

Consolidated financial statements of

**The Corporation of the
City of Pickering**

December 31, 2016

The Corporation of the City of Pickering

December 31, 2016

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of Pickering, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Pickering as at December 31, 2016 and the results of its operations, change in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

The Corporation of the City of Pickering

Consolidated statement of financial position as at December 31, 2016

	2016	2015
	\$	\$
Financial assets		
Cash and cash equivalents	78,673,206	65,678,786
Investments (Note 3)	48,857,964	49,423,158
Taxes receivable	15,733,430	15,519,964
Accounts receivable	3,089,630	2,651,579
Note receivable (Note 17)	4,055,276	4,306,294
Investment in Veridian Corporation (Note 4(b))	51,307,386	49,002,099
Promissory notes receivable (Note 5)	25,069,000	25,069,000
	226,785,892	211,650,880
Liabilities		
Accounts payable and accrued liabilities	19,683,527	16,261,055
Other current liabilities	133,307	123,204
Deferred revenue (Note 6)	60,501,567	56,267,521
Long-term liabilities (Note 9)	21,455,816	17,717,530
Post-employment benefit liability (Note 8(a))	4,959,500	4,663,800
WSIB benefit liabilities (Note 8(b))	1,806,100	1,773,100
	108,539,817	96,806,210
Net financial assets	118,246,075	114,844,670
Non-financial assets		
Tangible capital assets (Note 10)	223,836,631	215,670,460
Prepaid expenses	248,303	367,382
Inventory	222,512	329,996
	224,307,446	216,367,838
Accumulated surplus (Note 11)	342,553,521	331,212,508

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

The Corporation of the City of Pickering

Consolidated statement of operations year ended December 31, 2016

	Budget (Note 18)	2016 Actual	2015 Actual
	\$	\$	\$
Revenue			
Residential and farm taxation	44,651,411	44,950,264	42,582,407
Commercial and industrial taxation	10,875,551	10,845,299	10,575,696
Taxation from other governments	8,616,692	8,740,388	8,804,707
User charges	8,923,556	10,825,327	9,129,019
Government grants and fees	8,278,790	3,218,352	2,042,540
Other contributions and donations	2,018,740	1,022,571	5,236,171
Development charges and developer contributions earned	5,182,781	2,099,895	1,821,557
Contributed tangible capital assets	-	3,480,656	395,849
Investment income	320,000	565,808	780,042
Penalties and interests on taxes	2,275,000	2,379,422	2,336,147
Fines	852,000	839,035	853,850
Interest on promissory notes	1,229,138	1,229,138	1,229,138
Sale of land	75,000	-	-
Equity share of Veridian Corporation earnings (Note 4(c))	-	4,252,377	3,632,643
Other	318,410	1,206,986	1,218,916
Gain on disposal of tangible capital assets	-	-	54,589
	93,617,069	95,655,518	90,693,271
Expenses (Note 19)			
General government	16,882,182	15,638,335	14,812,739
Protection to persons and property	23,992,953	22,938,397	22,730,699
Transportation services	12,660,307	12,032,596	12,446,022
Environmental services	3,586,108	3,441,978	3,453,092
Social and family services	737,326	793,371	743,667
Recreational and cultural services	27,774,621	26,572,990	25,304,769
Planning and development	3,461,714	2,682,724	2,647,345
Loss on disposal of tangible capital assets	-	214,114	-
	89,095,211	84,314,505	82,138,333
Annual surplus	4,521,858	11,341,013	8,554,938
Accumulated surplus, beginning of year	331,212,508	331,212,508	322,657,570
Accumulated surplus, end of year	335,734,366	342,553,521	331,212,508

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

The Corporation of the City of Pickering

Consolidated statement of change in net financial assets year ended December 31, 2016

