

Consolidated financial statements of

**The Corporation of the
City of Pickering**

December 31, 2009

The Corporation of the City of Pickering

December 31, 2009

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Auditors' Report

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

We have audited the consolidated statement of financial position of the Corporation of the City of Pickering as at December 31, 2009 and the consolidated statements of operations, changes in net financial assets and of cash flows for the year then ended. These financial statements are the responsibility of the City's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Pickering as at December 31, 2009 and 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
September 2, 2010

The Corporation of the City of Pickering

Consolidated statement of financial position as at December 31, 2009

	2009	2008 (Restated - Note 2)
	\$	\$
Financial assets		
Cash	8,079,107	4,466,058
Investments (Note 4)	59,516,301	63,622,451
Taxes receivable	16,065,985	13,678,581
Accounts receivable	3,905,321	4,891,541
Investment in Veridian Corporation (Note 5(b))	39,782,645	38,635,318
Promissory notes receivable (Note 6)	25,069,000	25,069,000
	152,418,359	150,362,949
Liabilities		
Accounts payable and accrued liabilities	11,794,753	10,864,497
Other current liabilities	122,166	107,016
Deferred revenue (Note 7)	37,914,579	36,125,738
Long-term liabilities (Note 10)	14,219,970	16,111,363
Post-employment benefit liability (Note 9(a))	2,715,100	2,563,500
WSIB benefit liabilities (Note 9(b))	1,368,198	1,085,198
	68,134,766	66,857,312
Net financial assets	84,283,593	83,505,637
Non-financial assets		
Tangible capital assets (Note 11)	186,242,634	180,420,178
Inventory	266,506	192,417
Prepaid expenses	398,024	532,338
	186,907,164	181,144,933
Accumulated surplus (Note 12)	271,190,757	264,650,570

The Corporation of the City of Pickering

Consolidated statement of operations year ended December 31, 2009

		2009	2008
	Budget (Unaudited) (Note 18)	Actual	Actual (Restated - Note 2)
	\$	\$	\$
Revenues			
Residential and farm taxation	31,946,856	32,031,448	30,945,111
Commercial and industrial taxation	8,110,611	8,302,954	7,717,742
Taxation from other governments	6,824,903	7,215,337	7,162,628
User charges	7,510,519	7,466,507	7,543,566
Government grants and fees	18,637,127	5,080,964	7,598,366
Other contributions and donations	1,175,250	1,640,646	678,599
Development charges and developer contributions earned	1,343,800	966,962	637,284
Contributed tangible capital assets	-	2,774,280	-
Investment income	675,000	309,690	1,234,452
Penalties and interests on taxes	1,850,000	2,320,563	2,074,549
Fines	823,041	811,938	836,602
Interest on promissory notes	1,905,250	1,905,244	1,905,244
Equity share of Veridian Corporation earnings for the year (Note 5 (c))	-	4,509,327	3,574,684
Other	275,500	764,876	506,958
Gain on disposal of tangible capital assets	-	46,758	-
Total revenues	81,077,857	76,147,494	72,415,785
Expenses (Note 19)			
General government	12,957,317	12,815,997	11,075,785
Protection to persons and property	19,783,319	18,768,392	18,143,056
Transportation services	11,351,983	11,190,538	10,355,376
Environmental services	2,112,451	2,055,947	2,066,553
Social and family services	551,334	402,489	373,515
Recreational and cultural services	23,048,758	22,155,313	21,002,326
Planning and development	2,719,446	2,218,631	1,895,566
	72,524,608	69,607,307	64,912,177
Annual surplus	8,553,249	6,540,187	7,503,608
Accumulated surplus, beginning of year	264,650,570	264,650,570	257,146,962
Accumulated surplus, end of year	273,203,819	271,190,757	264,650,570

The Corporation of the City of Pickering

Consolidated statement of change in net financial assets year ended December 31, 2009

