

## Independent Auditor's Report

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

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

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the City of Oshawa as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
July 12, 2011

**THE CORPORATION OF THE CITY OF OSHAWA**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
December 31, 2010

	2010	2009
	\$	Restated - Note 2 \$
<b>Financial assets</b>		
Cash and cash equivalents	9,780,967	20,903,544
Investments	34,549,634	30,465,640
Taxes receivable	9,299,619	12,201,241
Accounts receivable	8,185,262	5,949,137
Other assets	101,500	101,500
Investment in Oshawa Power and Utilities Corporation (Note 4)	38,779,400	35,869,400
<b>Total</b>	<b>100,696,382</b>	<b>105,490,462</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	19,671,964	17,254,244
Deferred revenue (Note 5)	47,164,085	46,624,503
Employee future benefits and other liabilities (Note 6)	41,708,659	40,197,388
Long-term liabilities (Note 7)	89,373,954	93,566,201
<b>Total</b>	<b>197,918,662</b>	<b>197,642,336</b>
<b>Net debt</b>	<b>(97,222,280)</b>	<b>(92,151,874)</b>
<b>Non-financial assets</b>		
Tangible Capital Assets (Note 8)	558,671,926	543,074,980
Inventory and prepaid expenses	441,561	522,222
<b>Total</b>	<b>559,113,487</b>	<b>543,597,202</b>
<b>Accumulated surplus (Note 9)</b>	<b>461,891,207</b>	<b>451,445,328</b>

Commitments (Note 14)

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
year ended December 31, 2010

	Budget (Note 16) (unaudited) \$	2010 \$	2009 Restated - Note 2 \$
<b>Revenues</b>			
Property taxation	105,513,300	105,010,441	103,638,370
Taxation from other governments	2,415,900	3,071,098	2,400,053
User charges	10,347,000	13,539,956	9,832,055
Government grants	8,320,800	8,410,544	1,314,888
Contributions from developers - earned	5,000,000	4,728,799	4,763,018
Revenue recognized on assumed assets	1,900,000	1,912,366	10,635,950
Federal gas tax revenue	4,438,000	2,473,864	2,337,404
Investment income	431,500	987,109	941,835
Penalties and interest on taxes	1,400,000	1,687,396	1,555,165
Licenses and permits	4,527,000	4,718,705	4,969,557
Fines	1,104,300	985,107	896,690
Oshawa Power and Utilities Corporation net income (Note 4)	1,100,000	4,410,000	4,040,000
Other	401,000	5,063,517	2,936,253
<b>Total revenues</b>	<b>146,898,800</b>	<b>156,998,902</b>	<b>150,261,238</b>
<b>Expenses (Note 12)</b>			
General government	24,971,995	25,471,198	22,278,841
Protection to persons and property	28,125,451	27,726,606	26,572,130
Transportation services	32,389,657	33,163,722	32,471,354
Environmental services	6,221,596	5,765,434	5,541,969
Health services	417,148	474,806	614,200
Social and family services	1,480,753	1,480,753	1,484,781
Social housing	459,200	408,271	424,377
Recreation and cultural services	44,728,960	46,828,092	45,468,841
Planning and development services	5,343,472	5,234,141	8,578,365
<b>Total expenses</b>	<b>144,138,232</b>	<b>146,553,023</b>	<b>143,434,858</b>
<b>Annual surplus</b>	<b>2,760,568</b>	<b>10,445,879</b>	<b>6,826,380</b>
<b>Accumulated surplus, beginning of year (Note 2)</b>	<b>451,445,328</b>	<b>451,445,328</b>	<b>444,618,948</b>
<b>Accumulated surplus, end of year</b>	<b>454,205,896</b>	<b>461,891,207</b>	<b>451,445,328</b>

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT**  
year ended December 31, 2010

