

*Consolidated Financial Statements of*

**THE CORPORATION OF THE  
CITY OF PICKERING**

*December 31, 2004*

## 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, 2004 and the consolidated statements of financial activities and of changes in financial position 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 consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2004 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Toronto, Ontario  
May 20, 2005

# THE CORPORATION OF THE CITY OF PICKERING

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**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Financial Position**  
December 31, 2004

	<u>2004</u>	<u>2003</u>
		(Restated - Note 2)
<b>FINANCIAL ASSETS</b>		
Cash	\$ 8,589,242	\$ 3,487,309
Short-term investments	34,719,324	22,853,572
Taxes receivable	9,490,807	9,374,077
Accounts receivable	3,255,502	3,267,074
Other current assets	280,449	502,959
Investment in Veridian Corporation (Note 5)	32,299,411	30,875,298
Promissory notes receivable (Note 6)	25,069,000	25,069,000
	<b>113,703,735</b>	<b>95,429,289</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	11,024,637	6,950,937
Other current liabilities	413,404	405,722
Deferred revenue (Note 7)	24,113,832	19,876,543
Long-term liabilities (Note 10)	8,791,000	4,026,000
Post-employment benefit liability (Note 9(a))	2,297,850	2,219,981
WSIB benefit liabilities (Note 9(b))	631,786	634,973
	<b>47,272,509</b>	<b>34,114,156</b>
NET FINANCIAL ASSETS	<b>66,431,226</b>	<b>61,315,133</b>
<b>NON-FINANCIAL ASSETS</b>		
Inventory	448,207	403,810
<b>NET ASSETS</b>	<b>\$ 66,879,433</b>	<b>\$ 61,718,943</b>
<b>MUNICIPAL POSITION</b>		
OPERATING FUND (Note 12)	\$ 88,944	\$ 32,208
CAPITAL FUND (Note 12)	7,043,941	612,984
RESERVES AND RESERVE FUNDS (Notes 7 and 12)	19,224,908	18,267,188
EQUITY IN VERIDIAN CORPORATION (Note 5(c))	58,443,431	56,581,438
	<b>84,801,224</b>	<b>75,493,818</b>
AMOUNTS TO BE RECOVERED - from future revenues (Note 11)	<b>(17,921,791)</b>	<b>(13,774,875)</b>
<b>MUNICIPAL POSITION</b>	<b>\$ 66,879,433</b>	<b>\$ 61,718,943</b>

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**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Financial Activities**  
Year ended December 31, 2004

	2004		2003
	Budget (Note 18)	Actual	Actual (Restated - Note 2)
<b>REVENUES</b>			
Residential and farm taxation	\$ 24,595,135	\$ 24,415,302	\$ 22,324,454
Commercial and industrial taxation	5,785,433	6,642,643	5,576,336
Taxation from other governments	7,335,095	8,736,363	9,087,998
User charges	9,120,471	9,260,151	8,853,936
Government grants and fees	1,417,326	537,046	1,925,024
Developer contributions and donations	419,100	607,555	672,770
Development charges and developer contributions earned	1,808,025	1,419,973	990,515
Investment income	462,500	568,060	737,583
Penalties and interests on taxes	1,300,000	1,455,787	1,369,228
Fines	420,000	379,320	493,672
Interest on promissory notes	1,892,000	1,905,294	2,138,345
Other	2,924,928	3,125,791	2,375,502
<b>Total revenues</b>	<b>57,480,013</b>	<b>59,053,285</b>	<b>56,545,363</b>
<b>EXPENDITURES (Note 15)</b>			
<b>Current</b>			
General government	10,092,178	10,250,908	8,869,339
Protection to persons and property	13,065,288	12,486,523	11,873,089
Transportation services	10,080,327	10,490,626	10,015,997
Environmental services	24,703	13,745	1,644,738
Social and family services	373,451	358,140	287,836
Recreational and cultural services	14,622,313	14,581,546	13,452,146
Planning and development	2,089,850	1,776,151	1,885,203
	<b>50,348,110</b>	<b>49,957,639</b>	<b>48,028,348</b>
<b>Capital</b>			
General government	995,135	516,495	416,056
Protection to persons and property	586,950	189,459	316,177
Transportation services	6,909,953	2,562,144	5,231,771
Environmental services	-	6,244	223,819
Social and Family Services	22,100	21,472	7,215
Recreation and cultural services	2,784,125	2,545,732	3,530,447
Planning and development	-	-	22,214
	<b>11,298,263</b>	<b>5,841,546</b>	<b>9,747,699</b>
<b>Total expenditures</b>	<b>61,646,373</b>	<b>55,799,185</b>	<b>57,776,047</b>
Veridian Corporation Equity share of net income (Note 5(c))	-	1,861,993	1,350,678
<b>NET (EXPENDITURE) REVENUE</b>	<b>(4,166,360)</b>	<b>5,116,093</b>	<b>119,994</b>
<b>INCREASE (DECREASE) IN AMOUNTS TO BE RECOVERED</b>			
Post-employment benefits	(89,500)	(11,631)	54,790
WSIB benefit liabilities	-	(3,187)	526,951
Proceeds from debentures	2,212,000	5,031,000	-
Proceeds from internal loans	-	267,000	349,071
Repayment of Internal Loan	-	(32,617)	(298,000)
Principal repayment of debentures and internal loans	(1,349,181)	(1,103,649)	(991,724)
	<b>773,319</b>	<b>4,146,916</b>	<b>(358,912)</b>
<b>INCREASE IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>44,397</b>	<b>67,683</b>
<b>CHANGE IN FUND BALANCES</b>	<b>\$ (3,393,041)</b>	<b>\$ 9,307,406</b>	<b>\$ (171,235)</b>