	Budget (Unaudited) (Note 18)	2009	2008 (Note 2)
	\$	\$	\$
Annual surplus	8,553,249	6,540,187	7,503,608
Acquisition of tangible capital assets	(27,770,215)	(15,414,607)	(7,935,306)
Amortization of tangible capital assets	9,374,524	9,416,629	9,276,925
(Gain) loss on disposal of tangible capital assets	-	(46,758)	58,566
Proceeds on disposal of tangible capital assets	-	222,280	48,981
	(9,842,442)	717,731	8,952,774
Acquisition of inventory of supplies	-	(860,335)	(1,103,298)
Use of inventory of supplies	-	786,246	1,157,242
Acquisition of prepaid expenses	-	(394,788)	(557,890)
Use of prepaid expenses	-	529,102	587,941
	-	60,225	83,995
Change in net financial assets	(9,842,442)	777,956	9,036,769
Net financial assets, beginning of year	83,505,637	83,505,637	74,468,868
Net financial assets, end of year	73,663,195	84,283,593	83,505,637

The Corporation of the City of Pickering

Consolidated statement of cash flows year ended December 31, 2009

	2009	2008 (Restated - Note 2)
	\$	\$
Operating activities		
Annual surplus	6,540,187	7,503,608
Non cash items		
Amortization of tangible capital assets	9,416,629	9,276,925
(Gain) Loss on disposal of tangible capital assets	(46,758)	58,566
Equity share of Veridian Corporation	(4,509,327)	(3,574,684)
Contributed tangible capital assets recorded in revenue	(2,774,280)	-
Change in non-cash operating items:		
Increase in taxes receivable	(2,387,404)	(1,540,934)
Decrease in accounts receivable	986,220	884,623
Increase (decrease) in accounts payable and accrued liabilities	930,256	(303,823)
Increase in other current liabilities	15,150	25,547
Increase in deferred revenue	1,788,841	3,700,797
Increase in post-employment benefit liability	151,600	220,250
Increase in WSIB benefit liabilities	283,000	442,153
(Increase) decrease in inventory	(74,089)	53,944
Decrease in prepaid expenses	134,314	30,051
	10,454,339	16,777,023
Capital		
Acquisition of tangible capital assets	(12,640,327)	(7,935,306)
Proceeds on disposal of tangible capital assets	222,280	48,981
	(12,418,047)	(7,886,325)
Investing activities		
Decrease (increase) in investments	4,106,150	(16,907,591)
Dividends received from Veridian Corporation	3,362,000	1,722,000
	7,468,150	(15,185,591)
Financing activities		
Proceeds from debentures issued	-	8,506,000
Principal repayment of debentures	(1,891,393)	(1,190,648)
	(1,891,393)	7,315,352
Net increase in cash	3,613,049	1,020,459
Cash, beginning of year	4,466,058	3,445,599
Cash, end of year	8,079,107	4,466,058

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

1. Significant accounting policies

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

(a) Reporting entity

(i) Consolidated statements

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

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

(ii) Investment in Veridian Corporation

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

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

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

(iv) 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 Statement of Financial Position.

(b) Basis of accounting

(i) Accrual basis of accounting

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

(ii) Investments

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

1. Significant accounting policies (continued)

(b) *Basis of accounting (continued)*

(iii) Tangible capital assets ("TCA")

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

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

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

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

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

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

(v) Deferred revenue

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

(vi) Post employment benefits

The present value of the cost of providing employees with future benefits programs is recognized as employees earn these entitlements through service. Actuarial gains and losses are amortized over the average remaining service period ("ARSP"). The actuary determined ARSP to be 15 years.

(vii) Inventory

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

(viii) Government transfers

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

(ix) Intangible assets

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

1. Significant accounting policies (continued)

(x) 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 in the financial statements and accompanying notes. Accounts involving significant estimates include allowance for doubtful accounts, accrued liabilities, employee future benefits liabilities and estimates relating to tangible capital assets. Actual results could differ from these estimates.

