

Consolidated financial statements of

**The Corporation of the  
City of Pickering**

December 31, 2007

# The Corporation of the City of Pickering

December 31, 2007

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## Auditors' Report

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

We have audited the consolidated statement of financial position of the Corporation of the City of Pickering as at December 31, 2007 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 Corporation of the City of Pickering as at December 31, 2007 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  
Licensed Public Accountants  
April 4, 2008

# The Corporation of the City of Pickering

## Consolidated statement of financial position

December 31, 2007

	2007	2006
	\$	\$
<b>Financial assets</b>		
Cash	3,445,599	2,969,181
Investments (Note 4)	46,714,860	50,867,722
Taxes receivable	12,137,647	11,367,986
Accounts receivable	5,774,265	4,892,024
Other current assets	564,288	530,363
Investment in Veridian Corporation (Note 5(b))	36,782,634	34,768,015
Promissory notes receivable (Note 6)	25,069,000	25,069,000
	<b>130,488,293</b>	130,464,291
<b>Liabilities</b>		
Accounts payable and accrued liabilities	11,168,320	17,625,266
Other current liabilities	81,469	61,168
Deferred revenue (Note 7)	32,424,941	29,434,292
Long-term liabilities (Note 10)	8,796,011	9,929,000
Post-employment benefit liability (Note 9(a))	2,343,250	2,316,950
WSIB benefit liabilities (Note 9(b))	643,045	690,331
	<b>55,457,036</b>	60,057,007
Net financial assets	<b>75,031,257</b>	70,407,284
Non-financial assets		
Inventory	246,361	209,760
<b>Net assets</b>	<b>75,277,618</b>	70,617,044
<b>Municipal position</b>		
Operating fund (Note 12(a))	(51,077)	(50,232)
Capital fund (Note 12(b))	2,294,298	5,209,345
Reserves and reserve funds (Note 12(c))	23,927,149	20,148,226
Equity in Veridian Corporation (Note 5(c))	64,894,654	62,880,035
	<b>91,065,024</b>	88,187,374
Amounts to be recovered (Note 11)	(15,787,406)	(17,570,330)
<b>Municipal position</b>	<b>75,277,618</b>	70,617,044

Approved by:

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# The Corporation of the City of Pickering

## Consolidated statement of financial activities

year ended December 31, 2007

	Budget (Unaudited)	2007 Actual	2006 Actual
	\$ (Note 19)	\$	\$
<b>Revenues</b>			
Residential and farm taxation	28,816,719	28,994,606	26,474,748
Commercial and industrial taxation	7,168,712	7,309,321	6,683,041
Taxation from other governments	6,813,101	7,118,526	6,937,311
User charges	7,983,905	7,836,274	7,194,785
Government grants and fees	1,350,627	2,155,636	2,806,426
Other contributions and donations	213,500	580,349	549,778
Development charges and developer contributions earned	1,593,675	1,983,824	1,552,588
Investment income	1,000,000	1,749,766	1,498,759
Penalties and interests on taxes	1,510,000	1,822,600	1,698,253
Fines	650,000	635,617	590,341
Interest on promissory notes	1,905,250	1,905,244	1,905,244
Other	223,480	620,293	602,157
<b>Total revenues</b>	<b>59,228,969</b>	<b>62,712,056</b>	<b>58,493,431</b>
<b>Expenditures (Note 15)</b>			
<b>Current</b>			
General government	12,771,097	11,813,917	15,302,981
Protection to persons and property	14,996,821	14,330,659	13,513,808
Transportation services	5,844,634	6,109,154	5,308,877
Environmental services	148,239	119,365	46,718
Social and family services	444,783	385,401	333,056
Recreational and cultural services	17,103,392	16,529,901	16,047,858
Planning and development	2,749,004	1,774,748	1,928,424
	<b>54,057,970</b>	<b>51,063,145</b>	<b>52,481,722</b>
<b>Capital</b>			
General government	1,180,360	1,014,811	1,280,176
Protection to persons and property	623,436	1,342,124	1,739,315
Transportation services	4,756,100	5,978,241	3,570,541
Environmental services	510,000	132,408	91,493
Social and Family Services	33,000	25,029	14,945
Recreation and cultural services	2,602,410	2,186,944	1,993,404
Planning and development	-	-	782
	<b>9,705,306</b>	<b>10,679,557</b>	<b>8,690,656</b>
<b>Total expenditures</b>	<b>63,763,276</b>	<b>61,742,702</b>	<b>61,172,378</b>
<b>Veridian Corporation</b>			
Equity share of net income (Note 5 (c))	-	3,654,619	3,669,588
<b>Net revenue (expenditure)</b>	<b>(4,534,307)</b>	<b>4,623,973</b>	<b>990,641</b>
<b>(Decrease) increase in amounts to be recovered</b>			
Principal repayment of debentures	(1,132,989)	(1,132,989)	(847,000)
Principal repayment of internal loans	(1,101,847)	(1,225,949)	(1,095,381)
Proceeds from debentures	2,696,700	-	2,792,000
Proceeds from internal loans	803,000	597,000	352,000
Post-employment benefits liability	-	26,300	10,700
WSIB benefit liabilities	-	(47,286)	(262,567)
	<b>1,264,864</b>	<b>(1,782,924)</b>	<b>949,752</b>
<b>Increase (decrease) in non-financial asset</b>	<b>-</b>	<b>36,601</b>	<b>(229,227)</b>
<b>Change in fund balances</b>	<b>(3,269,443)</b>	<b>2,877,650</b>	<b>1,711,166</b>