	2010	2009
	\$	Restated - Note 2 \$
<b>Annual surplus</b>	10,445,879	6,826,380
Amortization of tangible capital assets	23,268,801	23,400,550
Acquisition of tangible capital assets	(44,532,635)	(34,088,673)
Loss on sale of tangible capital assets	5,666,888	12,926
Change in inventory and prepaid expenses	80,661	242,642
<b>Increase in net debt</b>	(5,070,406)	(3,606,175)
<b>Net debt, beginning of year</b>	(92,151,874)	(88,545,699)
<b>Net debt, end of year</b>	(97,222,280)	(92,151,874)

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
year ended December 31, 2010

	2010	2009
	\$	Restated - Note 2 \$
<b>Operating Activities</b>		
Annual surplus	10,445,879	6,826,380
Items not involving cash:		
Amortization	23,268,801	23,400,550
Loss on disposal of assets	5,666,888	12,926
Assumed assets recognized as revenue	(1,912,366)	(10,635,950)
Net change in non-cash working capital:		
Decrease/(increase) in taxes receivable	2,901,622	(2,506,714)
Increase in accounts receivable	(2,236,125)	(1,372,456)
Increase / (decrease) in accounts payable and accrued liabilities	2,417,720	(708,192)
Increase in deferred revenue	539,582	207,137
Increase in employee future benefits and other liabilities	1,511,271	788,715
Decrease in inventory and prepaid expenses	80,661	242,642
Oshawa Power and Utilities Corporation net income, which does not involve cash	(4,410,000)	(4,040,000)
	<u>38,273,933</u>	<u>12,215,038</u>
<b>Capital Activities</b>		
Acquisition of tangible capital assets	(42,620,269)	(23,452,723)
<b>Financing</b>		
Debtenture debt retired	(5,053,047)	(4,738,718)
New debt issued	860,800	860,800
	<u>(4,192,247)</u>	<u>(3,877,918)</u>
<b>Investing</b>		
Net change in investments	(4,083,994)	13,604,886
Dividend received from OPUC	1,500,000	1,500,000
	<u>(2,583,994)</u>	<u>15,104,886</u>
Decrease in cash and cash equivalents	(11,122,577)	(10,717)
Cash and cash equivalents, beginning of year	20,903,544	20,914,261
<b>Cash and cash equivalents, end of year</b>	<u>9,780,967</u>	<u>20,903,544</u>

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**year ended December 31, 2010**

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

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

Oshawa Public Library Board  
Oshawa Central Business District Improvement Area

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

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**year ended December 31, 2010**

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**1. Significant Accounting Policies (continued)**

**Basis of Accounting**

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

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

**Non-Financial Assets**

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

**Tangible Capital Assets**

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

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

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



**THE CORPORATION OF THE CITY OF OSHAWA  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
year ended December 31, 2010**

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

**Contribution of Tangible Capital Assets**

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

**Intangible Assets**

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

**Interest Capitalization**

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

**Reserves and Reserve Funds**

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

**Government Transfers**

Government transfers are recognized as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**year ended December 31, 2010**

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

**Deferred Revenue**

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

**Taxation and Related Revenue**

Property tax billings are prepared by the City based on an assessment roll provided by the Municipal Property Assessment Corporation ("MPAC"). All assessed property values in the City are established by MPAC based on a common valuation date.

**Investment Income**

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

**Post Employment Benefits**

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

**THE CORPORATION OF THE CITY OF OSHAWA  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
year ended December 31, 2010**

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

**Accounting for School Boards and Region of Durham Transactions**

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

**Trust Funds**

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

**Use of Estimates**

The preparation of consolidated financial statements, in conformity 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 date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates. Accounts requiring significant estimates include accounts receivable, accrued liabilities, employee future benefits and other liabilities, and tangible capital assets.

**2. RESTATEMENT OF PRIOR YEAR COMPARATIVE FIGURES**

In 2009 the City implemented Section 3150 "Tangible Capital Assets" of the Public Sector Accounting Handbook. Section 3150 requires the City to record and amortize its tangible capital assets in the financial statements. The financial information recorded included the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets.

