

Consolidated financial statements of

**The Corporation of the
City of Pickering**

December 31, 2010

The Corporation of the City of Pickering

December 31, 2010

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Independent Auditor's Report

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Pickering as at December 31, 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
June 20, 2011
Toronto, Ontario

The Corporation of the City of Pickering

Consolidated statement of financial position as at December 31, 2010

	2010	2009
	\$	\$
Financial assets		
Cash	7,337,107	8,079,107
Investments (Note 3)	67,883,264	59,516,301
Taxes receivable	16,005,670	16,065,985
Accounts receivable	3,871,991	3,905,321
Investment in Veridian Corporation (Note 4(b))	41,119,548	39,782,645
Promissory notes receivable (Note 5)	25,069,000	25,069,000
	161,286,580	152,418,359
Liabilities		
Accounts payable and accrued liabilities	13,173,379	11,794,753
Other current liabilities	94,481	122,166
Deferred revenue (Note 6)	40,429,995	37,914,579
Long-term liabilities (Note 9)	16,582,742	14,219,970
Post-employment benefit liability (Note 8(a))	2,882,900	2,715,100
WSIB benefit liabilities (Note 8(b))	1,672,898	1,368,198
	74,836,395	68,134,766
Net financial assets	86,450,185	84,283,593
Non-financial assets		
Tangible capital assets (Note 10)	187,669,237	186,242,634
Prepaid expenses	386,274	398,024
Inventory	391,536	266,506
	188,447,047	186,907,164
Accumulated surplus (Note 11)	274,897,232	271,190,757

The Corporation of the City of Pickering

Consolidated statement of operations year ended December 31, 2010

	Budget (Unaudited) (Note 17)	2010 Actual	2009 Actual
	\$	\$	\$
Revenues			
Residential and farm taxation	33,031,579	33,340,378	32,031,448
Commercial and industrial taxation	8,683,405	8,779,976	8,302,954
Taxation from other governments	7,104,198	7,427,687	7,215,337
User charges	8,289,641	7,661,881	7,466,507
Government grants and fees	11,185,342	4,024,406	5,080,964
Other contributions and donations	1,395,759	980,367	1,640,646
Development charges and developer contributions earned	2,353,893	966,251	966,962
Contributed tangible capital assets	-	3,031,356	2,774,280
Investment income	200,000	298,499	309,690
Penalties and interests on taxes	2,120,000	2,499,536	2,320,563
Fines	850,100	886,995	811,938
Interest on promissory notes	1,590,250	1,588,823	1,905,244
Equity share of Veridian Corporation earnings (Note 4 (c))	-	3,477,285	4,509,327
Other	210,693	261,549	764,876
Gain on disposal of tangible capital assets	-	94,823	46,758
Total revenues	77,014,860	75,319,812	76,147,494
Expenses (Note 18)			
Current			
General government	14,787,205	13,644,762	12,815,997
Protection to persons and property	19,805,377	19,016,456	18,768,392
Transportation services	11,344,464	9,558,606	10,160,486
Environmental services	2,177,524	3,363,579	3,085,999
Social and family services	468,620	475,524	402,489
Recreational and cultural services	31,034,428	22,763,222	22,155,313
Planning and development	3,501,297	2,791,188	2,218,631
	83,118,915	71,613,337	69,607,307
Annual surplus	(6,104,055)	3,706,475	6,540,187
Accumulated surplus, beginning of year	271,190,757	271,190,757	264,650,570
Accumulated surplus, end of year	265,086,702	274,897,232	271,190,757

The Corporation of the City of Pickering

Consolidated statement of change in net financial assets year ended December 31, 2010

