

*Consolidated Financial Statements of*

**THE CORPORATION OF THE  
CITY OF PICKERING**

*December 31, 2005*



# THE CORPORATION OF THE CITY OF PICKERING

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December 31, 2005

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**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Financial Position**  
**December 31, 2005**

	<u>2005</u>	<u>2004</u>
<b>FINANCIAL ASSETS</b>		
Cash	\$ 2,711,156	\$ 8,589,242
Short-term investments	43,287,887	34,719,324
Taxes receivable	10,325,099	9,490,807
Accounts receivable	4,532,772	3,255,502
Other current assets	422,075	280,449
Investment in Veridian Corporation (Note 4)	33,558,427	32,299,411
Promissory notes receivable (Note 5)	25,069,000	25,069,000
	<b>119,906,416</b>	<b>113,703,735</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	11,334,288	11,024,637
Other current liabilities	254,032	413,404
Deferred revenue (Note 6)	27,658,305	24,113,832
Long-term liabilities (Note 9)	7,984,000	8,791,000
Post-employment benefit liability (Note 8(a))	2,306,250	2,297,850
WSIB benefit liabilities (Note 8(b))	952,898	631,786
	<b>50,489,773</b>	<b>47,272,509</b>
<b>NET FINANCIAL ASSETS</b>	<b>69,416,643</b>	<b>66,431,226</b>
<b>NON-FINANCIAL ASSETS</b>		
Inventory	438,987	448,207
<b>NET ASSETS</b>	<b>\$ 69,855,630</b>	<b>\$ 66,879,433</b>
<b>MUNICIPAL POSITION</b>		
OPERATING FUND (Note 11(a))	\$ 1,271	\$ 88,944
CAPITAL FUND (Note 11(b))	4,079,053	7,043,941
RESERVES AND RESERVE FUNDS (Note 11(c))	20,725,437	19,224,908
EQUITY IN VERIDIAN CORPORATION (Note 4(c))	61,670,447	58,443,431
	<b>86,476,208</b>	<b>84,801,224</b>
AMOUNTS TO BE RECOVERED (Note 10)	<b>(16,620,578)</b>	<b>(17,921,791)</b>
<b>MUNICIPAL POSITION</b>	<b>\$ 69,855,630</b>	<b>\$ 66,879,433</b>

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**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Financial Activities**  
Year ended December 31, 2005