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Changes in Financial Position**  
Year ended December 31, 2004

	<u>2004</u>	<u>2003</u>
		(Restated - Note 2)
<b>NET INFLOW (OUTFLOW) IN CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Net expenditure revenue	\$ 5,116,093	\$ 119,994
Change in equity in Veridian Corporation	(1,861,993)	(1,350,678)
	<b>3,254,100</b>	<b>(1,230,684)</b>
<b>Uses</b>		
Increase in other current assets	-	(249,368)
Increase in taxes receivable	(116,730)	(251,519)
Increase in accounts receivable	-	(556,879)
Decrease in accounts payable and accrued liabilities	-	(1,320,963)
Decrease in WSIB benefit liabilities	(3,187)	-
	<b>(119,917)</b>	<b>(2,378,729)</b>
<b>Sources</b>		
Decrease in other current assets	222,510	-
Decrease in accounts receivable	11,572	-
Increase in accounts payable and accrued liabilities	4,073,700	-
Increase in other current liabilities	7,682	282,517
Increase in deferred revenue	4,237,289	1,445,269
Increase in post-employment benefits obligation	77,869	144,290
Increase in WSIB benefit liabilities	-	526,951
	<b>8,630,622</b>	<b>2,399,027</b>
	<b>11,764,805</b>	<b>(1,210,386)</b>
<b>INVESTING</b>		
(Increase) decrease in short-term investments	(11,865,752)	2,511,115
Proceeds from debentures issued	5,031,000	-
Principal repayment of debentures	(266,000)	(252,000)
Dividends received from Veridian Corporation	437,880	227,140
	<b>(6,662,872)</b>	<b>2,486,255</b>
<b>NET INCREASE IN CASH</b>	<b>5,101,933</b>	<b>1,275,869</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>3,487,309</b>	<b>2,211,440</b>
<b>CASH, END OF YEAR</b>	<b>\$ 8,589,242</b>	<b>\$ 3,487,309</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 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 generally accepted accounting principles for local governments as 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 expenditures of the operating fund, capital fund, reserve funds and reserves. 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) Proportionate consolidation

The consolidated financial statements reflect the City's proportionate share of the assets, liabilities, revenues and expenditures of the Ajax Pickering Transit Authority (APTA). (see Note 3).

All inter-entity transactions and balances are eliminated when proportionately consolidated.

(iii) 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 partnerships. Under the modified equity basis, Veridian Corporation's accounting policies are not adjusted to conform with those of the City and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of Veridian Corporation in its statement of financial activities 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.

(iv) 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.

(v) 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.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Basis of accounting

##### (i) Short-term investments

Short-term investments are comprised of highly liquid guaranteed investment certificates and are recorded at the lower of cost plus accrued interest and market value.