		2016	2015
	Budget (Note 18)	Actual	Actual
	\$	\$	\$
Annual surplus	4,521,858	11,341,013	8,554,938
Acquisition of tangible capital assets	(33,524,650)	(21,134,606)	(32,811,381)
Amortization of tangible capital assets	9,813,357	10,169,146	9,932,399
Loss (gain) on disposal of tangible capital assets	-	214,114	(54,589)
Proceeds on disposal of tangible capital assets	-	36,100	73,144
	(19,189,435)	625,767	(14,305,489)
Transfer of assets under construction to tangible capital assets	-	2,523,484	21,391,751
Assets under construction expensed	-	25,591	209,049
	-	2,549,075	21,600,800
Acquisition of inventory of supplies	-	(532,060)	(618,311)
Use of inventory of supplies	-	639,544	625,890
Acquisition of prepaid expenses	-	(248,906)	(371,190)
Use of prepaid expenses	-	367,985	486,395
	-	226,563	122,784
Change in net financial assets	(19,189,435)	3,401,405	7,418,095
Net financial assets, beginning of year	114,844,670	114,844,670	107,426,575
Net financial assets, end of year	95,655,235	118,246,075	114,844,670

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

The Corporation of the City of Pickering

Consolidated statement of cash flows year ended December 31, 2016

	2016	2015
	\$	\$
Operating transactions		
Annual surplus	11,341,013	8,554,938
Non cash items		
Amortization of tangible capital assets	10,169,146	9,932,399
Gain on disposal of tangible capital assets	214,114	(54,589)
Equity share of Veridian Corporation	(4,252,377)	(3,632,643)
Contributed tangible capital assets recorded in revenue	(3,480,656)	(395,849)
Change in non-cash operating items:		
Taxes receivable	(213,466)	(1,024,916)
Accounts receivable	(438,051)	3,826,066
Accounts payable and accrued liabilities	3,422,472	(1,778,902)
Other current liabilities	10,103	24,216
Deferred revenue	4,234,046	4,417,590
Post-employment benefit liability	295,700	308,500
WSIB benefit liabilities	33,000	31,200
Inventory	107,484	7,579
Prepaid expenses	119,079	115,205
	21,561,607	20,330,794
Capital transactions		
Acquisition of tangible capital assets (net of transfers and contributions)	(15,104,875)	(10,814,732)
Proceeds on disposal of tangible capital assets	36,100	73,144
	(15,068,775)	(10,741,588)
Investing transactions		
Decrease (increase) in investments	565,194	597,516
Dividends received from Veridian Corporation	1,947,090	2,234,500
	2,512,284	2,832,016
Financing transactions		
Proceeds from debentures issued	6,473,000	-
Principal repayment of debentures	(2,734,714)	(2,758,239)
Note receivable	251,018	(4,306,294)
	3,989,304	(7,064,533)
Increase in cash and cash equivalents	12,994,420	5,356,689
Cash and cash equivalents, beginning of year	65,678,786	60,322,097
Cash and cash equivalents, end of year	78,673,206	65,678,786
Cash and cash equivalents consists of		
Cash	18,182,861	6,951,463
Cash equivalents	60,490,345	58,727,323
	78,673,206	65,678,786

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

1. Significant accounting policies

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

(a) Reporting entity

(i) Consolidated financial statements

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

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

(ii) Investment in Veridian Corporation

The City's investment in Veridian Corporation is accounted for on a modified equity basis, consistent with Canadian public sector accounting standards 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 earnings or loss of Veridian Corporation in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Dividends that the City may receive from Veridian Corporation and other capital transactions are reflected as adjustments in the investment asset account.

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

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

(iv) Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately on the Trust Funds Statement of Financial Activities and Statement of Financial Position.

(b) Basis of accounting

(i) Accrual basis of accounting

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

(ii) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash. Cash equivalents have a short-term maturity of three months or less from the date of acquisition.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(iii) Investments

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

(iv) Tangible capital assets ("TCA")

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

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

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

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

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

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

(vi) 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.

(vii) Post-employment benefits

The present value of the cost of providing employees with future benefit programs is recognized as employees earn these entitlements through service. Actuarial gains and losses are amortized over the average remaining service period ("ARSP"). The actuary determined ARSP to be 14 years.

(viii) Inventory

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(ix) Government transfers

Government transfers are recognized as revenue by the City in the period in which the transfers are authorized and any eligibility criteria are met, unless they are restricted through stipulations that require specific actions to be carried out in order to keep the transfer or discharge the liability. For such transfers, revenue is recognized when the stipulation has been met.

(x) Tax revenue

Tax revenue is recognized on all taxable properties within the City that are included in the tax roll provided by the Municipal Property Assessment Corporation, using property tax values included in the tax roll or property tax values that can be reasonably estimated by the City as it relates to supplementary or omitted assessments, at tax rates authorized by Council for the City's own purposes in the period for which the tax is levied.