	2005		2004
	Budget (Note 18)	Actual	Actual
<b>REVENUES</b>			
Residential and farm taxation	\$ 26,281,384	\$ 26,528,006	\$ 24,415,302
Commercial and industrial taxation	6,366,104	6,589,020	6,642,643
Taxation from other governments	7,004,703	8,623,333	8,736,363
User charges	9,438,073	8,951,432	9,260,151
Government grants and fees	3,815,492	710,432	537,046
Developer contributions and donations	282,500	680,442	607,555
Development charges and developer contributions earned	2,323,260	1,063,284	1,419,973
Investment income	462,500	945,532	568,060
Penalties and interests on taxes	1,325,000	1,534,795	1,455,787
Fines	420,000	550,611	379,320
Interest on promissory notes	1,905,250	1,905,244	1,905,294
Other	5,653,306	4,691,574	3,125,791
<b>Total revenues</b>	<b>65,277,572</b>	<b>62,773,705</b>	<b>59,053,285</b>
<b>EXPENDITURES (Note 14)</b>			
Current			
General government	10,471,216	9,377,042	10,250,908
Protection to persons and property	13,700,252	12,977,758	12,486,523
Transportation services	11,352,368	12,165,029	10,490,626
Environmental services	41,613	42,682	13,745
Social and family services	412,796	348,748	358,140
Recreational and cultural services	15,352,830	15,068,380	14,581,546
Planning and development	2,257,239	1,749,085	1,776,151
	<b>53,588,314</b>	<b>51,728,724</b>	<b>49,957,639</b>
Capital			
General government	1,368,255	1,161,949	516,495
Protection to persons and property	968,100	253,167	189,459
Transportation services	11,797,450	6,644,547	2,562,144
Environmental services	190,000	-	6,244
Social and Family Services	280,300	15,314	21,472
Recreation and cultural services	2,826,290	3,207,192	2,545,732
Planning and development	4,600	4,411	-
	<b>17,434,995</b>	<b>11,286,580</b>	<b>5,841,546</b>
<b>Total expenditures</b>	<b>71,023,309</b>	<b>63,015,304</b>	<b>55,799,185</b>
Veridian Corporation			
Equity share of net income (Note 4 (c))	-	3,227,016	1,861,993
<b>NET (EXPENDITURE) REVENUE</b>	<b>(5,745,737)</b>	<b>2,985,417</b>	<b>5,116,093</b>
<b>(DECREASE) INCREASE IN AMOUNTS TO BE RECOVERED</b>			
Principal repayment of debentures	(1,679,245)	(807,000)	(266,000)
Principal repayment of internal loans	-	(1,110,725)	(870,266)
Proceeds from debentures	4,244,800	-	5,031,000
Post-employment benefits liability	-	8,400	(11,631)
Proceeds from internal loans	-	287,000	267,000
WSIB benefit liabilities	-	321,112	(3,187)
	<b>2,565,555</b>	<b>(1,301,213)</b>	<b>4,146,916</b>
<b>(DECREASE) INCREASE IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>(9,220)</b>	<b>44,397</b>
<b>CHANGE IN FUND BALANCES</b>	<b>\$ (3,180,182)</b>	<b>\$ 1,674,984</b>	<b>\$ 9,307,406</b>

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Statement of Changes in Financial Position**  
Year ended December 31, 2005

	2005	2004
<b>NET (OUTFLOW) INFLOW IN CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Net revenue	\$ 2,985,417	\$ 5,116,093
Change in equity in Veridian Corporation	(3,227,016)	(1,861,993)
	<b>(241,599)</b>	<b>3,254,100</b>
<b>Uses</b>		
Increase in taxes receivable	(834,292)	(116,730)
Increase in accounts receivable	(1,277,270)	-
Increase in other current assets	(141,626)	-
Decrease in other current liabilities	(159,372)	-
Decrease in WSIB benefit liabilities	-	(3,187)
	<b>(2,412,560)</b>	<b>(119,917)</b>
<b>Sources</b>		
Decrease in other current assets	-	222,510
Decrease in accounts receivable	-	11,572
Increase in accounts payable and accrued liabilities	309,651	4,073,700
Increase in other current liabilities	-	7,682
Increase in deferred revenue	3,544,473	4,237,289
Increase in post-employment benefit liability	8,400	77,869
Increase in WSIB benefit liabilities	321,112	-
	<b>4,183,636</b>	<b>8,630,622</b>
	<b>1,529,477</b>	<b>11,764,805</b>
<b>INVESTING</b>		
Increase in short-term investments	(8,568,563)	(11,865,752)
Proceeds from debentures issued	-	5,031,000
Principal repayment of debentures	(807,000)	(266,000)
Dividends received from Veridian Corporation	1,968,000	437,880
	<b>(7,407,563)</b>	<b>(6,662,872)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(5,878,086)</b>	<b>5,101,933</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>8,589,242</b>	<b>3,487,309</b>
<b>CASH, END OF YEAR</b>	<b>\$ 2,711,156</b>	<b>\$ 8,589,242</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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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 2).

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 to 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, 2005**

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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 amounts 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, 2005

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### 2. 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. Operations, under the control of the joint board, commenced effective January 1, 2002.