2. Change in accounting policies

On January 1, 2009, the Corporation of the City of Pickering adopted the following Public Sector Accounting Standards: Section 1000 – Financial Statement Concepts, Section 1100 – Financial Statement Objectives and Section 1200 – Financial Statement Presentation. As a result, the presentation of the financial statements changed from the prior year. In addition, the City changed its accounting policy related to the treatment of tangible capital assets to comply with Section 3150 – Tangible Capital Assets. Tangible capital assets are capitalized at cost and amortized over their estimated useful lives. Previously the costs to acquire tangible capital assets were recorded as a capital expenditure when incurred.

Method used for determining the opening cost of each major category of tangible capital assets

The financial information recorded includes the actual 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 City applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets to each category for which it did not have historical cost records. After determining replacement or reproduction cost, deflation factors were used to deflate the replacement or reproduction cost to an estimated historical cost for the year of acquisition. Where required, a third party was hired to provide the City with values for tangible capital assets. The third party used the deflated replacement or reproduction cost or deflated fair market value methodologies in determining values for tangible capital assets.

This change in accounting policy has been applied retroactively with the restatement of the prior period. This change has changed amounts reported in prior period as follows:

	2008
	\$
Accumulated surplus	
Operating	125,000
Capital	13,405,505
Reserves and Reserve Funds	26,555,196
Equity in Veridian Corporation	66,747,338
Amounts to be recovered	(22,602,647)
Accumulated surplus, as previously reported	84,230,392
Net book value of tangible capital assets	180,420,178
Accumulated surplus, as restated	264,650,570
Annual surplus	
Net revenue, as previously reported	8,952,774
Revenue recognized on contributed tangible capital assets	135,183
Assets capitalized but previously expensed	7,800,123
Amortization expense not previously reported	(9,276,925)
Net book value of assets sold	(107,547)
Annual surplus, as restated	7,503,608

The Corporation of the City of Pickering

Notes to the consolidated financial statements

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3. Operations of school boards and the Region of Durham

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

	Region	School board
	\$	\$
Taxation	81,656,060	41,959,128
Payments in lieu of taxes	5,161,914	488,772
	86,817,974	42,447,900

4. Investments

	2009		2008	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Temporary investments	27,643,803	27,626,605	34,093,374	34,138,266
Long-term investments	31,872,498	32,064,236	29,529,077	30,042,240
	59,516,301	59,690,841	63,622,451	64,180,506

Temporary investments are composed of banker's acceptances, deposit notes and discount notes. They are recorded at cost which is not significantly different from market value. Long-term investments are comprised of deposit notes and bonds.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

5. Investment in Veridian Corporation

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

The following table provides condensed supplementary consolidated financial information for the corporation and its subsidiaries for the year ended December 31:

	2009	2008
	\$	\$
Financial position:		
Assets		
Current	78,951,113	69,599,771
Capital and intangibles	160,303,199	144,357,602
Other	19,350,539	13,028,112
Total assets	258,604,851	226,985,485
Liabilities		
Current	73,264,994	108,931,221
Long-term debt	60,794,000	-
Other	27,515,014	23,821,779
Total liabilities	161,574,008	132,753,000
Shareholders' equity		
Share capital	67,285,173	67,285,173
Contributed capital	24,910	24,910
Retained earnings	29,720,760	26,922,402
Total equity	97,030,843	94,232,485
Total liabilities and equity	258,604,851	226,985,485
Financial activities:		
Revenue	246,318,763	228,759,331
Other income	6,553,673	9,002,241
Expenses	243,691,109	229,103,101
Earnings from discontinued operations	1,817,031	60,271
Net earnings for the year	10,998,358	8,718,742

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

5. Investment in Veridian Corporation (continued)

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

	2009	2008
	\$	\$
Promissory notes receivable (Note 6)	25,069,000	25,069,000
Investments in Veridian Corporation		
Initial investment in shares of the Corporation	30,496,196	30,496,196
Accumulated earnings	19,994,648	15,485,321
Accumulated dividends received	(11,817,020)	(8,455,020)
Increase in value of investments	1,108,821	1,108,821
Total investment	39,782,645	38,635,318