(xi) Intangible assets

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

(xii) Contaminated sites

Contaminated sites are the result of contamination being introduced into air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized, net of any expected recoveries, when all of the following criteria are met:

- a) an environmental standard exists;
- b) contamination exceeds the environmental standard;
- c) the City is directly responsible or accepts responsibility for the liability;
- d) future economic benefits will be given up; and
- e) a reasonable estimate of the liability can be made.

A liability is recorded only for sites that are not in productive use or if there was an unexpected event that resulted in contamination. Changes in estimates are recorded in the City's statement of operations. The City does not have any liability for contaminated sites recorded in the consolidated financial statements.

(xiii) Use of estimates

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

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

2. Operations of school boards and the Region of Durham

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

	2016		2015	
	Region	School board	Region	School board
	\$	\$	\$	\$
Taxation	102,922,914	44,092,112	100,056,175	43,511,890
Payments in lieu of taxes	6,603,046	389,819	6,879,449	389,648
	109,525,960	44,481,931	106,935,624	43,901,538

3. Investments

	2016		2015	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Investments	48,857,964	48,824,214	49,423,158	49,674,241

Investments are comprised of deposit notes, bonds, and guaranteed investment certificates.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

4. Investment in Veridian Corporation

- (a) Veridian Corporation is owned by the City of Pickering, Town of Ajax, Municipality of Clarington and the City of Belleville. The City has a 41 per cent interest in Veridian Corporation. Veridian Corporation, as a government business partnership, is accounted for on the modified equity basis in these consolidated 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. All amounts in tables are disclosed in thousands of dollars:

	2016 (000's) \$	2015 (000's) \$
Assets		
Current	89,713	84,500
Capital and intangibles	252,736	231,368
Other	4,058	6,325
Total assets	346,507	322,193
Regulatory balances	2,530	3,170
Total assets and regulatory balances	349,037	325,363
Liabilities		
Current	101,166	100,133
Long-term debt	85,532	78,600
Other	26,814	19,460
Total liabilities	213,512	198,193
Shareholders' equity		
Share capital	67,260	67,260
Contributed capital	25	25
Accumulated other comprehensive loss	(340)	(264)
Retained earnings	58,195	52,496
Total equity	125,140	119,517
Regulatory balances	10,385	7,653
Total liabilities, equity and regulatory balances	349,037	325,363
Comprehensive Income		
Commodity revenue	338,009	283,052
Commodity expenses	(331,487)	(280,564)
Distribution revenue	52,264	51,768
Other income	3,171	3,779
Operating expenses	(40,220)	(37,875)
Other income (expense)	(4,469)	(5,873)
Other comprehensive loss	(77)	-
Net movements in regulatory balances, net of tax	(3,372)	(1,465)
Income tax expense	(3,448)	(3,272)
Total comprehensive income for the year	10,371	9,550

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

4. Investment in Veridian Corporation (continued)

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

	2016	2015
	\$	\$
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 earnings	46,400,074	42,147,697
Accumulated dividends received	(26,404,592)	(24,457,502)
Adjustment to value of investment	815,708	815,708
Total investment	51,307,386	49,002,099

(c) *Equity in Veridian Corporation*

	2016	2015
	\$	\$
Balance, beginning of year	77,114,119	75,715,976
Equity share of net earnings for the year	4,252,377	3,915,543
Dividend received from Veridian Corporation	(1,947,090)	(2,234,500)
Adjustment to Veridian retained earnings	-	(282,900)
Balance, end of year (Note 11)	79,419,406	77,114,119

(d) *Contingencies and guarantees of Veridian Corporation (the "Corporation") as disclosed in their consolidated 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. MEARIE also provides vehicle and property insurance to the Corporation.

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. The maximum coverage is \$24,000,000 per occurrence for liability insurance, \$15,000,000 for vehicle insurance and \$98,685,000 for property insurance, plus \$10,000,000 excess coverage on top of the regular liability and vehicle coverage.