# The Corporation of the City of Pickering

Consolidated statement of changes in financial position  
year ended December 31, 2007

	2007	2006
	\$	\$
<b>Operating activities</b>		
Net revenue	4,623,973	990,641
Equity share of net income of Veridian Corporation	(3,654,619)	(3,669,588)
	<b>969,354</b>	<b>(2,678,947)</b>
<b>Uses</b>		
Increase in taxes receivable	(769,661)	(1,042,887)
Increase in accounts receivable	(882,241)	(359,252)
Increase in other current assets	(33,925)	(108,288)
Decrease in accounts payable and accrued liabilities	(6,456,946)	-
Decrease in other current liabilities	-	(192,864)
Decrease in WSIB benefit liabilities	(47,286)	(262,567)
	<b>(8,190,059)</b>	<b>(1,965,858)</b>
<b>Sources</b>		
Increase in accounts payable and accrued liabilities	-	6,290,978
Increase in other current liabilities	20,301	-
Increase in deferred revenue	2,990,649	1,775,987
Increase in post-employment benefit liability	26,300	10,700
	<b>3,037,250</b>	<b>8,077,665</b>
	<b>(4,183,455)</b>	<b>3,432,860</b>
<b>Investing activities</b>		
Increase (decrease) in investments	4,152,862	(7,579,835)
Dividends received from Veridian Corporation	1,640,000	2,460,000
	<b>5,792,862</b>	<b>(5,119,835)</b>
<b>Financing activities</b>		
Proceeds from debentures issued	-	2,792,000
Principal repayment of debentures	(1,132,989)	(847,000)
	<b>(1,132,989)</b>	<b>1,945,000</b>
Net increase in cash	476,418	258,025
Cash, beginning of year	2,969,181	2,711,156
<b>Cash, end of year</b>	<b>3,445,599</b>	<b>2,969,181</b>

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 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) Investment in Veridian Corporation

The City's investment in Veridian Corporation is accounted for on a modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for investments in government business enterprises. Under the modified equity basis, Veridian Corporation's accounting policies are not adjusted to conform to those of the City and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual net income or loss of Veridian Corporation in its consolidated statement of 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.

(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.

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 1. Significant accounting policies (continued)

#### (b) Basis of accounting

##### (i) Investments

Investments are recorded at the lower of cost plus accrued interest and market value. Any premium or discount at purchase of an investment is amortized over the life of the investment.

##### (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 average remaining service period ("ARSP"). The actuary determined ARSP to be 16 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, 2007

## 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 ongoing as to the ultimate realization of assets and assumption of liabilities by the Durham Region Transit Commission and are expected to be finalized during 2008. Any remaining fund balance will be settled once negotiations with the Region are completed.