(c) *Equity in Veridian Corporation*

	2009	2008
	\$	\$
Balance, beginning of year	66,747,338	64,894,654
Equity share of net earnings for the year	4,509,327	3,574,684
Dividend received from Veridian Corporation	(3,362,000)	(1,722,000)
Balance, end of year	67,894,665	66,747,338

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

(i) *Insurance claims*

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

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

5. Investment in Veridian Corporation (continued)

(d) *(continued)*

(ii) *Other claims*

An action has been brought under the Class Proceedings Act: 1992. The plaintiff class seeks \$500,000,000 in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge Gas Distribution Inc., although the Supreme Court of Canada did not permit the plaintiff class to recover damages for any period prior to the issuance of the statement of claim in 1994 challenging the validity of late payment penalties. The Supreme Court of Canada remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge Gas Distribution Inc.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with the litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDCs' situation may be distinguishable from that of Consumers Gas.

The parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements.

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

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

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obliged to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are estimated at \$9,974,670.

(iv) *Environmental liability*

Environment Canada has issued new regulations governing the management of polychlorinated biphenyls (PCBs). The Corporation is in the process of determining the extent and impact that the new regulations will have on the Corporation. As at December 31, 2009, the cost of testing performed to date has been included within regulatory assets; however, costs related to additional testing or remediation have not been accrued as the amount is not determinable.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

5. Investment in Veridian Corporation (continued)

(e) Lease commitments

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

	\$
2010	622,000
2011	588,000
2012	153,000
2013	2,000
2014	2,000
Thereafter	72,000
	<u>1,439,000</u>

6. Promissory notes receivable

	2009	2008
	\$	\$
Promissory note receivable from Veridian Corporation maturing November 12, 2012 and bearing interest at 7.62% until April 30, 2010, then the greater of 6% or the Ontario Energy Board deemed long term debt rate on an annual basis to maturity (6% effective May 1, 2010)	7,095,000	7,095,000
Promissory note receivable from Veridian Connections Inc. maturing November 1, 2039 and bearing interest at 7.62% until April 30, 2010, then 5.57% from May 1, 2010 to December 31, 2014 and then the Ontario Energy Board deemed long-term debt rate for each successive five year period thereafter	17,974,000	17,974,000
	<u>25,069,000</u>	<u>25,069,000</u>

Interest revenue earned from these notes receivable totaled \$1,905,244 (2008 – 1,905,244). The promissory notes from Veridian Corporation are convertible into common shares at the rate of one common share for every \$1,000 of principal amount, at the option of the City.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

7. Deferred revenue

	2009	2008
	\$	\$
Obligatory Reserve Funds		
Development charges	27,714,332	26,413,355
Parkland	1,914,793	1,984,486
Federal gas tax	3,032,702	3,084,862
Third party/Developer's Contributions Reserve Fund	2,210,924	2,043,667
	<u>34,872,751</u>	<u>33,526,370</u>
Other unearned revenues	3,041,828	2,599,368
	<u>37,914,579</u>	<u>36,125,738</u>

Continuity of deferred revenue is as follows:

	2009	2008
	\$	\$
Balance, beginning of year	36,125,738	32,424,941
Restricted funds received	4,246,730	4,314,126
General funds received	442,460	56,354
Interest earned	1,283,835	1,294,510
	<u>5,973,025</u>	<u>5,664,990</u>
Earned revenue transferred to operations	4,184,184	1,964,193
Balance, end of year	<u>37,914,579</u>	<u>36,125,738</u>

8. Interfund loans

As a means of funding various capital acquisitions, funds are borrowed by the Capital Fund from Development Charges and Parkland deferred revenue (obligatory reserve funds). These funds are secured by promissory notes with interest rates ranging from 3.1% to 4.7% and various payment terms ranging from 1 years to 10 years. The financing arrangements and ultimate repayment are approved by Council through the current budget process. Although these notes have payment terms as noted above, they are repayable on demand. The following is a summary of the related loans:

	2009	2008
	\$	\$
Roads and streetlights	711,509	1,307,327
Community facilities, libraries and parks	829,558	1,308,514
Protection services	694,491	321,252
Environmental services	34,554	50,544
Municipal building	29,716	33,949
	<u>2,299,828</u>	<u>3,021,586</u>

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

9. Post-employment benefit liability

(a) Post-employment benefit liability

The City makes available to qualifying employees who retire before the age of 65, the opportunity to continue their coverage for benefits such as post-retirement extended healthcare benefits. Coverage ceases at the age of 65. The City also provides full time and permanent part-time employees a sick time entitlement and any unused entitlement is accumulated year to year. This accumulated entitlement is not vested and is forfeited at the time of retirement or termination. The most recent actuarial valuation of the post-employment benefits was performed at January 1, 2008.

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

	2009	2008
	\$	\$
Accrued benefits liability, beginning of year	2,563,500	2,343,250
Prior period service cost	-	150,700
Current service costs	214,200	191,800
Interest on accrued benefits	186,900	187,200
Amortization of actuarial losses	49,000	39,200
Benefits paid during the year	<u>(298,500)</u>	<u>(348,650)</u>
Accrued benefits liability, end of year	<u>2,715,100</u>	<u>2,563,500</u>
Accrued benefit obligation	3,435,300	3,332,700
Unamortized actuarial (losses)	<u>(720,200)</u>	<u>(769,200)</u>
Accrued benefits liability, end of year	<u>2,715,100</u>	<u>2,563,500</u>

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

(i) Discount rate

The present value as at December 31, 2009 of the future benefits was determined using a discount rate of 5.5% (2008 – 6.0%).

(ii) Dental costs

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

(iii) Health costs

Health costs were assumed to increase at 9% in 2009 and decrease by 0.5% increments per year to an ultimate rate of 5% per year in 2017 and thereafter.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

9. Post-employment benefit liability (continued)

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

Effective January 1, 2001, the City became a Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self insurance for the risk associated with paying benefits for workplace injuries for all its employees. The WSIB administers the claims related to workplace injuries and is reimbursed by the Corporation. The most recent actuarial valuation of the WSIB benefits was performed at December 31, 2008.

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

	2009	2008
	\$	\$
Accrued WSIB liability, beginning of year	1,085,198	643,045
Current service cost	293,000	284,432
Interest on accrued benefits	80,000	51,200
Amortization of estimation adjustment loss	-	253,075
Benefits paid during the year	(90,000)	(146,554)
Accrued WSIB liability, end of year	1,368,198	1,085,198

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

(i) Discount rate

The present value as at December 31, 2008 of the future benefits was determined using a discount rate of 6.0% (2008 – 6.0%).

(ii) Inflation rate

The rate of inflation was assumed to be 3% per annum.

(iii) WSIB Administration Rate

Liabilities for WSIB benefits have been increased 30% to reflect the administration rate charged by WSIB.

A WSIB Reserve Fund was established in 2001. The Reserve Fund balance at December 31, 2009 was \$1,658,462 (2008 - \$1,339,907). In addition, the City purchased two insurance policies that protect the City against significant claims to the Corporation. The occupational accident insurance pays loss claims up to \$400,000 per work related accident. The excess workers compensation indemnity insurance has a \$400,000 deductible and will pay for claims up to and including \$25,000,000 per work related accident.