	Budget (Unaudited) (Note 17)	2010 Actual	2009 Actual
	\$	\$	\$
Annual surplus	(6,104,055)	3,706,475	6,540,187
Acquisition of tangible capital assets	(11,299,795)	(11,061,430)	(15,414,607)
Amortization of tangible capital assets	9,725,086	9,601,811	9,416,629
(Gain) loss on disposal of tangible capital assets	-	(94,823)	(46,758)
Proceeds on disposal of tangible capital assets	-	127,839	222,280
	(7,678,764)	2,279,872	717,731
Acquisition of inventory of supplies	-	(1,046,647)	(860,335)
Use of inventory of supplies	-	921,617	786,246
Acquisition of prepaid expenses	-	(386,273)	(394,788)
Use of prepaid expenses	-	398,023	529,102
	-	(113,280)	60,225
Change in net financial assets	(7,678,764)	2,166,592	777,956
Net financial assets, beginning of year	84,283,593	84,283,593	83,505,637
Net financial assets, end of year	76,604,829	86,450,185	84,283,593

The Corporation of the City of Pickering

Consolidated statement of cash flows year ended December 31, 2010

	2010	2009
	\$	\$
Operating transactions		
Annual surplus	3,706,475	6,540,187
Non cash items		
Amortization of tangible capital assets	9,601,811	9,416,629
Gain on disposal of tangible capital assets	(94,823)	(46,758)
Equity share of Veridian Corporation	(3,477,285)	(4,509,327)
Contributed tangible capital assets recorded in revenue	(3,031,356)	(2,774,280)
Change in non-cash operating items:		
Decrease (increase) in taxes receivable	60,315	(2,387,404)
Decrease in accounts receivable	33,330	986,220
Increase in accounts payable and accrued liabilities	1,378,626	930,256
(Decrease) increase in other current liabilities	(27,685)	15,150
Increase in deferred revenue	2,515,416	1,788,841
Increase in post-employment benefit liability	167,800	151,600
Increase in WSIB benefit liabilities	304,700	283,000
Increase in inventory	(125,030)	(74,089)
Decrease in prepaid expenses	11,750	134,314
	11,024,044	10,454,339
Capital transactions		
Acquisition of tangible capital assets	(8,030,074)	(12,640,327)
Proceeds on disposal of tangible capital assets	127,839	222,280
	(7,902,235)	(12,418,047)
Investing transactions		
(Increase) decrease in investments	(8,366,963)	4,106,150
Dividends received from Veridian Corporation	2,140,382	3,362,000
	(6,226,581)	7,468,150
Financing transactions		
Proceeds from debentures issued	4,046,000	-
Principal repayment of debentures	(1,683,228)	(1,891,393)
	2,362,772	(1,891,393)
(Decrease) increase in cash	(742,000)	3,613,049
Cash, beginning of year	8,079,107	4,466,058
Cash, end of year	7,337,107	8,079,107

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

1. Significant accounting policies

The consolidated financial statements ("the financial statements") of The Corporation of the City of Pickering (the "City") are the representations of management prepared in accordance with accounting standards established by the Public Sector Accounting Board ("PSAB") of 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 earnings or loss of Veridian Corporation in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Dividends that the City may receive from Veridian Corporation and other capital transactions are reflected as adjustments in the investment asset account.

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

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Region of Durham 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, 2010

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

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

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

(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 benefit programs is recognized as employees earn these entitlements through service. Actuarial gains and losses are amortized over the average remaining service period ("ARSP"). The actuary determined ARSP to be 15 years.

(vii) Inventory

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(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.

(x) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Accounts involving significant estimates include allowance for doubtful accounts, accrued liabilities, employee future benefits liabilities and estimates relating to tangible capital assets. Actual results could differ from these estimates.

2. Operations of school boards and the Region of Durham

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

	Region	School board
	\$	\$
Taxation	84,025,691	41,647,961
Payments in lieu of taxes	5,432,182	497,127
	89,457,873	42,145,088

3. Investments

	2010		2009	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Temporary investments	33,936,095	33,965,040	27,643,803	27,626,605
Long-term investments	33,947,169	33,944,590	31,872,498	32,064,236
	67,883,264	67,909,630	59,516,301	59,690,841

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, 2010

4. Investment in Veridian Corporation

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

The following table provides condensed supplementary consolidated financial information for the corporation and its subsidiaries for the year ended December 31. The amounts are disclosed in thousands of dollars:

	2010	2009
	\$	\$
	(000's)	(000's)
Financial position:		
Assets		
Current	74,256	78,839
Capital and intangibles	173,846	160,303
Other	20,515	19,350
Total assets	268,617	258,492
Liabilities		
Current	58,286	72,613
Long-term debt	76,928	60,794
Other	33,136	28,054
Total liabilities	168,350	161,461
Shareholders' equity		
Share capital	67,260	67,285
Contributed capital	25	25
Retained earnings	32,982	29,721
Total equity	100,267	97,031
Total liabilities and equity	268,617	258,492
Financial activities:		
Revenue	256,203	246,319
Other income	6,165	6,554
Expenses	253,852	243,691
Earnings from discontinued operations	(35)	1,817
Net earnings for the year	8,481	10,999

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

4. Investment in Veridian Corporation (continued)

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

	2010	2009
	\$	\$
<u>Promissory notes receivable (Note 5)</u>	<u>25,069,000</u>	<u>25,069,000</u>
Investments in Veridian Corporation		
Initial investment in shares of the Corporation	30,496,196	30,496,196
Accumulated earnings	23,471,933	19,994,648
Accumulated dividends received	(13,957,402)	(11,817,020)
Increase in value of investments	1,108,821	1,108,821
<u>Total investment</u>	<u>41,119,548</u>	<u>39,782,645</u>

(c) *Equity in Veridian Corporation*

	2010	2009
	\$	\$
Balance, beginning of year	67,894,665	66,747,338
Equity share of net earnings for the year	3,477,285	4,509,327
Dividend received from Veridian Corporation	(2,140,382)	(3,362,000)
<u>Balance, end of year (Note 11)</u>	<u>69,231,568</u>	<u>67,894,665</u>

(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, 2010

4. 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.

An Ad Hoc Committee of Electricity Distributor Association ("EDA") participated in a court-supervised mediation process to explore possible settlement of the case against the LDCs and reached a settlement in principle of this litigation on behalf of all LDCs in March 2010. In order to become effective, this tentative settlement required the consent and approval of all LDCs and approval of the Ontario Superior Court of Justice. As per the terms of the settlement:

- (i) LDCs collectively pay \$17,000,000 plus costs and taxes;
- (ii) Payment is not due until June 30, 2011; and
- (iii) LDCs are at liberty to seek OEB permission to recover settlement costs through rates and the EDA is investigating the best mechanism for obtaining OEB approval.

The settlement was approved by the Ontario Superior court of Justice in the minutes of the settlement dated April 21, 2010 and the Corporation gave its consent to pay \$347,000 for its share of the costs and damages related to this class action.

On October 29, 2010, the OEB convened a generic proceeding on its own motion to determine whether amounts related to the settlement should be allowed to be recovered from ratepayers.

As per the Board's order dated February 22, 2011, the costs and damages arising from the settlement of this class action shall be recoverable from all ratepayers of the Affected Electricity Distributors.

The order allocates \$345,000 to the Corporation, as a share of its costs and damages and, accordingly, LDC has provided for this liability and a corresponding regulatory asset in the amount of \$345,000 as at December 31, 2010, and a request for the recovery of the same has been filed with the OEB.

(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 \$9,975,000.

The Corporation has recorded a liability and a corresponding intangible asset for \$1,212,000 as at December 31, 2010, based on management's best estimate of the present value of the future transformation connection revenue shortfall.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

4. Investment in Veridian Corporation (continued)

(iv) Environmental liability

In 2008, Environment Canada issued its final regulations governing the management of PCBs. As at December 31, 2010, the cost of testing performed to date has been included within regulatory assets. Costs relating to future expenditures associated with the removal and destruction of PCB contaminated transformers and remediation of chemically-contaminated lands has been estimated in the amount of \$824,000, which has been recorded as a liability at December 31, 2010. Because such expenditures are expected to be recoverable in future rates, the Corporation has recorded an equivalent amount as a regulatory asset.