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**2. RESTATEMENT OF PRIOR YEAR COMPARATIVE FIGURES (continued)**

The City determined that the comparative figures for the tangible capital assets reported at January 1, 2009 were overstated by \$48,720,862. The overstatement is a due to a revision of the estimates used for the initial asset valuation. There was also a revision to the amortization periods used in certain asset classes.

Consequently, the balance of the accumulated surplus as at January 1, 2010 has been decreased by \$48,720,862 and the 2009 financial statements have been restated to reflect the decrease in tangible capital assets and an equal decrease in accumulated surplus.

This adjustment has changed amounts reported in 2009 as follows:

Annual surplus	
Annual surplus, as previously reported	\$7,045,784
Change in amortization expense	(219,404)
Annual surplus, as restated	<u>\$6,826,380</u>

Accumulated surplus	
Invested in tangible capital assets, as previously reported	\$591,795,842
Change in net book value of tangible capital assets	(48,720,862)
Tangible capital assets, as restated	<u>543,074,980</u>
Accumulated surplus, as previously reported	500,166,190
Change in net book value of tangible capital assets	(48,720,862)
Accumulated surplus, as restated	<u>\$451,445,328</u>

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

**3. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF DURHAM**

During 2010, requisitions were made by the School Boards and the Region of Durham requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized in the following table:

	2010			2009
	School Boards	Region	Total	Total
Property taxes	\$55,862,483	\$111,929,852	\$167,792,335	\$163,749,308
Taxation from other governments	-	825,325	825,325	781,544
<b>Total amounts transferred</b>	<b>\$55,862,483</b>	<b>\$112,755,177</b>	<b>\$168,617,660</b>	<b>\$164,530,852</b>

**4. INVESTMENT AND EQUITY IN OSHAWA POWER AND UTILITIES CORPORATION**

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

The City's investment in OPUC is as follows:

	2010	2009
Total Investment/Equity, beginning of year	\$35,869,400	\$33,329,400
Changes during year:		
Net income of OPUC	4,410,000	4,040,000
Dividends received from OPUC	(1,500,000)	(1,500,000)
<b>Total Investment/Equity, end of year</b>	<b>\$38,779,400</b>	<b>\$35,869,400</b>

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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

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

The following table provides condensed financial information in respect of the financial position of OPUC as at December 31, 2010 and its operations.

	<b>2010</b>	<b>2009</b>
Financial position		
Current assets	\$43,545,400	\$ 43,222,400
Capital assets	59,660,000	59,912,000
Deferred charges and other assets	10,635,000	11,585,000
<b>Total assets</b>	<b>113,840,400</b>	<b>114,719,400</b>
Current liabilities	19,106,000	14,323,000
Long-term liabilities	55,955,000	64,527,000
<b>Total liabilities</b>	<b>75,061,000</b>	<b>78,850,000</b>
<b>Net assets</b>	<b>\$38,779,400</b>	<b>\$35,869,400</b>
	<b>Year Ended</b>	<b>Year Ended</b>
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Results of operations		
Revenue	\$102,743,000	\$96,902,000
Operating expenses	98,333,000	92,862,000
<b>Income for the period</b>	<b>\$4,410,000</b>	<b>\$4,040,000</b>
<b>Dividends paid</b>	<b>\$1,500,000</b>	<b>\$1,500,000</b>

Included in revenue above is \$4,846,944 (2009 - \$4,384,452) earned from the City for services provided. Operating expenses above include \$264,020 (2009 - \$264,020) paid to the City for net rent at 100 Simcoe Street, Oshawa, ON.