10. Long-term liabilities

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

	2009	2008
	\$	\$
The municipality is responsible for the payment of principal and interest charges on long-term liabilities issued by the Regional Municipality of Durham on the City's behalf. At the end of the year, the outstanding principal amount of this liability is	14,219,970	16,111,363

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

10. Long-term liabilities (continued)

- (b) The above long-term liabilities have maturity dates of July 12, 2011, 2016 and 2021, November 1, 2012, November 21, 2012 and 2018, July 15, 2014 and December 23, 2014 with various interest rates ranging from 2.65% to 5.6%. Principal repayments are summarized as follows:

	\$
2010	1,683,228
2011	1,753,158
2012	2,792,188
2013	1,390,325
2014	1,258,572
Thereafter	5,342,499
	<u>14,219,970</u>

- (c) Long-term liabilities include a principal sum of \$1,057,000 as 'Refundable Debentures' which may be raised by the issuance of debentures over a further period not to exceed 10 years.
- (d) The above long-term liabilities have been approved by Council by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (e) Interest expense recorded in the year relating to these long-term liabilities is \$742,139 (2008 – \$466,281).

11. Tangible capital assets

Information relating to tangible capital assets is as follows:

i) Contributed tangible capital assets

The City records tangible capital assets contributed by an external party at fair value on the date contributed. Typical examples are roads, storm sewers and sidewalks installed by a developer as part of a subdivision or development agreement. Contributions of tangible capital assets in 2009 amounted to \$2,774,280 (2008 – \$Nil).

ii) Tangible capital assets recognized at nominal value

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

iii) Works of art and historical treasures

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

iv) Other

The net book value of tangible capital assets not being amortized because they are under construction is \$1,841,341 (2008 – \$2,267,916).

During the year, there were no write-downs of assets (2008 – nil) and no interest was capitalized during the year (2008 – nil).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

11. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	48,287,385	57,209,100	6,531,192	8,586,932	107,198,474	76,831,357	12,146,380	1,339,198	16,696,452	6,115,387	365,387	2,267,916	343,575,160
Add:													
Additions during the year	20	6,540,348	824,528	342,280	2,991,614	2,202,870	569,517	248,315	1,561,451	432,303	127,936	1,613,056	17,454,238
Less:													
Disposals/Transfers during the year	1	1,175,991	330,768	-	145,276	-	-	233,226	145,095	1,171,073	-	2,039,631	5,241,061
Balance, end of year	48,287,404	62,573,457	7,024,952	8,929,212	110,044,812	79,034,227	12,715,897	1,354,287	18,112,808	5,376,617	493,323	1,841,341	355,788,337
Accumulated amortization													
Balance, beginning of year	-	31,705,541	3,856,924	5,284,578	61,512,056	39,947,496	6,518,792	760,891	9,532,373	3,951,856	84,475	-	163,154,982
Add:													
Amortization	-	1,444,706	564,067	675,987	2,743,706	1,912,274	306,432	252,002	590,328	911,223	15,904	-	9,416,629
Less:													
Accumulated amortization on disposals	-	1,059,534	316,555	-	115,873	-	-	233,226	129,647	1,171,073	-	-	3,025,908
Balance, end of year	-	32,090,713	4,104,436	5,960,565	64,139,889	41,859,770	6,825,224	779,667	9,993,054	3,692,006	100,379	-	169,545,703
Net book value of tangible capital assets	48,287,404	30,482,744	2,920,516	2,968,647	45,904,923	37,174,457	5,890,673	574,620	8,119,755	1,684,611	392,944	1,841,341	186,242,634

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

11. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	48,152,202	57,018,134	6,285,171	8,522,704	104,334,968	75,453,392	12,027,380	1,193,512	15,619,405	5,659,332	365,387	2,264,240	336,895,827
Add:													
Additions during the year	135,183	742,693	276,729	549,036	2,941,739	1,377,965	119,000	244,686	1,088,544	456,055	-	1,800,850	9,732,480
Less:													
Disposals/Transfers during the year	-	551,727	30,708	484,808	78,233	-	-	99,000	11,497	-	-	1,797,174	3,053,147
Balance, end of year	48,287,385	57,209,100	6,531,192	8,586,932	107,198,474	76,831,357	12,146,380	1,339,198	16,696,452	6,115,387	365,387	2,267,916	343,575,160
Accumulated amortization													
Balance, beginning of year	-	30,741,450	3,361,761	5,097,296	58,873,212	38,068,151	6,219,286	622,081	8,992,228	2,976,050	74,968	-	155,026,483
Add:													
Amortization	-	1,412,469	525,871	672,090	2,712,879	1,879,345	299,506	237,810	551,642	975,806	9,507	-	9,276,925
Less:													
Accumulated amortization on disposals	-	448,378	30,708	484,808	74,035	-	-	99,000	11,497	-	-	-	1,148,426
Balance, end of year	-	31,705,541	3,856,924	5,284,578	61,512,056	39,947,496	6,518,792	760,891	9,532,373	3,951,856	84,475	-	163,154,982
Net book value of tangible capital assets	48,287,385	25,503,559	2,674,268	3,302,354	45,686,418	36,883,861	5,627,588	578,307	7,164,079	2,163,531	280,912	2,267,916	180,420,178