(e) Lease commitments

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

	\$ (000's)
2011	604
2012	165
2013	3
2014	2
2015	2
Thereafter	72
	<hr/> 848

5. Promissory notes receivable

	2010	2009
	\$	\$
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
	<hr/> 25,069,000	<hr/> 25,069,000

Interest revenue earned from these notes receivable totaled \$1,588,823 (2009 - \$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, 2010

6. Deferred revenue

	2010	2009
	\$	\$
Obligatory Reserve Funds		
Development charges	29,593,895	27,714,332
Parkland	1,757,582	1,914,793
Federal gas tax	3,526,410	3,032,702
Third party/Developer's Contributions Reserve Fund	2,185,222	2,210,924
	37,063,109	34,872,751
Other unearned revenues	3,366,886	3,041,828
	40,429,995	37,914,579

Continuity of deferred revenue is as follows:

	2010	2009
	\$	\$
Balance, beginning of year	37,914,579	36,125,738
Restricted funds received	4,667,912	4,246,730
General funds received	325,058	442,460
Interest earned	908,828	1,283,835
	5,901,798	5,973,025
Earned revenue transferred to operations	3,386,382	4,184,184
Balance, end of year	40,429,995	37,914,579

7. 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 3.5% to 4.7% and various payment terms ranging from 1 year to 7 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:

	2010	2009
	\$	\$
Roads and streetlights	193,716	711,509
Community facilities, libraries and parks	360,844	829,558
Protection services	520,145	694,491
Environmental services	23,475	34,554
Municipal building	25,292	29,716
	1,123,472	2,299,828

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

8. 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:

	2010	2009
	\$	\$
Accrued benefits liability, beginning of year	2,715,100	2,563,500
Current service costs	226,000	214,200
Interest on accrued benefits	193,100	186,900
Amortization of actuarial losses	49,000	49,000
Benefits paid during the year	<u>(300,300)</u>	<u>(298,500)</u>
Accrued benefits liability, end of year	<u>2,882,900</u>	<u>2,715,100</u>
Accrued benefit obligation	3,554,100	3,435,300
Unamortized actuarial (losses)	<u>(671,200)</u>	<u>(720,200)</u>
Accrued benefits liability, end of year	<u>2,882,900</u>	<u>2,715,100</u>

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

(i) Discount rate

The present value as at December 31, 2010 of the future benefits was determined using a discount rate of 5.5% (2009 - 5.5%).

(ii) Dental costs

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

(iii) Health costs

Health costs were assumed to increase at 8.5% in 2010 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, 2010

8. 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:

	2010	2009
	\$	\$
Accrued WSIB liability, beginning of year	1,368,198	1,085,198
Current service cost	301,800	293,000
Interest on accrued benefits	97,400	80,000
Benefits paid during the year	(94,500)	(90,000)
Accrued WSIB liability, end of year	<u>1,672,898</u>	<u>1,368,198</u>

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

(i) Discount rate

The present value as at December 31, 2010 of the future benefits was determined using a discount rate of 6% (2009 - 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, 2010 was \$2,021,105 (2009 - \$1,658,462). 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 \$500,000 per work related accident. The excess workers compensation indemnity insurance has a \$500,000 deductible and will pay for claims up to and including \$15,000,000 per work related accident.

9. Long-term liabilities

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

	2010	2009
	\$	\$
The municipality is responsible for the payment of principal and interest charges on long-term liabilities issued by the Regional Municipality of Durham on the City's behalf. At the end of the year, the outstanding principal amount of this liability is	<u>16,582,742</u>	<u>14,219,970</u>

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

9. 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, December 23, 2014 and October 15, 2015 and 2020 with various interest rates ranging from 1.55% to 5.6%. Principal repayments are summarized as follows:

	\$
2011	2,158,055
2012	3,208,669
2013	1,818,256
2014	1,698,596
2015	1,277,073
Thereafter	6,422,093
	<u>16,582,742</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 \$ 692,082 (2009 - \$742,139).