In January 2005, the Councils of the City of Pickering and the Town of Ajax passed a resolution agreeing to the transfer of the responsibilities for transit services to the Regional Municipality of Durham (the "Region"). On January 1, 2006 the Ajax Pickering Transit Authority ("APTA") transferred its operations to the Region as part of the Durham Region Transit Commission in accordance with Regional By-law #85-2004.

Negotiations between the City of Pickering, Town of Ajax and the Region are still underway as to the ultimate realization of assets and assumption of liabilities by the Durham Region Transit Commission.

During 2006, APTA will collect receivables and settle liabilities outstanding at December 31, 2005. Any remaining fund balance will be settled once negotiations with the Region are completed.

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

	<u>2005</u>	<u>2004</u>
Financial position:		
Financial assets	\$ 1,004,441	\$ 1,071,969
Non-financial assets	536,894	490,117
Liabilities	(1,985,097)	(1,826,710)
<b>Net liabilities</b>	<b>\$ (443,762)</b>	<b>\$ (264,624)</b>
Fund balance (deficit)	\$ (233,062)	\$ (57,524)
Amounts to be recovered	(210,700)	(207,100)
<b>Transit Authority Position</b>	<b>\$ (443,762)</b>	<b>\$ (264,624)</b>
Financial activities:		
Revenue	\$ 13,318,943	\$ 11,574,369
Operating expenditures	(12,026,290)	(10,300,066)
Capital expenditures	(1,518,568)	(1,309,065)
<b>Net expenditures</b>	<b>\$ (225,915)</b>	<b>\$ (34,762)</b>
Fund balance (deficit), beginning of year	\$ (57,524)	\$ (170,849)
Net expenditures	(225,915)	(34,762)
Increase in amounts to be recovered	3,600	15,938
Increase in non-financial assets	46,777	132,149
<b>Fund balance (deficit), end of year</b>	<b>\$ (233,062)</b>	<b>\$ (57,524)</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

### 3. 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	\$ 63,688,873	\$ 39,694,486
Payments in lieu of taxes	5,526,362	526,959
	<u>\$ 69,215,235</u>	<u>\$ 40,221,445</u>

### 4. 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>2005</u>	<u>2004</u>
Financial Position:		
Assets		
Current	\$ 92,281,194	\$ 70,709,680
Capital and intangibles	132,918,454	121,166,690
Other	2,201,700	1,979,006
<b>Total assets</b>	<b>\$ 227,401,348</b>	<b>\$ 193,855,376</b>
Liabilities		
Current	\$ 130,029,467	\$ 27,726,836
Long-term debt	-	75,294,000
Other	15,522,058	12,055,488
<b>Total liabilities</b>	<b>145,551,525</b>	<b>115,076,324</b>
Equity		
Share capital	67,285,173	67,285,173
Contributed capital	24,910	24,910
Retained earnings	14,539,740	11,468,969
<b>Total equity</b>	<b>81,849,823</b>	<b>78,779,052</b>
<b>Total liabilities and equity</b>	<b>\$ 227,401,348</b>	<b>\$ 193,855,376</b>
Financial Activities:		
Revenue	\$ 207,388,764	\$ 180,210,703
Other income	4,894,868	5,460,962
Expenses	204,412,861	181,130,219
<b>Net income for the year</b>	<b>\$ 7,870,771</b>	<b>\$ 4,541,446</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 4. INVESTMENT VERIDIAN CORPORATION (continued)

	<u>2005</u>	<u>2004</u>
(b) City of Pickering's equity represented by:		
Promissory notes receivable (Note 5)	\$ 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	4,586,430	1,359,414
Accumulated dividends received	(2,633,020)	(665,020)
Increase in value of investments	1,108,821	1,108,821
<b>Total investment</b>	<b>\$ 33,558,427</b>	<b>\$ 32,299,411</b>

### (c) Equity in Veridian Corporation

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 58,443,431	\$ 56,581,438
Equity share of net income for the year	3,227,016	1,861,993
<b>Balance, end of year</b>	<b>\$ 61,670,447</b>	<b>\$ 58,443,431</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 million per occurrence are covered by MEARIE.