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

**5. DEFERRED REVENUE**

Deferred revenue consists of the following:

	<b>2010</b>	<b>2009</b>
Obligatory reserve funds		
Development charges	\$38,738,758	\$40,188,116
Parkland	792,446	705,897
Federal gas tax	5,641,941	3,739,252
Other	1,990,940	1,991,238
<b>Total</b>	<b>\$47,164,085</b>	<b>\$46,624,503</b>

Continuity of deferred revenue is as follows:

	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$46,624,503	\$46,417,366
Developer contributions collected	4,816,373	3,015,128
Federal gas tax	4,343,273	4,518,203
Other collections	3,059,112	3,038,070
Interest earned	277,018	273,325
	12,495,776	10,844,726
Less:		
Developer contributions used	6,265,731	4,763,018
Federal gas tax used	2,473,864	2,337,404
General deferred revenue used	3,216,599	3,537,167
	11,956,194	10,637,589
Balance, end of year	\$47,164,085	\$46,624,503

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**6. EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES**

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

	<b>2010</b>	<b>2009</b>
Future payments required to WSIB	\$7,495,795	\$6,947,566
Accumulated sick leave benefit plan entitlements	7,314,380	6,768,978
Post employment benefits	25,618,751	25,210,651
Other liabilities	1,279,733	1,270,193
<b>Total</b>	<b>\$41,708,659</b>	<b>\$40,197,388</b>

(a) Future payments required to WSIB

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board ("WSIB") Act, the City has elected to be treated as a Schedule 2 employer and therefore remits payments to the WSIB as required to fund disability payments. The estimated liability reported in these financial statements is based on an actuarial valuation update completed March 11, 2011.

(b) Accumulated sick leave benefit plan entitlements

Under the sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employ. The estimated liability reported in these financial statements is based on an actuarial valuation update completed March 11, 2011.

(c) Post employment benefits

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

The accrued benefit liability and expense figures for the year ended December 31, 2010 are based on the results and assumptions determined by actuarial valuation completed March 11, 2011.



**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**6. EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES (continued)**

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

Discount rate	5%
Future inflation rates	2% per annum
Medical benefit cost escalation	8% per year reducing to 5% per year over 6 years

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

Liability for post employment benefits as at Jan. 1, 2010	\$40,197,388
Current period service cost	1,561,358
Amortization losses	128,571
Interest	1,985,037
Benefits paid	(2,163,695)
<u>Liability for post employment benefits as at Dec. 31, 2010</u>	<u>\$41,708,659</u>

The 2010 valuation noted an actuarial loss. The loss was incurred due to the liability recognized for automatic presumption of occupational injury related to fire fighters. The unamortized actuarial loss included in the year end liability is as follows:

Accrued benefit obligation	\$42,492,827
Unamortized actuarial losses	(784,168)
<u>Liability for post employment benefits and other liabilities</u>	<u>\$41,708,659</u>

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**7. LONG-TERM LIABILITIES**

- (a) Long-term liabilities are comprised of debentures issued by the Region of Durham for which the City has assumed responsibility for the payment of principal and interest charges. Interest rates vary from 4.58% to 9.25%.
- (b) Future principal payments required for payment of net long-term liabilities are summarized as follows:

2011	2012	2013	2014	2015	Total
\$	\$	\$	\$	\$	\$
5,346,174	24,929,405	2,833,946	2,965,428	3,111,124	39,186,077
					Payable in 2016 to 2020
					17,956,404
					Payable in 2021 and thereafter
					<u>32,231,473</u>
					<u>89,373,954</u>

- (c) Debt payments in 2012 include a balloon payment of \$20,297,000 which will be refinanced through the issue of a ten year debenture.
- (d) Approval of the Ontario Municipal Board has been obtained for the long-term liabilities issued by the Region of Durham for the City on or before December 31, 1992. Those issued after December 31, 1992 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limits prescribed by the Ministry of Municipal Affairs and Housing.
- (e) Principal repaid on long-term liabilities in 2010 amounted to \$5,053,047 (2009 - \$4,738,718).
- (f) Interest expense on long-term liabilities in 2010 amounted to \$4,988,644 (2009 - \$5,196,006).