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

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

To the extent that the cost of the project is not recoverable from future transformation connection revenues, VCI is obligated to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to VCI. The construction costs allocated to VCI for the project are \$9,975,000.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

4. Investment in Veridian Corporation (continued)

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

(ii) Contractual obligation - Hydro One Networks Inc. ("HONI") (continued)

The Corporation has recorded a liability and a corresponding intangible asset for \$1,212,000 as at December 31, 2016 (2015 - \$1,212,000), based on management's best estimate of the future transformation connection revenue shortfall. HONI is expected to perform a true-up based on actual load at the end of the tenth and fifteenth anniversaries of the in-service date.

(iii) General claims

From time to time, the Corporation is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Corporation's consolidated financial position and results of operations or cash flows.

(e) *Lease commitments*

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

	\$ (000's)
2017	41
2018	41
2019	33
2020	32
2021	33
Thereafter	60
	<hr/> 240

5. Promissory notes receivable

	2016	2015
	\$	\$
Promissory note receivable from Veridian Corporation maturing December 31, 2018 and bearing interest at the greater of 6% or the Ontario Energy Board deemed long term debt rate on an annual basis to maturity	7,095,000	7,095,000
Promissory note receivable from Veridian Connections Inc. maturing November 1, 2039 and bearing interest at the Ontario Energy Board deemed long-term debt rate for each successive five year period thereafter (4.47% effective January 1, 2015)	17,974,000	17,974,000
	<hr/> 25,069,000	<hr/> 25,069,000

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

5. Promissory notes receivable (continued)

Interest revenue earned from these notes receivable totaled \$1,229,138 (2015 - \$1,229,138). The promissory note from Veridian Corporation is convertible into common shares at the rate of one common share for every \$1,000 of principal amount, at the option of the City. The note from Veridian Connections Inc. is no longer convertible but the City may demand full or partial repayment with six months' notice with certification that the funds are required for municipal purposes. The City has signed an inter-creditor agreement confirming the subordinated ranking of these promissory notes to the senior debt financing issued by Veridian.

On November 20, 2014, the Ontario energy Board's deemed long-term rate has been established for the five year period commencing January 1, 2015 until December 31, 2019 at 4.47%. This rate will be reset on January 1, 2020.

6. Deferred revenue

	2016	2015
	\$	\$
Obligatory Reserve Funds		
Development charges	43,318,105	40,941,619
Parkland	3,994,401	2,858,621
Federal gas tax	8,261,976	7,999,732
Third party/Developer's Contributions Reserve Fund	2,962,791	2,661,982
	58,537,273	54,461,954
Other unearned revenues	1,964,294	1,805,567
	60,501,567	56,267,521

Continuity of deferred revenue is as follows:

	2016	2015
	\$	\$
Balance, beginning of year	56,267,521	51,849,931
Restricted funds received	7,879,649	6,941,777
General funds received	873,338	729,491
Interest earned (restricted funds)	856,244	689,423
	9,609,231	8,360,691
Earned restricted revenue transferred to operations	4,660,574	3,184,760
Earned revenue transferred to operations	714,611	758,341
	5,375,185	3,943,101
Balance, end of year	60,501,567	56,267,521

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

7. Interfund loans

As a means of funding various capital acquisitions, funds are borrowed by the Capital Fund from Development Charges deferred revenue (obligatory reserve funds). These funds are secured by promissory notes with interest rates ranging from 1.83% to 3.96% and various payment terms ranging from 5 years to 10 years. The financing arrangements and ultimate repayment are approved by Council through the current budget process. Although these notes have payment terms as noted above, they are repayable on demand. The following is a summary of the related loans:

	2016	2015
	\$	\$
Roads and streetlights	773,631	895,000
Community facilities, libraries and parks	1,700,707	2,039,261
Protection services	64,004	470,209
Stormwater system	943,771	1,049,884
	3,482,113	4,454,354

8. Post-employment benefits liability

(a) Post-employment benefits liability

The City makes available to qualifying employees who retire before the age of 65, the opportunity to continue their coverage for benefits such as post-retirement extended healthcare benefits.

Coverage ceases at the age of 65. The City also provides full time and permanent part-time employees a sick time entitlement and any unused entitlement is accumulated year to year. This accumulated entitlement is not vested and is forfeited at the time of retirement or termination. The most recent actuarial valuation of the post-employment benefits was performed at January 1, 2014.