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 4. 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 action has not yet been certified as either a plaintiff or defendant class action. At this time, it is not possible to quantify the effect, if any, on the financial statements of the Corporation.

On April 22, 2004, the Supreme Court of Canada released its decision in a case commenced against Enbridge Gas Distribution (“EGD”) by a customer with respect to late payment penalties. The Supreme Court of Canada determined that EGD would be required to repay a portion of amount paid to it as late payment penalties from April 1994. Any implications of the EGD decision on the Toronto Hydro class action cannot be determined at this time.

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, 2005, this requirement was satisfied by the posting of letters of credit in the amount of \$5,665,530.

(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, 2005, 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, 2005

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### 4. INVESTMENT VERIDIAN CORPORATION (continued)

#### (e) Lease commitments

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

2006	\$ 697,000
2007	648,000
2008	604,000
2009	592,000
2010	592,000
Thereafter	3,483,000
	<hr/>
	\$ 6,616,000

### 5. 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.

### 6. DEFERRED REVENUE

	<u>2005</u>	<u>2004</u>
Obligatory Reserve Funds		
Development charges	\$ 21,135,306	\$ 19,496,777
Parkland	2,103,060	2,166,696
Ontario Transit Renewal Funds	19,166	14,035
Provincial Gas Tax	722,039	161,515
Federal Gas Tax	850,684	-
Third Party/Developer's Contributions Reserve Fund	1,819,264	1,601,076
	<hr/>	
	26,649,519	23,440,099
Other unearned revenues	1,008,786	673,733
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	\$ 27,658,305	\$ 24,113,832

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 6. DEFERRED REVENUE (continued)

Continuity of deferred revenue is as follows:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 24,113,832	\$ 20,181,637
Restricted funds received	3,821,953	4,656,118
General funds received	335,053	-
Interest earned	778,524	928,925
	<u>4,935,530</u>	<u>5,585,043</u>
Revenue recognized in current operations	(327,773)	(138,562)
Revenue recognized in capital operations	(1,063,284)	(1,419,973)
General deferred revenues	-	(94,313)
	<u>(1,391,057)</u>	<u>(1,652,848)</u>
Balance, end of year	\$ 27,658,305	\$ 24,113,832

### 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 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 10). The following is a summary of the related loans negotiated, by function:

	<u>2005</u>	<u>2004</u>
Roads and streetlights	\$ 3,122,129	\$ 3,647,747
Community facilities, libraries and parks	2,002,544	2,081,757
Fire services	334,009	515,868
Environmental Services	97,748	134,783
	<u>\$ 5,556,430</u>	<u>\$ 6,380,155</u>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 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 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 most recent actuarial valuation of the post-employment benefits was performed at January 1, 2004.

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

	<u>2005</u>	<u>2004</u>
Accrued benefits liability, beginning of year	\$ 2,297,850	\$ 2,219,981
Current service costs	141,500	133,500
Prior Period Service Costs - Plan Amendment	-	72,800
Interest on accrued benefits	117,450	115,500
Amortization of actuarial loss	(24,300)	(24,300)
Benefits paid during the period	(226,250)	(219,631)
Accrued benefits liability, end of year	<u>\$ 2,306,250</u>	<u>\$ 2,297,850</u>
Accrued benefit obligation	\$ 1,963,400	\$ 1,930,700
Unamortized actuarial loss	342,850	367,150
Accrued benefits liability, end of year	<u>\$ 2,306,250</u>	<u>\$ 2,297,850</u>

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

(i) Discount Rate

The present value as at December 31, 2005 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, 2005**

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**8. POST EMPLOYMENT BENEFITS LIABILITY (continued)**

*(b) Workplace safety and insurance liability (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>2005</u>	<u>2004</u>
Accrued WSIB liability, beginning of year	\$ 631,786	\$ 634,973
Expense for the period	382,512	76,903
Benefits paid during the period	(61,400)	(80,090)
<b>Accrued WSIB liability, end of year</b>	<b>\$ 952,898</b>	<b>\$ 631,786</b>

Management, using best estimates, identified that the amount provided in the liability account at year-end of \$952,898 (2004 - \$631,786) is sufficient to cover the potential liability of all existing claims granted by WSIB and outstanding as at December 31, 2005.