## 3. Operations of school boards and the Region of Durham

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

	<b>Region</b>	<b>School board</b>
	\$	\$
Taxation	<b>73,818,524</b>	<b>41,472,114</b>
Payments in lieu of taxes	<b>4,888,255</b>	<b>495,004</b>
	<b>78,706,779</b>	<b>41,967,118</b>

## 4. Investments

The investments have a market value of \$47,043,975 (2006 - \$51,091,578) at the end of the year. Investments are comprised of bankers acceptances, medium term notes, discount notes and bonds.

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 5. Investment in Veridian Corporation

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

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

	<b>2007</b>	2006
	\$	\$
Financial position:		
Assets		
Current	<b>75,527,060</b>	69,512,995
Capital and intangibles	<b>140,321,861</b>	138,225,079
Other	<b>6,900,487</b>	946,571
<b>Total assets</b>	<b>222,749,408</b>	208,684,645
Liabilities		
Current	<b>53,948,442</b>	42,961,459
Long-term debt	<b>60,794,000</b>	60,794,000
Other	<b>18,293,223</b>	20,129,148
<b>Total liabilities</b>	<b>133,035,665</b>	123,884,607
Equity		
Share capital	<b>67,285,173</b>	67,285,173
Contributed capital	<b>24,910</b>	24,910
Retained earnings	<b>22,403,660</b>	17,489,955
<b>Total equity</b>	<b>89,713,743</b>	84,800,038
<b>Total liabilities and equity</b>	<b>222,749,408</b>	208,684,645
Financial activities:		
Revenue	<b>235,271,455</b>	223,302,423
Other income	<b>6,878,200</b>	6,823,343
Expenses	<b>233,235,950</b>	221,175,551
<b>Net income for the year</b>	<b>8,913,705</b>	8,950,215

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 5. Investment in Veridian Corporation (continued)

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

	2007	2006
	\$	\$
Promissory notes receivable (Note 6)	<b>25,069,000</b>	25,069,000
Investments in Veridian Corporation		
Initial investment in shares of the Corporation	<b>30,496,196</b>	30,496,196
Accumulated income	<b>11,910,637</b>	8,256,018
Accumulated dividends received	<b>(6,733,020)</b>	(5,093,020)
Increase in value of investments	<b>1,108,821</b>	1,108,821
<b>Total investment</b>	<b>36,782,634</b>	34,768,015

(c) Equity in Veridian Corporation

	2007	2006
	\$	\$
Balance, beginning of year	<b>62,880,035</b>	61,670,447
Equity share of net income for the year	<b>3,654,619</b>	3,669,588
Dividend received from Veridian Corporation	<b>(1,640,000)</b>	(2,460,000)
<b>Balance, end of year</b>	<b>64,894,654</b>	62,880,035

(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 million per occurrence are covered by MEARIE.

(ii) *Other claims*

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

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 5. Investment in Veridian Corporation (continued)

(d) (continued)

(ii) *Other claims (continued)*

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

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

The Corporation estimates it collected late payment penalties of \$5,339,593 from and after 1994. No determination of the portion of these payments which may have constituted interest at an impermissible rate has been made.

(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 anticipates connecting to the transformer station during 2008.

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obliged to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are estimated at \$10,743,850. Based upon current load forecast estimates, VCI has estimated that there will be sufficient future transformation connection revenues to fund HONI's estimated cost of construction for the project. Final determination of the construction costs for the project is expected during 2008.

(iv) *Payments in lieu of corporate taxes*

On March 22, 2007, the Province of Ontario released the 2007 Ontario Budget. The budget announced that new rules would be put in place to limit tax deductibility for interest paid by municipal electric utilities ("MEUs") to municipalities. Interest eligible for deductibility for the Corporation and other Ontario MEUs would be consistent with OEB cost-of-capital rules. Regulations for these new rules have not yet been released by the Minister of Finance. In the absence of the new regulation, the amount of additional tax liability related to excess interest cannot be determined. The Corporation and subsidiary, VCI, paid interest to municipalities of \$4,620,344 during 2007 that may be subject to the new tax regulations.