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

12. Accumulated surplus

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

	2009	2008
	\$	\$
Capital fund	8,935,216	13,405,505
Operating fund	125,089	125,000
Equity in Veridian Corporation	67,894,665	66,747,338
Tangible capital assets	186,242,634	180,420,178
Post employment benefits liability	(2,536,100)	(2,384,500)
Internal loans	(2,299,828)	(3,021,586)
Net long-term liabilities	(14,219,970)	(16,111,363)
WSIB benefit liabilities	(1,368,198)	(1,085,198)
Reserves set aside for special purposes by Council		
Working capital	400,000	400,000
Self insurance	962,707	951,391
Replacement of capital equipment	854,338	618,419
Contingencies	1,471,140	1,401,340
Rate stabilization	16,565,777	17,374,935
City's share for development charge	1,946,216	1,168,494
Continuing studies	390,315	750,534
Vehicle replacement	237,547	172,547
Easement settlement	131,279	131,279
Eastern branch	105,000	80,000
Move Ontario	267,033	8,243
Capital asset management	90,000	75,000
Economic stabilization	1,235,000	-
Reserve Funds set aside for special purposes by Council		
Recreation programs and facilities	215,350	192,845
Acquisition of tangible capital assets	1,585,630	1,516,365
Squash courts	1,315	92,530
WSIB	1,658,462	1,339,907
Animal shelter	162,553	152,896
Men's slow pitch	137,587	128,471
	271,190,757	264,650,570

13. Pension agreements

The City makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of the members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions on account of current service for 2009 were \$2,117,873 (2008 – \$2,034,410).

14. Trust Funds

Trust funds administered by the municipality amounting to \$297,350 (2008 - \$288,070) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

15. Related party transactions

Veridian Corporation

The City of Pickering receives electricity and services from Veridian Corporation (Note 5), a corporation in which the City is a principal shareholder.

	2009	2008
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	1,905,244	1,905,244
Property taxes levied	41,375	42,558
Expenses		
Electrical energy and services	1,765,955	1,941,923
Balances		
Accounts payable and accrued liabilities	316,068	406,725
Promissory notes receivable	25,069,000	25,069,000

16. Guarantees

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

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

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

17. Contingent liabilities

Litigation

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

18. Budget figures

The 2009 Budget adopted by Council on May 19, 2009 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis of accounting. The budget figures treated all tangible capital asset acquisitions as expenditures and did not include amortization expense on tangible capital assets. As a result, the budget figures presented in the Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council on May 19, 2009 with adjustments as follows:

	2009		2009	
	Council approved budget	Non TCA expenditures from capital	Amortization	Budget presented in statements
	\$	\$	\$	\$
Revenue				
Taxation	46,882,370	-	-	46,882,370
Capital	20,619,250	-	-	20,619,250
Other	13,576,237	-	-	13,576,237
	81,077,857	-	-	81,077,857
Expenditures				
General government	11,949,426	412,702	595,189	12,957,317
Protection to persons and property	18,264,804	908,600	609,915	19,783,319
Transportation services	7,386,475	529,000	3,436,508	11,351,983
Environmental services	221,505	-	1,890,946	2,112,451
Social and family services	456,334	95,000	-	551,334
Recreational and cultural services	18,479,292	1,727,500	2,841,966	23,048,758
Planning and development	2,719,446	-	-	2,719,446
	59,477,282	3,672,802	9,374,524	72,524,608
Annual surplus	21,600,575	(3,672,802)	(9,374,524)	8,553,249
Capital expenditures	(31,443,017)	3,672,802	-	(27,770,215)
Transfers from reserve and reserve funds	2,386,934			
Dividend from Veridian Corporation	3,334,000			
Principal repayment of debt	(3,122,942)			
Debt proceeds	7,134,450			
Prior year surplus	(110,000)			

