related to fires, rescues, motor vehicle accidents and cardiac medical events as well as calls related to hazardous material incidents, swift water and ice rescue and limited types of technical rescue calls.

b) Transportation Services

Transportation Services are comprised of year-round road maintenance, parking, traffic signals and street lighting. Activities include the maintenance of roadsides defined as sidewalks, walkways, boulevards and the urban forest. This service is responsible for the operational integrity of the roadway system through year-round surface maintenance and winter maintenance, including snow and ice control. Parking supports the controlled movement of vehicles to benefit London businesses and residents through policy and operational efforts. Other activities include management of the City's on-street parking and off-street parking lots and enforcement of parking by-laws. Traffic signal services provide the planning, design, operation and maintenance of the City's street lights and traffic signal network including a computerized traffic signal control system.

The London Transit Commission serves as an agent for the City of London responsible for the delivery of public transit services for the City of London as provided under the City of London Act.

Public transit services include conventional and specialized transit services. Service design, development and delivery for the respective services take their direction from the City of London's Official Plan, Transportation Plan and London Transit's Long Term Growth Strategy, Ridership Growth Plan, Business Plan and Accessibility Plan.

c) Environmental Services

i) Water and Wastewater Utilities

The Water Utility provides the planning, engineering, operation and maintenance for the City's water infrastructure. Wholesale potable water is purchased from both the Lake Huron and the Elgin Area Primary Water Supply Systems. Services include the planning and engineering to support the delivery of safe, clean, high quality drinking water of sufficient flow and pressure to enhance the quality of life and support economic development for the residents and businesses of London. Operation and maintenance services ensure the reliable delivery of water to all customers and sustainability of a high quality water infrastructure.

The Wastewater Utility provides the planning, engineering, operation and maintenance for the City's wastewater and drainage infrastructure. Services include the operation of pollution control plants and sewage pumping stations for the treatment of sanitary sewage, year-round maintenance of sanitary and storm sewer systems and planning and implementation of capital works to provide new services and improve existing systems. All services are delivered in an environmentally and fiscally responsible manner while maintaining sustainability of the infrastructure.

ii) Solid Waste and Recycling

Solid Waste and Recycling provides solid waste collection services managing the safe and permanent disposal of non-hazardous wastes collected in an environmentally safe process including the management and operation of a landfill site. It also provides a variety of services and projects relating to the Management of Solid Waste for its customers and the citizens and businesses of London. Such services include daily recyclable and waste drop-off, on-site composting, residential/industrial/commercial and city facilities recycling.

d) Health Services

The Middlesex-London Health Unit provides a wide range of public health services in London and Middlesex County. The programs and services are designed to help citizens live a healthy life, free from disease and injury through health promotion and prevention activities. The Health Unit also monitors the air, food and water supply in the community to make sure it is safe and provides services to individuals and communities and advocates for public policies that make the City healthier.

Ambulance Services provide medical emergency medical services to the City of London and Middlesex County.

e) Social and Family Services

As the Consolidated Municipal Service Manager, the Community Services Department is legislated to deliver the Province's Ontario Works program to qualified residents within the City of London; homelessness funding to local emergency shelters and administers the distribution of child care fee subsidies to families in need and wage subsidies to local child care agencies.

The Department also delivers Council-directed social services, including the London CARES initiative and the Child and Youth Agenda in partnership with community agencies and groups.

The Department operates the Dearness Home long term care facility; an Adult Day Program and Home Help Services.

f) Social Housing

The Housing Division is responsible for establishing and maintaining a system for administering mortgage and rent subsidies for social housing providers; receiving and evaluating financial reports of housing providers; assessing extraordinary financial requests from housing providers; responding to requests for technical support from housing providers and reviewing housing providers operations to ensure compliance with the Social Housing Reform Act and any rules allocated by the Service Manager. The Division also fulfills the application intake function for social housing providers (the Housing Access Centre) and delivers federal, provincial and municipal affordable housing programs.