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 5. Investment in Veridian Corporation (continued)

(e) Lease commitments

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

	\$
2008	731,212
2009	697,325
2010	688,836
2011	616,914
2012	149,580
Thereafter	76,000
	<u>2,959,867</u>

## 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, 2009. 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

	2007	2006
	\$	\$
Obligatory Reserve Funds		
Development charges	<b>23,528,009</b>	22,341,331
Parkland	<b>1,557,607</b>	1,993,928
Ontario Transit Renewal Funds	-	19,166
Provincial gas tax	<b>523,014</b>	771,076
Federal gas tax	<b>2,144,075</b>	1,455,769
Third party/Developer's Contributions Reserve Fund	<b>2,129,222</b>	1,868,148
	<b>29,881,927</b>	28,449,418
Other unearned revenues	<b>2,543,014</b>	984,874
	<b>32,424,941</b>	29,434,292

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 7. Deferred revenue (continued)

Continuity of deferred revenue is as follows:

	2007	2006
	\$	\$
Balance, beginning of year	<b>29,434,292</b>	27,658,305
Restricted funds received	<b>3,013,542</b>	3,088,149
General funds received	<b>1,558,140</b>	-
Interest earned	<b>1,259,499</b>	1,108,004
	<b>5,831,181</b>	4,196,153
Revenue recognized in current operations	<b>313,379</b>	(419,054)
Revenue recognized in capital operations	<b>2,527,153</b>	2,001,112
	<b>2,840,532</b>	(2,420,166)
Balance, end of year	<b>32,424,941</b>	29,434,292

### 8. Interfund loans

As a means of funding various capital acquisitions, funds are borrowed by the Capital Fund from Development Charges and Parkland deferred revenue (obligatory reserve funds). These funds are secured by promissory notes with interest rates ranging from 3.67% to 4.7% and various payment terms ranging from 3 years to 10 years. The financing arrangements and ultimate repayment are approved by Council through the current budget process. Although these notes have payment terms as noted above, they are repayable on demand. 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:

	2007	2006
	\$	\$
Roads and streetlights	<b>1,903,668</b>	2,470,785
Community facilities, libraries and parks	<b>1,732,892</b>	1,867,264
Protection Services	<b>442,584</b>	392,319
Environmental services	<b>66,956</b>	82,681
Municipal building	<b>38,000</b>	-
	<b>4,184,100</b>	4,813,049

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 9. Post-employment benefit liability

#### (a) Post-employment benefit liability

The City makes available to qualifying employees who retire before the age of 65, the opportunity to continue their coverage for 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:

	<b>2007</b>	2006
	\$	\$
Accrued benefits liability, beginning of year	<b>2,316,950</b>	2,306,250
Current service costs	<b>142,800</b>	134,700
Interest on accrued benefits	<b>115,500</b>	112,800
Amortization of actuarial losses	<b>(25,000)</b>	(25,000)
Benefits paid during the year	<b>(207,000)</b>	(211,800)
Accrued benefits liability, end of year	<b>2,343,250</b>	2,316,950
Accrued benefit obligation	<b>2,050,400</b>	1,999,100
Unamortized actuarial losses	<b>292,850</b>	317,850
Accrued benefits liability, end of year	<b>2,343,250</b>	2,316,950

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

#### (i) Discount rate

The present value as at December 31, 2007 of the future benefits was determined using a discount rate of 6.0%.

#### (ii) Dental costs

The current trend cost at January 1, 2004, the date of the most recent actuarial valuation, was 4.5% increase 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, 2007

### 9. Post-employment benefit liability (continued)

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

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

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

	<b>2007</b>	2006
	\$	\$
Accrued WSIB liability, beginning of year	<b>690,331</b>	952,898
Expense/(recovery) for the year	<b>15,719</b>	(208,493)
Benefits paid during the year	<b>(63,005)</b>	(54,074)
Accrued WSIB liability, end of year	<b>643,045</b>	690,331

Management, using best estimates, identified that the amount provided in the liability account at year-end of \$643,045 (2006 - \$690,331) is sufficient to cover the potential liability of all existing claims granted by WSIB and outstanding as at December 31, 2007.