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

**8. TANGIBLE CAPITAL ASSETS**

Tangible capital assets consist of the following:

	2010	2009
		Restated—Note 2
Land	\$128,492,813	\$127,049,197
Land improvements	19,277,288	17,351,204
Buildings	138,086,960	115,686,879
Machinery & equipment	9,260,841	7,444,124
Vehicles	7,383,201	8,042,951
Furniture	1,283,957	924,972
Linear assets	227,967,613	232,296,421
Other assets	6,358,102	6,505,303
	<u>538,110,775</u>	<u>515,301,051</u>
Work-in-progress	20,561,151	27,773,929
<b>Total</b>	<u><u>\$558,671,926</u></u>	<u><u>\$543,074,980</u></u>

*For additional information, see the Schedule of Tangible Capital Assets (Schedule 1)*

i) Contributed tangible capital assets

The City records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are land, roadways, and storm sewer lines installed by a developer as part of a subdivision agreement. Transfers of tangible capital assets in 2010 amounted to \$1,912,366 (2009 - \$10,635,950).

ii) Tangible capital assets recognized at nominal value

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

iii) Works of art and historical treasures

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**9. ACCUMULATED SURPLUS**

Accumulated surplus consists of the following:

	<b>2010</b>	<b>2009</b> Restated—Note 2
Operating fund	\$486,889	\$138,451
Capital fund	(40,692,709)	(27,145,203)
Reserves and reserve funds	35,728,314	33,271,289
Unfunded liabilities	(131,082,613)	(133,763,589)
Net equity in OPUC	38,779,400	35,869,400
Invested in tangible capital assets	558,671,926	543,074,980
<b>Total</b>	<b>\$461,891,207</b>	<b>\$451,445,328</b>

**10. PENSION AGREEMENTS**

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

Contributions made by the City in 2010 amounted to \$4,107,445 (2009 - \$3,954,803).

**11. TRUST FUNDS**

Trust funds administered by the City amounting to \$891,231 (2009 - \$929,776) are presented separately in the Trust Fund Statement of Financial Activities and Fund Balance and Statement of Financial Position.

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

**12. EXPENSES BY OBJECT**

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

	<b>2010</b>	<b>2009</b>
Salaries, wages and benefits	\$77,736,871	\$74,087,267
Interest on long-term debt	4,988,645	5,196,006
Materials and supplies	32,586,314	33,331,251
Rents and financial expenses	420,588	404,228
Transfer payments	7,551,804	7,015,556
Amortization	23,268,801	23,400,550
<b>Total</b>	<b>\$146,553,023</b>	<b>\$143,434,858</b>

**13. CONTINGENCIES**

The City of Oshawa has been named as defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable as at December 31, 2010, and accordingly no provision has been made in these financial statements for any liability that may result.

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

**14. COMMITMENTS**

Minimum payments under operating leases for computer equipment and occupancy at 22 King Street and 44 Simcoe Street are as follows:

2011	\$ 565,451
2012	\$ 366,174
2013	\$ 199,809
2014	\$ 47,600
2015	\$ 54,400
Thereafter	\$ 312,800

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**15. GUARANTEES**

The City's primary guarantees include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements.

These indemnification agreements may require the City to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

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

**16. BUDGET FIGURES**

The budgets originally approved by City Council for 2010, adjusted as noted below, are reflected on the Consolidated Statement of Operations.

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

**THE CORPORATION OF THE CITY OF OSHAWA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
year ended December 31, 2010

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**16. BUDGET FIGURES (continued)**

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

**17. SEGMENTED REPORTING**

The City of Oshawa is a diversified lower tier municipal government that provides a wide range of services to the residents including Fire, Library, Recreation, Waste Collection, Airport, Cemetery, and others. For segmented reporting purposes, financial information is presented by functional classification as categorized by the Financial Information Return required by the Province (Schedule 2).