##### (ii) Tangible capital assets

Tangible capital asset expenditures incurred during the year are recorded as capital expenditures in the consolidated statement of financial activities.

##### (iii) 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 Financial Activities as the full amount of the property taxes were levied. However, the capping adjustments are reported on the Consolidated Statement of Financial Position as a receivable from the Region.

##### (iv) 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.

##### (v) 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 estimated average remaining service life (EARSLS). The actuary determined EARSLS to be 17 years.

##### (vi) Inventory

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

##### (vii) 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.

##### (viii) 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. Actual results could differ from these estimates.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 2. CHANGE IN ACCOUNTING POLICY

In 2004, the City adopted fully the local government accounting standards issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants related to Post-Employment Benefits, Compensated Absences and Termination Benefits. Previously, the costs of providing the sick bank program were recorded when paid. These costs are now recognized as employees earn these entitlements through service. This change in accounting policy has been applied retroactively and the comparative figures included in these financial statements have been restated to conform with the accounting policies adopted for the current year.

The adoption of these standards has resulted in the following significant changes to amounts previously reported in the 2003 financial statements:

- “Post-employment benefits obligation” and “amounts to be recovered from future revenues” reported on the statement of financial position each increased by \$628,837 at December 31, 2002.
- “Employment benefits expenditures” and “increase in amounts to be recovered” reported on the statement of financial activities and fund balance each increased by approximately \$60,244 for the year ended December 31, 2003.

In addition, the adoption of these standards has resulted in the following changes to the amounts reported for the year ended December 31, 2004:

- “Post-employment benefits obligation” and “amounts to be recovered in future years” reported in the statement of financial position have each increased by a cumulative amount of approximately \$755,000.
- “Employment benefits expenditures” and “increase in amounts to be recovered in future years” reported in the statement of financial activities have each increased by approximately \$66,000.

### 3. AJAX PICKERING TRANSIT AUTHORITY

Effective September 4, 2001, a joint Board of Management was established by the City of Pickering and the Town of Ajax by way of a Merger Agreement for operating a transit system across Pickering and Ajax. The operations were combined effective January 1, 2002. These financial statements include Pickering’s proportionate share (50%) of assets, liabilities, revenues and expenses of the Transit Authority.

On February 17, 2005 it was unanimously agreed by a vote of the Councillors of the area municipalities and the Region of Durham to transfer the operation of the Transit Authority to the Region of Durham. This will be effective as at January 1, 2006.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

### 3. AJAX PICKERING TRANSIT AUTHORITY (continued)

The following table provides condensed supplementary financial information for the Transit Authority for the year ended December 31:

	<u>2004</u>	<u>2003</u>
Financial position:		
Financial assets	\$ 1,071,969	\$ 842,691
Non-financial assets	490,117	357,968
Liabilities	(1,826,710)	(1,562,670)
<b>Net liabilities</b>	<b>\$ (264,624)</b>	<b>\$ (362,011)</b>
Fund balance	\$ (57,524)	\$ (170,849)
Amounts to be recovered	(207,100)	(191,162)
<b>Transit Authority Position</b>	<b>\$ (264,624)</b>	<b>\$ (362,011)</b>
Financial activities:		
Revenue	\$ 11,574,369	\$ 12,703,908
Operating expenditures	(10,300,066)	(9,307,449)
Capital expenditures	(1,309,065)	(3,626,197)
<b>Net expenditures</b>	<b>\$ (34,762)</b>	<b>\$ (229,738)</b>
Fund balance, beginning of year	\$ (170,849)	\$ (26,486)
Net expenditures	(34,762)	(229,738)
Increase in amounts to be recovered	15,938	17,008
Increase in non-financial assets	132,149	68,367
<b>Fund balance, end of year</b>	<b>\$ (57,524)</b>	<b>\$ (170,849)</b>

### 4. OPERATIONS OF SCHOOL BOARDS AND THE REGION OF DURHAM

Further to Note 1 (a) (iv) 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:

	<u>Region</u>	<u>School Board</u>
Taxation	\$ 58,209,242	\$ 38,572,609
Payments in lieu of taxes	5,463,002	452,180
	<b>\$ 63,672,244</b>	<b>\$ 39,024,789</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 5. INVESTMENT VERIDIAN CORPORATION