The ultimate 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, 2007 was \$1,103,109 (2006 - \$834,922). 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.

### 10. Long-term liabilities

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

	<b>2007</b>	2006
	\$	\$
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>8,796,011</b>	9,929,000

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 10. Long-term liabilities (continued)

- (b) The above long-term liabilities have maturity dates of July 15, 2009, December 23, 2009, July 12, 2011, 2016 and 2021, November 1, 2012, July 15, 2014 and December 23, 2014 with various interest rates ranging from 3.6% to 5.6%. Principal repayments are summarized as follows:

	\$
2008	1,190,648
2009	1,248,393
2010	1,026,228
2011	1,077,159
2012	2,094,189
Thereafter	2,159,394
	<u>8,796,011</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 \$474,451 (2006 - \$440,813).

## 11. Amounts to be recovered

	2007	2006
	\$	\$
<i>From future revenues:</i>		
Post-employment benefits liability	<b>2,164,250</b>	2,137,950
Internal loans from Obligatory Reserve Funds	<b>4,184,100</b>	4,813,049
Net long-term liabilities	<b>8,796,011</b>	9,929,000
<i>From reserve funds:</i>		
WSIB benefit liabilities	<b>643,045</b>	690,331
	<u><b>15,787,406</b></u>	<u>17,570,330</u>

## 12. Municipal fund balances at the end of the year

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

- (a) *Operating Fund balance*

	2007	2006
	\$	\$
For general reduction of taxation	<u><b>(51,077)</b></u>	<u>(50,232)</u>

# The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2007

## 12. Municipal fund balances at the end of the year (continued)

### (b) Capital Fund balance

	2007	2006
	\$	\$
Funds available for acquisition of tangible capital assets	<b>5,625,356</b>	6,229,014
Acquisition of tangible capital assets expected to be		
Financed by long-term liabilities	<b>(3,230,007)</b>	(848,273)
Financed by taxation or user charges	<b>(50,840)</b>	(131,084)
Financed by grants	-	(15,822)
Financed by donations and contributions	<b>(50,211)</b>	(24,490)
	<b>2,294,298</b>	5,209,345

### (c) Reserves and Reserve Funds

	2007	2006
	\$	\$
Reserves set aside for special purposes by Council		
Working capital	<b>400,000</b>	400,000
Self insurance	<b>951,391</b>	951,391
Replacement of capital equipment	<b>683,214</b>	685,715
Contingencies	<b>1,328,080</b>	6,356,615
Rate stabilization	<b>15,491,176</b>	6,910,981
City's share for development charge	<b>745,244</b>	809,654
Transit	<b>120,999</b>	120,999
Continuing studies	<b>713,821</b>	474,484
Vehicle replacement	<b>122,547</b>	72,547
Eastern branch	<b>55,000</b>	30,000
Move Ontario	<b>308,243</b>	833,243
Total Reserves	<b>20,919,715</b>	17,645,629
Reserve Funds set aside for special purposes by Council		
Recreation programs and facilities	<b>180,880</b>	194,175
Acquisition of tangible capital assets	<b>1,458,193</b>	1,394,511
Squash courts	<b>119,057</b>	78,989
WSIB	<b>1,103,109</b>	834,922
Animal shelter	<b>146,195</b>	-
Total Reserve Funds	<b>3,007,434</b>	2,502,597
Total Reserves and Reserve Funds	<b>23,927,149</b>	20,148,226

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 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.

Contributions on account of current service for 2007 were \$1,828,005 (2006 - \$1,705,901).

### 14. Trust Funds

Trust funds administered by the municipality amounting to \$277,274 (2006 - \$268,567) 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:

	<b>2007</b>	2006
	\$	\$
Salaries, wages and employee benefits	<b>35,963,876</b>	32,114,799
Operating materials, supplies and other expenses	<b>11,881,810</b>	17,386,515
Contracted Services	<b>2,054,598</b>	1,721,394
Rents and financial expenses	<b>961,143</b>	1,097,144
External transfers to others	<b>201,718</b>	161,870
Tangible capital assets	<b>10,679,557</b>	8,690,656
<b>Total expenditures by object</b>	<b>61,742,702</b>	61,172,378

### 16. 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. Veridian also provides streetlight and power line maintenance services on a contract basis.