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, 2005 was \$589,575 (2004 - \$378,731). 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 \$350,000 per work related accident. The excess workers compensation indemnity insurance has a \$350,000 deductible and will pay for claims up to and including \$25,000,000 per work related accident.

**9. LONG-TERM LIABILITIES**

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

	<u>2005</u>	<u>2004</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	<b>\$ 7,984,000</b>	<b>\$ 8,791,000</b>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 9. 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:

2006	\$ 847,000
2007	890,000
2008	936,000
2009	982,000
2010	746,000
Thereafter	3,583,000
	<hr/>
	\$ 7,984,000

- (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 \$404,958 (2004 - \$277,609).

### 10. AMOUNTS TO BE RECOVERED

	<u>2005</u>	<u>2004</u>
<i>From future revenues:</i>		
Post-employment benefits liability	\$ 2,127,250	\$ 2,118,850
WSIB benefit liabilities	363,323	253,055
Internal loans from Obligatory Reserve Funds	5,556,430	6,380,155
Net long-term liabilities	7,984,000	8,791,000
<i>From reserve funds:</i>		
WSIB benefit liabilities	589,575	378,731
	<hr/>	
	\$ 16,620,578	\$ 17,921,791

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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

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

(a) *Operating Fund Balance*

	<u>2005</u>	<u>2004</u>
For general reduction of taxation	\$ 1,271	\$ 88,944

(b) *Capital Fund Balance*

	<u>2005</u>	<u>2004</u>
Funds available for acquisition of tangible capital assets	\$ 6,688,119	\$ 7,712,951
Acquisition of tangible capital assets expected to be		
Financed by long-term liabilities	(2,110,939)	(31,170)
Financed by taxation or user charges	(199,752)	(221,047)
Financed by donations	(298,375)	(416,793)
	<u>\$ 4,079,053</u>	<u>\$ 7,043,941</u>

(c) *Reserves and Reserve Funds*

	<u>2005</u>	<u>2004</u>
Reserves set aside for special purposes by Council		
Working capital	\$ 400,000	\$ 400,000
Self insurance	915,514	940,514
Replacement of capital equipment	722,843	758,175
Contingencies	10,774,911	9,053,320
Rate stabilization	3,388,965	2,619,565
City's share for development charge	484,204	1,921,332
Transit	237,106	1,025,740
Continuing studies	342,533	233,160
Vehicle replacement	75,000	25,000
Easement settlement reserve	1,095,129	-
Eastern Branch	20,000	-
Total Reserves	<u>18,456,205</u>	<u>16,976,806</u>
Reserve Funds set aside for special purposes by Council		
Recreation programs and facilities	265,492	380,604
Acquisition of tangible capital assets	1,348,078	1,455,054
Squash courts	66,087	33,713
WSIB	589,575	378,731
Total Reserve Funds	<u>2,269,232</u>	<u>2,248,102</u>
Total Reserves and Reserve Funds	<u>\$ 20,725,437</u>	<u>\$ 19,224,908</u>

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 12. 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.

Contributions on account of current service for 2005 were \$1,461,255 (2004 - \$1,400,257).

### 13. TRUST FUNDS

Trust funds administered by the municipality amounting to \$260,785 (2004 - \$255,359) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Financial Activities.