- (a) Veridian Corporation is owned by the City of Pickering, Town of Ajax, Municipality of Clarington and the City of Belleville. Veridian Corporation, as a government business partnership, 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:

	<u>2004</u>	<u>2003</u>
Financial Position:		
Assets		
Current	\$ 70,429,242	\$ 58,357,713
Capital and intangibles	121,166,690	123,962,633
Other	1,979,006	2,848,774
<b>Total assets</b>	<b>\$ 193,574,938</b>	<b>\$ 185,169,120</b>
Liabilities		
Current	\$ 27,446,398	\$ 24,134,450
Long-term debt	75,294,000	75,294,000
Other	12,055,488	10,435,064
<b>Total liabilities</b>	<b>114,795,886</b>	<b>109,863,514</b>
Equity		
Share capital	67,285,173	67,285,173
Contributed capital	24,910	24,910
Retained earnings	11,468,969	7,995,523
<b>Total equity</b>	<b>78,779,052</b>	<b>75,305,606</b>
<b>Total liabilities and equity</b>	<b>\$ 193,574,938</b>	<b>\$ 185,169,120</b>
Financial Activities:		
Revenue	\$ 180,210,703	\$ 168,329,147
Other income	5,460,962	5,033,314
Expenses	181,130,219	170,068,125
<b>Net income for the year</b>	<b>\$ 4,541,446</b>	<b>\$ 3,294,336</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 5. INVESTMENT VERIDIAN CORPORATION (continued)

	<u>2004</u>	<u>2003</u>
(b) City of Pickering's equity represented by:		
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 income (loss)	1,359,414	(502,579)
Accumulated dividends received	(665,020)	(227,140)
Increase in value of investments	1,108,821	1,108,821
<b>Total investment</b>	<b>\$ 32,299,411</b>	<b>\$ 30,875,298</b>
(c) Equity in Veridian Corporation		
	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 56,581,438	\$ 55,230,760
Equity share of net income for the year	1,861,993	1,350,678
<b>Balance, end of year</b>	<b>\$ 58,443,431</b>	<b>\$ 56,581,438</b>

(d) Contingencies and guarantees of Veridian 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 \$20,000,000 per occurrence are covered by MEARIE.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 5. INVESTMENT VERIDIAN CORPORATION (continued)

(d) (continued)

(ii) *Other claims*

A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro-Electric Commission as the representative of the Defendant Class, consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at anytime after April 1, 1981.

The claim is that late payment penalties charged prior to March 1, 2002 result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defense of this class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of Veridian Corporation, and therefore on the financial statements of the City for this reason, no recognition of any potential liability has been recorded in the financial statement of the City.

(iii) *Guarantees – Veridian Connections Inc.*

The Corporation's regulated subsidiary participates in the competitive supply of electricity market to procure a supply of electricity for its customers. Based upon the market participant's credit rating, the market participants are required to post security prudentials with the Independent Electricity System Operations (IESO).

At December 31, 2004, this requirement was satisfied by the posting of letters of credit in the amount of \$5,134,882.

(iv) *Guarantees – First Source Energy Corporation*

Veridian Corporation, under the terms of the shareholder agreement with Enersource Corporation, requires security to meet credit security requirements of First Source Energy Corporation (First Source) to power suppliers for power purchase agreement for market settlement purposes.

As at December 31, 2004, Veridian Corporation's proportionate share of guarantees posted on behalf of First Source by Enersource Corporation totalled \$2,538,000.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 5. INVESTMENT VERIDIAN CORPORATION (continued)

(e) Lease commitments

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

2005	\$ 730,000
2006	673,000
2007	43,000
2008	10,000
Thereafter	84,000
	<hr/>
	\$ 1,540,000

### 6. PROMISSORY NOTES RECEIVABLE

Promissory notes are payable by Veridian Corporation and Veridian Connections Inc. in the amount of \$7,095,000 and \$17,974,000 respectively, with an interest rate of 7.6% and maturity dates of November 1, 2006. These promissory notes are convertible into common shares at the option of the holder at the rate of 1 common share for every \$1,000 of principal then outstanding on or before the maturity date.