	<b>2007</b>	2006
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	<b>1,905,244</b>	1,905,244
Property taxes levied	<b>42,093</b>	40,366
Expenses		
Electrical energy and services	<b>1,919,134</b>	1,931,707
Balances		
Accounts payable	<b>393,505</b>	175,508
Promissory notes receivable	<b>25,069,000</b>	25,069,000

# The Corporation of the City of Pickering

## Notes to the consolidated financial statements

December 31, 2007

### 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. 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.

### 19. Budget figures

The approved operating and capital budgets for 2007 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

Notes to the consolidated financial statements

December 31, 2007

## **20. Tangible capital assets**

For fiscal years commencing after January 1, 2009, the City will be required to report tangible capital assets in its consolidated financial statements in accordance with The Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants section PS3150 – Tangible Capital Assets. The City is currently working toward obtaining the necessary information in order to comply with PS 3150. For 2007, Public Sector Guideline 7 requires the disclosure of tangible capital asset information in the notes to the financial statements to the extent that reliable information is available. The City is currently working on a plan to implement PS3150 but as at December 31, 2007 the City does not have detailed tangible capital asset information to disclose. For the year ended December 31, 2007 tangible capital expenditures incurred during the year are recorded as capital expenditures in the consolidated statement of financial activities.

## **21. Comparative figures**

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

# The Corporation of the City of Pickering

Consolidated schedule of operating fund financial activities and fund balance  
year ended December 31, 2007

Schedule I

	<b>2007</b>	2006	
	<b>Budget</b>	Actual	
	<b>(Unaudited)</b>	Actual	
	\$	\$	
	<b>(Note 19)</b>	\$	
<b>Revenues</b>			
Residential and farm taxation	<b>28,816,719</b>	<b>28,994,606</b>	26,474,748
Commercial and industrial taxation	<b>7,168,712</b>	<b>7,309,321</b>	6,683,041
Taxation from other governments	<b>6,813,101</b>	<b>7,118,526</b>	6,937,311
User charges	<b>7,983,905</b>	<b>7,836,274</b>	7,194,785
Government grants and fees	<b>380,877</b>	<b>615,023</b>	352,672
Other contributions and donations	<b>21,000</b>	<b>22,461</b>	98,443
Investment income	<b>1,000,000</b>	<b>1,632,872</b>	1,404,505
Penalties and interest on taxes	<b>1,510,000</b>	<b>1,822,600</b>	1,698,253
Fines	<b>650,000</b>	<b>635,617</b>	590,341
Interest on promissory notes	<b>1,905,250</b>	<b>1,905,244</b>	1,905,244
Other	<b>223,480</b>	<b>571,625</b>	591,612
<b>Total revenues</b>	<b>56,473,044</b>	<b>58,464,169</b>	53,930,955
<b>Expenditures</b>			
General government	<b>12,771,097</b>	<b>11,813,917</b>	15,302,981
Protection to persons and property	<b>14,996,821</b>	<b>14,330,659</b>	13,513,808
Transportation services	<b>5,844,634</b>	<b>6,109,154</b>	5,308,877
Environmental services	<b>148,239</b>	<b>119,365</b>	46,718
Social and family services	<b>444,783</b>	<b>385,401</b>	333,056
Recreational and cultural services	<b>17,103,392</b>	<b>16,529,901</b>	16,047,858
Planning and development	<b>2,749,004</b>	<b>1,774,748</b>	1,928,424
<b>Total expenditures</b>	<b>54,057,970</b>	<b>51,063,145</b>	52,481,722
<b>Net revenues</b>	<b>2,415,074</b>	<b>7,401,024</b>	1,449,233
<b>Financing and transfers</b>			
Dividend from Veridian Corporation	<b>1,000,000</b>	<b>1,640,000</b>	2,460,000
Transfers to Capital Fund	<b>(2,343,239)</b>	<b>(2,242,532)</b>	(2,668,858)
Transfers from (to) Reserves and Reserve Funds	<b>1,053,001</b>	<b>(4,456,014)</b>	1,131,597
Increase (decrease) in amounts to be recovered			
Principal repayment of debentures	<b>(1,132,989)</b>	<b>(1,132,989)</b>	(847,000)
Principal repayment of internal loans	<b>(1,101,847)</b>	<b>(1,225,949)</b>	(1,095,381)
WSIB benefit liabilities	-	<b>(47,286)</b>	(262,567)
Post-employment benefit liability	-	<b>26,300</b>	10,700
Increase (decrease) in non financial asset	-	<b>36,601</b>	(229,227)
	<b>(2,525,074)</b>	<b>(7,401,869)</b>	(1,500,736)
Change in operating fund balance	<b>(110,000)</b>	<b>(845)</b>	(51,503)
Operating fund balance, beginning of year	<b>110,000</b>	<b>(50,232)</b>	1,271
<b>Operating fund balance, end of year</b>	<b>-</b>	<b>(51,077)</b>	(50,232)