10. Tangible capital assets

Information relating to tangible capital assets is as follows:

- (i) Contributed tangible capital assets

The City records tangible capital assets contributed by an external party at fair value on the date contributed. Typical examples are roads, storm sewers and sidewalks installed by a developer as part of a subdivision or development agreement. Contributions of tangible capital assets in 2010 amounted to \$3,031,356 (2009 - \$2,774,280).

- (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 \$3,962,111 (2009 - \$1,841,341).

During the year, there were no write-downs of assets (2009 - \$Nil) and no interest was capitalized during the year (2009 - \$Nil).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

10. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning 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
Add:													
Additions during the year	8	339,419	297,845	1,484,920	2,618,269	2,217,266	866,047	160,126	523,321	433,439	-	2,976,186	11,916,846
Less:													
Disposals/Transfers during the year	7,317	34,264	6,081	249,344	363,213	-	35,441	250,434	126,781	-	-	855,416	1,928,291
Balance, end of year	48,280,095	62,878,612	7,316,716	10,164,788	112,299,868	81,251,493	13,546,503	1,263,979	18,509,348	5,810,056	493,323	3,962,111	365,776,892
Accumulated amortization													
Balance, beginning 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
Add:													
Amortization	-	1,516,573	577,687	720,026	2,780,037	1,965,452	324,429	229,735	619,699	845,873	22,300	-	9,601,811
Less:													
Accumulated amortization on disposals	-	34,264	6,081	249,344	358,968	-	23,036	250,434	117,732	-	-	-	1,039,859
Balance, end of year	-	33,573,022	4,676,042	6,431,247	66,560,958	43,825,222	7,126,617	758,968	10,495,021	4,537,879	122,679	-	178,107,655
Net book value of tangible capital assets	48,280,095	29,305,590	2,640,674	3,733,541	45,738,910	37,426,271	6,419,886	505,011	8,014,327	1,272,177	370,644	3,962,111	187,669,237

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

10. Tangible capital assets (continued)

	Land	Buildings	Machinery & equipment	Vehicles	Infrastructure - Roads	Infrastructure - Storm sewers	Infrastructure - Sidewalks	Information technology hardware	Infrastructure - Parks	Library collection materials	Furniture & fixtures	Assets under construction	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, 2010

11. Accumulated surplus

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

	2010	2009
	\$	\$
Capital fund	10,355,677	8,935,216
Operating fund	125,092	125,089
Equity in Veridian Corporation	69,231,568	67,894,665
Tangible capital assets	187,669,237	186,242,634
Post employment benefits liability	(2,703,900)	(2,536,100)
Internal loans	(1,123,472)	(2,299,828)
Net long-term liabilities	(16,582,742)	(14,219,970)
WSIB benefit liabilities	(1,672,898)	(1,368,198)
Reserves set aside for special purposes by Council		
Working capital	400,000	400,000
Self insurance	962,707	962,707
Replacement of capital equipment	1,090,998	854,338
Contingencies	1,277,278	1,471,140
Rate stabilization	16,579,632	16,565,777
City's share for development charge	3,695,929	1,946,216
Continuing studies	406,984	390,315
Vehicle replacement	149,158	237,547
Easement settlement	-	131,279
Eastern branch	130,000	105,000
Move Ontario	14,533	267,033
Capital asset management	165,000	90,000
Economic stabilization	830,000	1,235,000
Reserve funds set aside for special purpose by Council		
Recreation programs and facilities	145,483	215,350
Acquisition of tangible capital assets	1,419,538	1,585,630
Squash courts	116	1,315
WSIB	2,021,105	1,658,462
Animal shelter	173,850	162,553
Men's slow pitch	136,359	137,587
	274,897,232	271,190,757

12. Pension agreements

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

Contributions on account of current service for 2010 were \$2,219,285 (2009 - \$2,117,873).

13. Trust Funds

Trust funds administered by the municipality amounting to \$308,443 (2009 - \$297,350) 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, 2010

14. Related party transactions

Veridian Corporation

The City of Pickering receives electricity and services from Veridian Corporation (Note 4), a corporation in which the City is a principal shareholder.