### 7. DEFERRED REVENUE

	<u>2004</u>	<u>2003</u>
Obligatory Reserve Funds		
Development charges	\$ 19,496,777	\$ 15,804,668
Parkland	2,166,696	1,959,087
Ontario Transit Renewal Funds	14,035	14,957
Provincial Gas Tax	161,515	-
Third Party/Developer's Contributions Reserve Fund	1,601,076	1,329,785
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	23,440,099	19,108,497
Other unearned revenues	673,733	768,046
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	\$ 24,113,832	\$ 19,876,543

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 7. DEFERRED REVENUE (continued)

Continuity of deferred revenue is as follows:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year - as previously reported	\$ 19,876,543	\$ 18,126,180
Adjustment for externally restricted contributions	305,094	305,094
As restated	<u>20,181,637</u>	<u>18,431,274</u>
Restricted funds received	4,656,118	4,275,077
Interest earned	928,925	786,732
	<u>5,585,043</u>	<u>5,061,809</u>
Less		
Revenue recognized in current operations	138,562	555,454
Revenue recognized in capital operations	1,419,973	990,515
General deferred revenues recognized	94,313	2,070,571
	<u>1,652,848</u>	<u>3,616,540</u>
Balance, end of year	<u>\$ 24,113,832</u>	<u>\$ 19,876,543</u>

During the year, the City identified externally restricted contributions collected prior to January 1, 2003 amounting to \$305,094 which were included in the Public Works Discretionary Reserve Fund. As a result the Third Party/Developer Contributions Obligatory Reserve Fund has been increased and the Public Works Discretionary Reserve Fund has been decreased by \$305,094 as at January 1, 2003.

### 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 ten year promissory notes with interest rates of 5.8% and 5.2% and 5 year promissory notes with interest rates of 5.3%. The financing arrangements and ultimate repayment are approved by Council through the current budget process. For the purpose of these financial statements, the loans are included in amounts to be recovered (Note 11). The following is a summary of the related loans negotiated, by function:

	<u>2004</u>	<u>2003</u>
Roads and streetlights	\$ 3,647,747	\$ 4,007,974
Community facilities, libraries and parks	2,081,757	2,200,477
Fire services	515,868	590,575
Transit services	-	36,648
Environmental Services	134,783	147,747
	<u>\$ 6,380,155</u>	<u>\$ 6,983,421</u>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 9. POST EMPLOYMENT BENEFITS 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 such benefits as extended health and drugs. Coverage ceases at the age of 65. Dependent on eligibility, health coverage may be a shared financial responsibility between the City and the retired employees. 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 therefore does not get paid out at the time of retirement or termination. The post-employment benefits obligation at December 31, 2004 and the changes in the accrued benefit obligation for the 2004 fiscal year was determined by actuarial valuation prepared as at January 1, 2004.

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

	<u>2004</u>	<u>2003</u>
Accrued benefits liability, beginning of year	\$ 2,219,981	\$ 2,075,691
Current service costs	133,500	130,166
Prior Period Service Costs - Plan Amendment	72,800	-
Interest on accrued benefits	115,500	98,324
Amortization of actuarial (gain) losses	(24,300)	2,800
Benefits paid during the period	(219,631)	(87,000)
<b>Accrued benefits liability, end of year</b>	<b>\$ 2,297,850</b>	<b>\$ 2,219,981</b>
Accrued benefit obligation	\$ 1,930,700	\$ 2,343,931
Unamortized actuarial gain (losses)	367,150	(123,950)
<b>Accrued benefits liability, end of year</b>	<b>\$ 2,297,850</b>	<b>\$ 2,219,981</b>

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

#### (i) Discount Rate

The present value as at December 31, 2004 of the future benefits was determined using a discount rate of 6%.

#### (ii) Dental Costs

The current trend cost at January 1, 2004 was 4.5% per annum.

#### (iii) Health costs

Health costs were assumed to increase at 10% in 2005 and decrease by 1% increments per year to an ultimate rate of 5% per year in 2010 and thereafter.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 9. POST EMPLOYMENT BENEFITS LIABILITY (continued)

(b) *Workplace safety and insurance obligations (WSIB)*

Effective January 1, 2001, the Corporation of the City of Pickering became a Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self insurance for all its employees.