# The Corporation of the City of Pickering

Consolidated schedule of capital fund financial activities and fund balance  
year ended December 31, 2007

Schedule II

	<b>2007</b>	2006	
	<b>Budget Unaudited</b>	Actual	
	\$	\$	
	(Note 19)	\$	
<b>Revenues</b>			
Grants	<b>969,750</b>	<b>1,540,613</b>	2,453,754
Other contributions and donations	<b>192,500</b>	<b>373,499</b>	424,840
Development charges and developer contributions earned	<b>1,593,675</b>	<b>1,983,824</b>	1,552,588
Other	-	<b>48,668</b>	10,545
<b>Total revenues</b>	<b>2,755,925</b>	<b>3,946,604</b>	4,441,727
<b>Expenditures</b>			
General government	<b>1,180,360</b>	<b>1,014,811</b>	1,280,176
Protection to persons and property	<b>623,436</b>	<b>1,342,124</b>	1,739,315
Transportation services	<b>4,756,100</b>	<b>5,978,241</b>	3,570,541
Environmental services	<b>510,000</b>	<b>132,408</b>	91,493
Social and family services	<b>33,000</b>	<b>25,029</b>	14,945
Recreation and cultural services	<b>2,602,410</b>	<b>2,186,944</b>	1,993,404
Planning and development	-	-	782
<b>Total expenditures</b>	<b>9,705,306</b>	<b>10,679,557</b>	8,690,656
<b>Net expenditures</b>	<b>(6,949,381)</b>	<b>(6,732,953)</b>	(4,248,929)
<b>Financing and transfers</b>			
Transfers from Operating Fund	<b>2,283,556</b>	<b>2,242,532</b>	2,668,858
Transfers from (to) Reserves and Reserve Funds	<b>1,166,125</b>	<b>978,374</b>	(433,637)
Proceeds from debentures	<b>2,696,700</b>	-	2,792,000
Proceeds from internal loans	<b>803,000</b>	<b>597,000</b>	352,000
<b>Net financing and transfers</b>	<b>6,949,381</b>	<b>3,817,906</b>	5,379,221
Change in capital fund balance	-	<b>(2,915,047)</b>	1,130,292
Capital fund, beginning of year	-	<b>5,209,345</b>	4,079,053
<b>Capital fund, end of year</b>	-	<b>2,294,298</b>	5,209,345

# The Corporation of the City of Pickering

Consolidated schedule of reserves and  
reserve funds financial activities and fund balance  
year ended December 31, 2007

	<b>2007</b>	2006
	\$	\$
<b>Revenues</b>		
Other contributions and donations	<b>184,389</b>	26,495
Investment income	<b>116,894</b>	94,254
	<b>301,283</b>	120,749
Net transfers from (to) other funds		
Operating Fund	<b>4,456,014</b>	(1,131,597)
Capital Fund	<b>(978,374)</b>	433,637
Total net transfers	<b>3,477,640</b>	(697,960)
Change in reserves and reserve fund balance	<b>3,778,923</b>	(577,211)
Reserves and reserve funds, beginning of year	<b>20,148,226</b>	20,725,437
<b>Reserves and reserve funds, end of year</b>	<b>23,927,149</b>	20,148,226