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

	2016	2015
	\$	\$
Accrued benefits liability, beginning of year	4,663,800	4,355,300
Current service costs	402,200	388,600
Interest on accrued benefits	226,800	222,500
Amortization of actuarial losses	186,200	186,200
Benefits paid during the year	(519,500)	(488,800)
Accrued benefits liability, end of year	4,959,500	4,663,800
Accrued benefit obligation	6,446,600	6,337,100
Unamortized actuarial losses	(1,487,100)	(1,673,300)
Accrued benefits liability, end of year	4,959,500	4,663,800

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

(i) Discount rate

The present value as at December 31, 2016 of the future benefits was determined using a discount rate of 3.5% (2015 - 3.5%).

(ii) Dental costs

The dental cost trend rate was 3.75% (2015 - 3.75%) increase per annum.

(iii) Health costs

Health costs were assumed to increase at 6.50% (2015 - 6.75%) and decrease by 0.25% (2015 - 0.25%) increments per year to an ultimate rate of 4.75% per year in 2023 and thereafter.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

8. Post-employment benefits liability (continued)

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

Effective January 1, 2001, the City became a Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self-insurance for the risk associated with paying benefits for workplace injuries for all its employees. The WSIB administers the claims related to workplace injuries and is reimbursed by the City. The most recent actuarial valuation of the WSIB benefits was performed at December 31, 2014.

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

	2016	2015
	\$	\$
Accrued WSIB liability, beginning of year	1,773,100	1,741,900
Current service cost	108,600	106,500
Interest on accrued benefits	63,400	62,300
Benefits paid during the year	(139,000)	(137,600)
	1,806,100	1,773,100

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

(i) Discount rate

The present value as at December 31, 2016 of the future benefits was determined using a discount rate of 3.5% (2015 - 3.5%).

(ii) Inflation rate

The rate of inflation was assumed to be 2.0% (2015 - 2.0%) per annum.

(iii) WSIB Administration Rate

Liabilities for WSIB benefits have been increased 34.3% to reflect the administration rate charged by WSIB.

A WSIB Reserve Fund was established in 2001. The Reserve Fund balance at December 31, 2016 was \$3,001,701 (2015 - \$2,760,341). In addition, the City purchased two insurance policies that protect the City against significant claims. The occupational accident insurance pays loss claims up to \$500,000 per work related accident. The excess workers compensation indemnity insurance has a \$500,000 deductible and will pay for claims up to and including \$15,000,000 per work related accident.

9. Long-term liabilities

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

	2016	2015
	\$	\$
The municipality is responsible for the payment of principal and interest charges on long-term liabilities issued by the Regional Municipality of Durham on the City's behalf. At the end of the year, the outstanding principal amount of this liability is	21,455,816	17,717,530

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

9. Long-term liabilities (continued)

- (b) The above long-term liabilities have maturity dates of July 12, 2017, 2021 and 2022, November 21, 2018, October 15, 2020, September 29, 2021, October 16, 2018 and 2023, July 2, 2019 and 2029 and October 17, 2021, 2026 and 2031 with various interest rates ranging from 1.10% to 5.20%. Principal repayments are summarized as follows:

	\$
2017	2,983,834
2018	4,935,382
2019	2,015,903
2020	2,029,588
2021	2,178,221
Thereafter	7,312,888
	<hr/> 21,455,816

- (c) Long-term liabilities include principal sums of \$582,000 (2015 - \$582,000) which may be refinanced by the issuance of debentures over a further period not to exceed 10 years, and \$2,415,000 (2015 - \$2,415,000) which may be refinanced by the issuance of debentures over a further period not to exceed 5 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 \$625,740 (2015 - \$678,882).

10. Tangible capital assets

Information relating to tangible capital assets is as follows:

(i) *Contributed tangible capital assets*

The City records tangible capital assets contributed by an external party at fair value on the date contributed. Typical examples are roads, storm sewers and sidewalks installed by a developer as part of a subdivision or development agreement. Contributions of tangible capital assets in 2016 amounted to \$3,480,656 (2015 - \$395,849).

(ii) *Tangible capital assets recognized at nominal value*

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

(iii) *Works of art and historical treasures*

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

(iv) *Other*

The net book value of tangible capital assets not being amortized because they are under construction is \$11,233,428 (2015 - \$7,170,032).

During the year, there were no write-downs of assets (2015 - \$Nil) and no interest was capitalized during the year (2015 - \$Nil).