### 14. 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>2005</u>	<u>2004</u>
Salaries, wages and employee benefits	\$ 34,725,091	\$ 32,825,598
Operating materials and supplies	13,475,404	13,692,883
Contracted Services	2,284,134	2,150,762
Rents and financial expenses	1,032,190	1,035,764
External transfers to others	211,905	252,632
Tangible capital assets	11,286,580	5,841,546
<b>Total expenditures by object</b>	<b>\$ 63,015,304</b>	<b>\$ 55,799,185</b>

### 15. 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>2005</u>	<u>2004</u>
Transactions		
Revenues		
Interest on promissory notes	\$ 1,905,244	\$ 1,905,294
Property taxes levied	\$ 40,616	\$ 31,384
Expenses		
Electrical energy and services	\$ 1,727,633	\$ 1,690,604
Balances		
Accounts payable	\$ 156,947	\$ 283,550
Promissory notes receivable	\$ 25,069,000	\$ 25,069,000

# THE CORPORATION OF THE CITY OF PICKERING

## Notes to the Consolidated Financial Statements

December 31, 2005

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### 16. GUARANTEES

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

- (i) The City has provided indemnities under lease agreements for the use of various facilities or land. Under the terms of these agreements the City agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (ii) The City indemnifies 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.

### 17. CONTINGENT LIABILITIES

#### *Property Assessment Appeals*

The City is involved in ongoing property assessment appeals. The outcome of these appeals is not determinable as at the date of reporting as the parties are still in negotiation and accordingly, no provision has been made in these financial statements for any liabilities which may result.

The Contingency Reserve of \$10,774,911 is sufficient to cover any potential liability that may arise from the settlement of these property assessment appeals.

#### *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.

# **THE CORPORATION OF THE CITY OF PICKERING**

## **Notes to the Consolidated Financial Statements**

**December 31, 2005**

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### **18. BUDGET FIGURES**

The approved operating and capital budgets for 2005 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.

### **19. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Schedule of Operating Fund Financial**  
**Activities and Fund Balance**  
**Year ended December 31, 2005**

**Schedule 1**

	2005		2004
	Budget	Actual	Actual
<b>REVENUES</b>			
Residential and farm taxation	\$ 26,281,384	\$ 26,528,006	\$ 24,415,302
Commercial and industrial taxation	6,366,104	6,589,020	6,642,643
Taxation from other governments	7,004,703	8,623,333	8,736,363
User charges	9,438,073	8,951,432	9,260,151
Government grants and fees	187,325	568,040	317,633
Developer contributions and donations	186,500	113,775	157,896
Investment income	462,500	874,684	477,979
Penalties and interest on taxes	1,325,000	1,534,795	1,455,787
Fines	420,000	550,611	379,320
Interest on promissory notes	1,905,250	1,905,244	1,905,294
Other	5,543,306	4,639,315	3,116,639
<b>Total revenues</b>	<b>59,120,145</b>	<b>60,878,255</b>	<b>56,865,007</b>
<b>EXPENDITURES</b>			
General government	10,471,216	9,377,042	10,250,908
Protection to persons and property	13,700,252	12,977,758	12,486,523
Transportation services	11,352,368	12,165,029	10,490,626
Environmental services	41,613	42,682	13,745
Social and family services	412,796	348,748	358,140
Recreational and cultural services	15,352,830	15,068,380	14,581,546
Planning and development	2,257,239	1,749,085	1,776,151
<b>Total expenditures</b>	<b>53,588,314</b>	<b>51,728,724</b>	<b>49,957,639</b>
<b>NET REVENUES</b>	<b>5,531,831</b>	<b>9,149,531</b>	<b>6,907,368</b>
<b>FINANCING AND TRANSFERS</b>			
Transfers to Capital Fund	(3,714,378)	(5,968,131)	(4,604,156)
Transfers to Reserves and Reserve Funds	(248,208)	(1,671,640)	(1,163,779)
(Decrease) increase in amounts to be recovered			
Principal repayment of debentures	(1,679,245)	(807,000)	(266,000)
Principal repayment of internal loans	-	(1,110,725)	(846,276)
WSIB benefit liabilities	-	321,112	(3,187)
Post-employment benefit liability	-	8,400	(11,631)
(Decrease) increase in non financial assets	-	(9,220)	44,397
	<b>(5,641,831)</b>	<b>(9,237,204)</b>	<b>(6,850,632)</b>
<b>CHANGE IN OPERATING FUND BALANCE</b>	<b>(110,000)</b>	<b>(87,673)</b>	<b>56,736</b>
<b>OPERATING FUND BALANCE, BEGINNING OF YEAR</b>	<b>110,000</b>	<b>88,944</b>	<b>32,208</b>
<b>OPERATING FUND BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 1,271</b>	<b>\$ 88,944</b>