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

19. Segmented information

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

General Government

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

Protection to Persons and Property

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

Public Works Services

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

Social and Family Services

Social services for assistance or services for seniors.

Recreation and Culture Services

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

Planning and Development

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

Segmented information has been provided in the following pages.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

19. Segmented information (continued)

							2009
	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	15,681	892,047	3,921,644	-	47,857	203,735	5,080,964
User charges	1,251,490	142,883	5,418,166	220,913	18,723	414,332	7,466,507
Tax related revenues	-	-	-	-	-	49,870,302	49,870,302
Developer revenue	-	690,061	194,574	-	-	82,327	966,962
Contributed tangible capital assets	-	2,774,280	-	-	-	-	2,774,280
Equity Share of Veridian Corp	-	-	-	-	-	4,509,327	4,509,327
Gain on disposal	-	3,665	(131,906)	-	-	174,999	46,758
Other revenues	933,486	482,700	951,889	50,611	15,500	2,998,208	5,432,394
Total operating revenue	2,200,657	4,985,636	10,354,367	271,524	82,080	58,253,230	76,147,494
Expenses							
Salaries and wages	16,086,974	3,053,931	12,378,684	1,956,549	166,237	7,133,623	40,775,998
Materials and supplies	1,449,322	3,693,749	5,838,004	80,681	103,628	3,928,550	15,093,934
Contracted services	493,635	676,241	571,875	174,637	1,400	937,356	2,855,144
Amortization	609,915	5,369,559	2,841,966	-	-	595,189	9,416,629
Other	128,546	453,005	524,784	6,764	131,224	221,279	1,465,602
Total expenses	18,768,392	13,246,485	22,155,313	2,218,631	402,489	12,815,997	69,607,307
Net revenue (expenses)	(16,567,735)	(8,260,849)	(11,800,946)	(1,947,107)	(320,409)	45,437,233	6,540,187

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2009

19. Segmented information (continued)

							2008
	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	99,773	1,369,542	1,565,118	-	30,000	4,533,933	7,598,366
User charges	1,269,138	161,045	5,201,041	491,082	21,745	399,515	7,543,566
Tax related revenues	-	-	-	-	-	47,900,030	47,900,030
Developer revenue	-	370,544	266,740	-	-	-	637,284
Equity Share of Veridian Corp	-	-	-	-	-	3,574,684	3,574,684
Other revenues	804,451	30,790	505,171	-	-	3,821,443	5,161,855
Total operating revenue	2,173,362	1,931,921	7,538,070	491,082	51,745	60,229,605	72,415,785
Expenses							
Salaries and wages	15,296,647	2,780,103	11,665,565	1,663,234	149,241	5,754,071	37,308,861
Materials and supplies	1,635,837	3,593,466	5,748,385	94,504	101,079	3,711,966	14,885,237
Contracted services	511,740	480,729	297,084	134,409	350	837,826	2,262,138
Amortization	603,597	5,302,529	2,803,637	-	-	567,162	9,276,925
Loss on disposal	(13,758)	(31,025)	103,349	-	-	-	58,566
Other	108,993	296,127	384,306	3,419	122,845	204,760	1,120,450
Total expenses	18,143,056	12,421,929	21,002,326	1,895,566	373,515	11,075,785	64,912,177
Net revenue (expenses)	(15,969,694)	(10,490,008)	(13,464,256)	(1,404,484)	(321,770)	49,153,820	7,503,608