	2010	2009
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	1,588,823	1,905,244
Property taxes levied	49,652	41,375
Expenses		
Electrical energy and services	1,668,472	1,765,955
Balances		
Accounts payable and accrued liabilities	378,767	316,068
Promissory notes receivable	25,069,000	25,069,000

15. Guarantees

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

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

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

16. Contingent liabilities

Litigation

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

17. Budget figures

The 2010 Budget adopted by Council on March 29, 2010 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis of accounting. The budget figures treated all tangible capital asset acquisitions as expenditures and did not include amortization expense on tangible capital assets. As a result, the budget figures presented in the Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council on March 29, 2010 with adjustments as follows:

	2010	2010		2010
	Council approved budget	Non TCA expenditures from capital	Amortization	Budget presented in statements
	\$	\$	\$	\$
Revenue				
Taxation	48,819,182	-	-	48,819,182
Capital	13,638,244	-	-	13,638,244
Other	14,557,434	-	-	14,557,434
	77,014,860	-	-	77,014,860
Expenditures				
General government	13,669,633	529,500	588,072	14,787,205
Protection to persons and property	18,811,679	412,250	581,448	19,805,377
Transportation services	7,551,157	245,000	3,548,307	11,344,464
Environmental services	213,245	-	1,964,279	2,177,524
Social and family services	458,620	10,000	-	468,620
Recreational and cultural services	19,282,848	8,708,600	3,042,980	31,034,428
Planning and development	3,501,297	-	-	3,501,297
	63,488,479	9,905,350	9,725,086	83,118,915
Annual surplus	13,526,381	(9,905,350)	(9,725,086)	(6,104,055)
Capital expenditures	(21,205,145)	9,905,350	-	(11,299,795)
Transfers from reserve and reserve funds	4,476,040			
Dividend from Veridian Corporation	2,009,000			
Principal repayment of debt	(3,243,676)			
Debt proceeds	4,312,400			
Prior year surplus	(125,000)			

18. Comparative figures

Certain of the prior year comparative figures have been reclassified to conform to the current year's presentation.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

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, building inspection and enforcement of the building code to ensure the safety and protection of all citizens and their property.

Public Works Services

Public works includes construction and maintenance of the City's roadways, including snow removal, sidewalk repairs, street lighting, 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, 2010

19. Segmented information (continued)

							2010
	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	92,842	1,261,887	2,404,067	-	191,438	74,172	4,024,406
User charges	1,611,382	140,475	5,268,723	185,746	17,678	437,877	7,661,881
Tax related revenues	-	-	-	-	-	52,047,577	52,047,577
Developer revenue	-	368,876	474,731	114,795	-	7,849	966,251
Contributed tangible capital assets	-	3,031,356	-	-	-	-	3,031,356
Equity Share of Veridian Corp	-	-	-	-	-	3,477,285	3,477,285
Gain (loss) on disposal	475	7,809	(9,049)	-	-	95,588	94,823
Other revenues	872,799	106,523	383,372	400,822	-	2,252,717	4,016,233
Total operating revenue	2,577,498	4,916,926	8,521,844	701,363	209,116	58,393,065	75,319,812
Expenses							
Salaries and wages	16,006,308	3,385,004	12,970,219	2,051,727	228,792	7,317,097	41,959,147
Materials and supplies	1,638,985	3,233,121	5,911,355	96,981	112,777	4,454,906	15,448,125
Contracted services	534,731	646,364	394,658	636,531	214	993,135	3,205,633
Amortization	621,284	5,510,237	2,910,774	-	-	559,516	9,601,811
Other	215,148	147,459	576,216	5,949	133,741	320,108	1,398,621
Total expenses	19,016,456	12,922,185	22,763,222	2,791,188	475,524	13,644,762	71,613,337
Net revenue (expenses)	(16,438,958)	(8,005,259)	(14,241,378)	(2,089,825)	(266,408)	44,748,303	3,706,475

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2010

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 (loss) 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