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

Year ended December 31, 2005

Schedule 2

	2005		2004
	Budget	Actual	Actual
<b>REVENUES</b>			
Grants	\$ 3,628,167	\$ 142,392	\$ 219,413
Developer contributions and donations	96,000	528,219	394,428
Development charges and developer contributions earned	2,323,260	1,063,284	1,419,973
Other	110,000	52,259	9,152
<b>Total revenues</b>	<b>6,157,427</b>	<b>1,786,154</b>	<b>2,042,966</b>
<b>EXPENDITURES</b>			
General government	1,368,255	1,161,949	516,495
Protection to persons and property	968,100	253,167	189,459
Transportation services	11,797,450	6,644,547	2,562,144
Environmental services	190,000	-	6,244
Social and family services	280,300	15,314	21,472
Recreation and cultural services	2,826,290	3,207,192	2,545,732
Planning and development	4,600	4,411	-
<b>Total expenditures</b>	<b>17,434,995</b>	<b>11,286,580</b>	<b>5,841,546</b>
<b>NET EXPENDITURES</b>	<b>(11,277,568)</b>	<b>(9,500,426)</b>	<b>(3,798,580)</b>
<b>FINANCING AND TRANSFERS</b>			
Transfers from Operating Fund	6,907,768	5,968,131	4,604,156
Transfers from Reserves and Reserve Funds	125,000	280,407	351,371
Proceeds from debentures	4,244,800	-	5,031,000
Proceeds from internal loans	-	287,000	267,000
Repayment of internal loans	-	-	(23,900)
<b>Net financing and transfers</b>	<b>11,277,568</b>	<b>6,535,538</b>	<b>10,229,627</b>
<b>CHANGE IN CAPITAL FUND BALANCE</b>	<b>-</b>	<b>(2,964,888)</b>	<b>6,430,957</b>
<b>CAPITAL FUND, BEGINNING OF YEAR</b>	<b>-</b>	<b>7,043,941</b>	<b>612,984</b>
<b>CAPITAL FUND, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 4,079,053</b>	<b>\$ 7,043,941</b>

**THE CORPORATION OF THE CITY OF PICKERING**  
**Consolidated Schedule of Reserves and Reserve Funds**  
**Financial Activities and Fund Balance**  
**Year ended December 31, 2005**

**Schedule 3**

	<u>2005</u>	<u>2004</u>
	<u>Actual</u>	<u>Actual</u>
REVENUES		
Developer contributions and donations	\$ 38,448	\$ 55,231
Investment income	70,848	90,081
	<b>109,296</b>	145,312
NET TRANSFERS FROM (TO) OTHER FUNDS		
Operating Fund	1,671,640	1,163,779
Capital Fund	(280,407)	(351,371)
Total net transfers	1,391,233	812,408
CHANGE IN RESERVES AND RESERVE FUND BALANCE	1,500,529	957,720
RESERVES AND RESERVE FUNDS, BEGINNING OF YEAR	19,224,908	18,267,188
RESERVES AND RESERVE FUNDS, END OF YEAR	<b>\$ 20,725,437</b>	<b>\$ 19,224,908</b>