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

	<u>2004</u>	<u>2003</u>
Accrued WSIB liability, beginning of year	\$ 634,973	\$ 108,022
Expense for the period	76,903	754,959
Benefits paid during the period	(80,090)	(228,008)
Accrued WSIB liability, end of year	<u>\$ 631,786</u>	<u>\$ 634,973</u>

Management, using best estimates, identified that the amount provided in the liability account at year-end of \$ 631,786 (2003 - \$634,973) is sufficient to cover the potential liability of all existing claims granted by WSIB and outstanding as at December 31, 2004.

The outcome of any claims filed with WSIB is undeterminable at this time.

A WSIB Reserve Fund was established in 2001. The Reserve Fund balance at December 31, 2004 was \$ 378,731 (2003 - \$181,023). 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 \$300,000 per work related accident. The excess workers compensation indemnity insurance has a \$300,000 deductible and will pay for claims up to and including \$25,000,000 per work related accident or disease claim.

### 10. LONG-TERM LIABILITIES

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

	<u>2004</u>	<u>2003</u>
The municipality is responsible for the payment of principal and interest charges on long-term liabilities issued by the Region of Durham on the municipality's behalf. At the end of the year, the outstanding principal amount of this liability is	\$ 8,791,000	\$ 4,026,000
Long-term liabilities, end of year	<u>\$ 8,791,000</u>	<u>\$ 4,026,000</u>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 10. LONG-TERM LIABILITIES (continued)

- (b) The above long-term liabilities have maturity dates of November 1, 2012, July 15, 2014 and December 23, 2014 with various interest rates ranging from 3.25% to 5.6%. Principal repayments are summarized as follows:

2005	\$ 807,000
2006	847,000
2007	890,000
2008	936,000
2009	982,000
Thereafter	4,329,000
	<hr/>
	\$ 8,791,000

- (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 \$277,609 (2003 - \$212,611).

### 11. AMOUNTS TO BE RECOVERED FROM FUTURE REVENUES

	<u>2004</u>	<u>2003</u>
Post-employment benefits liability	\$ 2,118,850	\$ 2,130,481
WSIB benefit liabilities	631,786	634,973
Internal loans from Obligatory Reserve Funds	6,380,155	6,983,421
Net long-term liabilities	8,791,000	4,026,000
	<hr/>	
	\$ 17,921,791	\$ 13,774,875

### 12. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR

The City's fund balances are comprised of the following:

- (a) *Operating Fund Balance*

	<u>2004</u>	<u>2003</u>
For general reduction of taxation	\$ 88,944	\$ 32,208

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

### 12. MUNICIPAL FUND BALANCES AT THE END OF THE YEAR (continued)

#### (b) Capital Fund Balance

	<u>2004</u>	<u>2003</u>
Funds available for acquisition of tangible capital assets	\$ 7,712,951	\$ 3,930,914
Acquisition of tangible capital assets expected to be		
Financed by long-term liabilities	(31,170)	(2,370,701)
Financed by taxation or user charges	(221,047)	(330,436)
Financed by donations	(416,793)	(616,793)
	<u>\$ 7,043,941</u>	<u>\$ 612,984</u>

#### (c) Reserves and Reserve Funds

	<u>2004</u>	<u>2003</u>
Reserves set aside for special purposes by Council		
Working capital	\$ 400,000	\$ 400,000
Self insurance	940,514	940,514
Replacement of capital equipment	758,175	730,713
Contingencies	9,053,320	7,813,558
Rate stabilization	2,619,565	2,177,209
City's share for development charge	1,921,332	2,685,297
Transit	1,025,740	1,106,634
Continuing Studies	233,160	141,884
Vehicle Replacement	25,000	-
Total Reserves	<u>16,976,806</u>	<u>15,995,809</u>
Reserve Funds set aside for special purposes by Council		
Recreation programs and facilities	380,604	386,726
Acquisition of tangible capital assets	1,455,054	1,696,180
Squash Courts	33,713	7,450
WSIB	378,731	181,023
Total Reserve Funds	<u>2,248,102</u>	<u>2,271,379</u>
Total Reserve and Reserve Funds	<u>\$ 19,224,908</u>	<u>\$ 18,267,188</u>

### 13. PENSION AGREEMENTS

The municipality 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.

Due to significant surpluses, OMERS had declared a temporary contribution holiday effective August 1, 1998 through to December 31, 2002. OMERS contributions, at a reduced rate, commenced January 1, 2003. Full contribution rates commenced January 1, 2004.