**General Government**

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

**Protection to Persons and Property**

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

**17. SEGMENTED REPORTING (continued)**

**Transportation Services**

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

**Environmental Services**

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

**Health and Social Services**

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

**Recreation and Cultural Services**

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



**THE CORPORATION OF THE CITY OF OSHAWA  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
year ended December 31, 2010**

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**17. SEGMENTED REPORTING (continued)**

**Planning and Development Services**

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

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

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Trust Funds of the Corporation of the City of Oshawa, which comprise the statement of financial position as at December 31, 2010, and the statement of financial activities and fund balance for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of of the Trust Funds of the Corporation of the City of Oshawa as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
June 29, 2011

THE CORPORATION OF THE CITY OF OSHAWA

TRUST FUNDS

STATEMENT OF FINANCIAL ACTIVITIES AND FUND BALANCE

year ended December 31, 2010

	2010					2009
	Sub-Dividers' Deposits \$	Builders' Damage Deposits \$	Union Cemetery \$	Candidate Surplus Funds \$	Total \$	Total \$
<b>REVENUES</b>						
Deposits	-	25,860	34,650	-	60,510	49,249
Interest	1,114	-	-	-	1,114	1,699
Perpetual care	-	-	2,400	-	2,400	2,853
	1,114	25,860	37,050	-	64,024	53,801
<b>EXPENSES</b>						
Builders Damage Deposits Used	-	1,153	-	-	1,153	275
Refunds	11,880	38,742	-	3,901	54,523	24,288
Net (Expenses)/ Revenues	(10,766)	(14,035)	37,050	(3,901)	8,348	29,238
<b>FINANCING AND TRANSFERS</b>						
Transfers to/(from) Revenue Fund	-	26,567	(22,404)	-	4,163	(10,700)
Transfers to Reserve Funds	42,730	-	-	-	42,730	-
Transfers to Capital Fund	-	-	-	-	-	7,741
	42,730	26,567	(22,404)	-	46,893	(2,959)
<b>CHANGE IN FUND BALANCE</b>	<b>(53,496)</b>	<b>(40,602)</b>	<b>59,454</b>	<b>(3,901)</b>	<b>(38,545)</b>	<b>32,197</b>
<b>FUND BALANCE, Beginning of Year</b>	<b>263,790</b>	<b>211,323</b>	<b>450,762</b>	<b>3,901</b>	<b>929,776</b>	<b>897,579</b>
<b>FUND BALANCE, End of Year</b>	<b>210,294</b>	<b>170,721</b>	<b>510,216</b>	<b>-</b>	<b>891,231</b>	<b>929,776</b>

STATEMENT OF FINANCIAL POSITION

December 31, 2010

	2010					2009
	Sub-Dividers' Deposits \$	Builders' Damage Deposits \$	Union Cemetery \$	Candidate Surplus Funds \$	Total \$	Total \$
<b>FINANCIAL ASSETS</b>						
Cash and accrued interest	210,294	170,721	510,216	-	891,231	929,776
<b>FUND BALANCE</b>	<b>210,294</b>	<b>170,721</b>	<b>510,216</b>	<b>-</b>	<b>891,231</b>	<b>929,776</b>

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

**THE CORPORATION OF THE CITY OF OSHAWA  
NOTES TO THE TRUST FUNDS  
FINANCIAL STATEMENTS  
year ended December 31, 2010**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Trust Funds of the Corporation of the City of Oshawa are the representations of management prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

**Basis of Accounting**

Revenues are recorded in the year in which the transactions or events occurred that gave rise to the revenue.

Expenses are recorded in the year the goods and services are acquired and a liability is incurred. Refunds are reported in the period issued.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**2. STATEMENT OF CASH FLOWS**

A statement of cash flows has not been included in these financial statements as the information that would be provided is readily available from the information presented.