g) Parks and Recreation

The Department works collaboratively with their colleagues and partners to improve the quality of life for all Londoners by creating opportunities for individuals to lead healthy, socially-active lives through the direct delivery of recreation programs; strengthening neighbourhoods; leading the integration of community wide initiatives; managing and operating parks and recreation facilities such as Storybook Gardens, municipal golf courses; providing aquatic opportunities; and supporting local sport and special event initiatives.

h) Cultural Services

The Culture Office provides the infrastructure necessary to place a greater focus on culture by acting as the central access point for the cultural functions and responsibilities of the City. The Culture Office promotes collaboration, communication and the sharing of knowledge and resources for the purpose of generating economic prosperity through cultural vitality.

i) Planning

The Planning and Development Department provides a wide range of building and planning services. The Planning Division manages the efficient and timely processing of development applications, promotes a high standard of urban design and land use efficiency; processes subdivision, condominium, consent and minor variance applications; develops, implements, monitors and updates Official Plan policies; undertakes research and provides geographical information system functions; promotes natural heritage protection; plans and designs parks and major open space linkages; supports heritage conservation and Downtown revitalization and maintains a high standard of analysis and policy formulation. The Building Division ensures high quality building construction through the enforcement of the Ontario Building Code as well as improving the quality of life for the citizens of London through By-law and Property Standards enforcement and Site Plan approvals.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information. The Operating Fund reports on municipal services that are funded primarily by property taxation. Taxation and payments-in-lieu of taxes are apportioned to General Revenue Fund Services based on the Fund's net surplus. User charges, Government transfers, transfer from other funds and other revenues have been taken from the allocations on schedule 12 of the Financial Information Return.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The segmented information reports total revenues and expenses by segment.

25. Comparative Figures

Certain comparative figures have been reclassified to conform to the 2010 financial statement presentation.

THE CORPORATION OF THE CITY OF LONDON

Consolidated Schedule of Segment Disclosure - Operating Revenues

For the year ended December 31, 2010, with 2009 comparatives (in thousands of dollars)

	REVENUES					TOTAL 2010 Actuals	TOTAL 2009 Actuals
	Taxation	User Charges	Government Transfers	Developer Contributions	Other		
General Government	476,790	5,520	6,990	-	45,437	534,737	529,358
Fire		246	854	-	152	1,252	591
Police		2,762	3,269	-	19	6,050	2,499
Other Protection Services		6,538	3	-	5,332	11,873	13,631
Total Protection Services	-	9,546	4,126	-	5,503	19,175	16,721
Transit		28,090	43,137	-	(1,787)	69,440	33,357
Other Transportation Services		4,119	26,033	21,348	17,713	69,213	20,370
Total Transportation Services	-	32,209	69,170	21,348	15,926	138,653	53,727
Water/Waste Water		121,945	42,684	11,943	5,661	182,233	192,255
Solid Waste		7,057	(94)	-	-	6,963	5,991
Total Environmental Services	-	129,002	42,590	11,943	5,661	189,196	198,246
Public Health Services		-	4,843	-	202	5,045	4,560
Ambulance Services		-	-	-	-	-	-
Total Health Services	-	-	4,843	-	202	5,045	4,560
General Assistance		9	97,867	-	-	97,876	90,445
Assistance to aged persons		5,091	9,950	-	-	15,041	14,210
Child Care		124	26,769	-	-	26,893	27,594
Total Social and Family Services	-	5,224	134,586	-	-	139,810	132,249
Social Housing	-	9,571	22,267	-	0	31,838	24,720
Parks and Recreation		16,092	9,177	2,144	429	27,842	16,807
Libraries		396	1,394	-	540	2,330	1,727
Cultural Services		638	423	-	1,382	2,443	1,706
Total Recreation and Cultural Services	-	17,126	10,994	2,144	2,351	32,615	20,240
Planning and Development	-	7,590	7,343	-	5	14,938	7,177
Total Revenue	476,790	215,788	302,909	35,435	75,085	1,106,007	986,998

For the year ended December 31, 2010, with 2009 comparatives (in thousands of dollars)

[illegible]