Contributions on account of current service for 2004 were \$ 1,400,257 (2003 - \$421,221).

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 14. TRUST FUNDS

Trust funds administered by the municipality amounting to \$ 255,359 (2003 - \$249,517) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities.

### 15. CLASSIFICATION OF EXPENDITURES BY OBJECT

The Consolidated Statement of Financial Activities presents the expenditures by function, the following classifies those same expenditures by object:

	<u>2004</u>	<u>2003</u>
Salaries, wages and employee benefits	\$ 32,825,598	\$ 31,602,803
Operating materials and supplies	13,692,883	11,345,838
Contracted Services	2,150,762	3,936,292
Rents and financial expenses	1,035,764	1,008,549
External transfers to others	252,632	134,866
Tangible capital assets	5,841,546	9,747,699
<b>Total expenditures by object</b>	<b>\$ 55,799,185</b>	<b>\$ 57,776,047</b>

### 16. RELATED PARTY TRANSACTIONS

#### Veridian Corporation

The City of Pickering receives electricity and services from Veridian Corporation, a corporation in which the City is a principal shareholder. Veridian also provides streetlight and power line maintenance services on a contract basis.

	<u>2004</u>	<u>2003</u>
Transactions		
Revenues		
Interest on promissory notes	\$ 1,905,294	\$ 2,138,345
Property taxes levied	\$ 31,384	\$ 38,393
Expenses		
Electrical energy and services	\$ 1,690,604	\$ 1,613,073
Balances		
Accounts payable	\$ 283,550	\$ 255,014
Promissory notes receivable	\$ 25,069,000	\$ 25,069,000

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2004

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### 17. 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 employees and elected officials 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.

### 18. BUDGET FIGURES

The approved operating and capital budgets for 2004 are reflected on the Consolidated Schedule of Operating Fund Financial Activities and Fund Balance, Consolidated Schedule of Capital Fund Financial Activities and Fund Balance, and the Consolidated Statement of Financial Activities. The budgets established for the capital fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with the current year actual amounts. As well, the municipality does not have a budget for activity within Reserves and Reserve Funds, with the exception being those transactions which flow through either the operating or capital fund budgets. Budget figures have been reclassified for the purposes of these statements to comply with PSAB reporting principles.

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Schedule of Operating Fund Financial**  
**Activities and Fund Balance**  
**Year ended December 31, 2004**

**Schedule 1**

	2004		2003
	Budget	Actual	Actual (Restated - Note 2)
<b>REVENUES</b>			
Residential and farm taxation	\$ 24,595,135	\$ 24,415,302	\$ 22,324,454
Commercial and industrial taxation	5,785,433	6,642,643	5,576,336
Taxation from other governments	7,335,095	8,736,363	9,087,998
User charges	9,120,471	9,260,151	8,853,936
Government grants and fees	184,325	317,633	751,024
Developer contributions and donations	83,000	157,896	409,186
Investment income	462,500	477,979	646,104
Penalties and interest on taxes	1,300,000	1,455,787	1,369,228
Fines	420,000	379,320	493,672
Interest on promissory notes	1,892,000	1,905,294	2,138,345
Other	2,854,928	3,116,639	2,329,639
<b>Total revenues</b>	<b>54,032,887</b>	<b>56,865,007</b>	<b>53,979,922</b>
<b>EXPENDITURES</b>			
General government	10,092,178	10,250,908	8,869,339
Protection to persons and property	13,065,288	12,486,523	11,873,089
Transportation services	10,080,327	10,490,626	10,015,997
Environmental services	24,703	13,745	1,644,738
Social and family services	373,451	358,140	287,836
Recreational and cultural services	14,622,313	14,581,546	13,452,146
Planning and development	2,089,850	1,776,151	1,885,203
<b>Total expenditures</b>	<b>50,348,110</b>	<b>49,957,639</b>	<b>48,028,348</b>
<b>NET REVENUES</b>	<b>3,684,777</b>	<b>6,907,368</b>	<b>5,951,574</b>
<b>FINANCING AND TRANSFERS</b>			
Transfers to Capital Fund	(5,069,137)	(4,604,156)	(4,987,257)
Transfers (to) from Reserves and Reserve Funds	2,798,466	(1,163,779)	(692,320)
Increase (decrease) in amounts to be recovered			
Principal repayment of debentures and internal loans	(1,349,181)	(1,103,649)	(991,724)
Repayment of Loan	-	(8,627)	-
Post-employment benefits	(89,500)	(11,631)	54,790
WSIB benefit liabilities	-	(3,187)	526,951
Increase in non financial assets	-	44,397	67,683
	<b>(3,709,352)</b>	<b>(6,850,632)</b>	<b>(6,021,877)</b>
<b>CHANGE IN OPERATING FUND BALANCE</b>	<b>(24,575)</b>	<b>56,736</b>	<b>(70,303)</b>
<b>OPERATING FUND BALANCE, BEGINNING OF YEAR</b>	<b>24,575</b>	<b>32,208</b>	<b>102,511</b>
<b>OPERATING FUND BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 88,944</b>	<b>\$ 32,208</b>

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Schedule of Capital Fund Financial Activities**  
**and Fund Balance**

Year ended December 31, 2004

Schedule 2

	2004		2003
	Budget	Actual	Actual (Restated - Note 2)
<b>REVENUES</b>			
Grants	\$ 1,233,001	\$ 219,413	\$ 1,174,000
Developer contributions and donations	336,100	394,428	226,203
Development charges and developer contributions earned	1,808,025	1,419,973	990,515
Other	70,000	9,152	45,863
<b>Total revenues</b>	<b>3,447,126</b>	<b>2,042,966</b>	<b>2,436,581</b>
<b>EXPENDITURES</b>			
General government	995,135	516,495	416,056
Protection to persons and property	586,950	189,459	316,177
Transportation services	6,909,953	2,562,144	5,231,771
Environmental services	-	6,244	223,819
Social and family services	22,100	21,472	7,215
Recreation and cultural services	2,784,125	2,545,732	3,530,447
Planning and development	-	-	22,214
<b>Total expenditures</b>	<b>11,298,263</b>	<b>5,841,546</b>	<b>9,747,699</b>
<b>NET EXPENDITURES</b>	<b>(7,851,137)</b>	<b>(3,798,580)</b>	<b>(7,311,118)</b>
<b>FINANCING AND TRANSFERS</b>			
Transfers from Operating Fund	5,069,137	4,604,156	4,987,257
Transfer from Reserves Funds	570,000	351,371	(5,540)
Proceeds from debentures	2,212,000	5,031,000	-
Proceeds from internal loans	-	267,000	349,071
Repayment of internal loan	-	(23,990)	(298,000)
<b>Net financing and transfers</b>	<b>7,851,137</b>	<b>10,229,537</b>	<b>5,032,788</b>
<b>CHANGE IN CAPITAL FUND BALANCE</b>	<b>-</b>	<b>6,430,957</b>	<b>(2,278,330)</b>
<b>CAPITAL FUND, BEGINNING OF YEAR</b>	<b>-</b>	<b>612,984</b>	<b>2,891,314</b>
<b>CAPITAL FUND, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 7,043,941</b>	<b>\$ 612,984</b>

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Schedule of Reserves and Reserve Funds**  
**Financial Activities and Fund Balance**  
Year ended December 31, 2004

**Schedule 3**

	<u>2004</u>	<u>2003</u> (Restated - Note 2)
REVENUES		
Developer contributions and donations	\$ 55,231	\$ 37,381
Investment income	90,081	91,479
	<u>145,312</u>	<u>128,860</u>
NET TRANSFERS FROM (TO) OTHER FUNDS		
Operating Fund	1,163,779	692,320
Capital Fund	(351,371)	5,540
Total net transfers	<u>812,408</u>	<u>697,860</u>
CHANGE IN RESERVES AND RESERVE FUND BALANCE	<u>957,720</u>	<u>826,720</u>
RESERVES AND RESERVE FUNDS, BEGINNING OF YEAR - AS PREVIOUSLY REPORTED	18,572,282	17,745,562
Adjustment for externally restricted contributions (Note 7)	(305,094)	(305,094)
AS RESTATED	<u>18,267,188</u>	<u>17,440,468</u>
RESERVES AND RESERVE FUNDS, END OF YEAR	<u>\$ 19,224,908</u>	<u>\$ 18,267,188</u>