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

10. Tangible capital assets (continued)

	Land	Buildings	Machinery and equipment	Vehicles	Infrastructure				Information technology hardware	Library collection materials	Furniture and fixtures	Assets under construction	2016
					Roads	Storm sewers	Sidewalks	Parks					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	55,672,263	78,333,857	8,497,113	11,278,173	124,662,143	88,496,409	14,913,523	33,085,186	1,446,463	2,538,389	598,173	7,170,032	426,691,724
Add:													
Additions during the year	73,037	3,690,764	683,111	3,001,372	3,266,409	2,264,649	320,230	636,658	119,301	418,643	47,961	6,612,471	21,134,606
Less:													
Disposals/transfers during the year	53,997	1,246,702	134,540	1,111,799	306,856	-	16,014	49,422	-	490,920	-	2,549,075	5,959,325
Balance, end of year	55,691,303	80,777,919	9,045,684	13,167,746	127,621,696	90,761,058	15,217,739	33,672,422	1,565,764	2,466,112	646,134	11,233,428	441,867,005
Accumulated amortization													
Balance, beginning of year	-	41,401,394	4,665,193	7,105,511	79,340,650	54,041,057	8,783,732	13,256,658	881,303	1,296,189	249,577	-	211,021,264
Add:													
Amortization	-	2,028,126	610,959	937,625	2,598,611	2,082,697	348,662	911,306	170,864	446,994	33,302	-	10,169,146
Less:													
Accumulated amortization on disposals	-	1,092,405	132,759	1,111,799	289,266	-	7,606	35,281	-	490,920	-	-	3,160,036
Balance, end of year	-	42,337,115	5,143,393	6,931,337	81,649,995	56,123,754	9,124,788	14,132,683	1,052,167	1,252,263	282,879	-	218,030,374
Net book value of tangible capital assets	55,691,303	38,440,804	3,902,291	6,236,409	45,971,701	34,637,304	6,092,951	19,539,739	513,597	1,213,849	363,255	11,233,428	223,836,631

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

10. Tangible capital assets (continued)

	Land	Buildings	Machinery and equipment	Vehicles	Infrastructure				Information technology hardw are	Library collection materials	Furniture and fixtures	Assets under construction	2015
					Roads	Storm sew ers	Sidew alks	Parks					
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	55,592,516	70,549,217	8,875,230	12,297,713	121,303,756	86,081,262	14,489,758	22,026,340	1,319,293	2,561,508	575,643	24,496,734	420,168,970
Add:													
Additions during the year	79,748	7,990,027	1,635,193	420,751	3,574,424	2,415,147	433,901	11,302,756	213,086	449,720	22,530	4,274,098	32,811,381
Less:													
Disposals/transfers during the year	1	205,387	2,013,310	1,440,291	216,037	-	10,136	243,910	85,916	472,839	-	21,600,800	26,288,627
Balance, end of year	55,672,263	78,333,857	8,497,113	11,278,173	124,662,143	88,496,409	14,913,523	33,085,186	1,446,463	2,538,389	598,173	7,170,032	426,691,724
Accumulated amortization													
Balance, beginning of year	-	39,698,208	6,114,316	7,695,796	76,799,541	51,959,576	8,439,613	12,693,410	825,183	1,313,494	219,000	-	205,758,137
Add:													
Amortization	-	1,899,805	555,363	850,006	2,757,146	2,081,481	353,293	807,158	142,036	455,534	30,577	-	9,932,399
Less:													
Accumulated amortization on disposals	-	196,619	2,004,486	1,440,291	216,037	-	9,174	243,910	85,916	472,839	-	-	4,669,272
Balance, end of year	-	41,401,394	4,665,193	7,105,511	79,340,650	54,041,057	8,783,732	13,256,658	881,303	1,296,189	249,577	-	211,021,264
Net book value of tangible capital assets	55,672,263	36,932,463	3,831,920	4,172,662	45,321,493	34,455,352	6,129,791	19,828,528	565,160	1,242,200	348,596	7,170,032	215,670,460

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

11. Accumulated surplus

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

	2016	2015
	\$	\$
Capital fund	19,827,450	16,328,274
Operating fund	125,234	125,227
Equity in Veridian Corporation	79,419,406	77,114,119
Tangible capital assets	223,836,631	215,670,460
Post-employment benefits liability	(4,780,500)	(4,484,800)
Internal loans	(3,482,113)	(4,454,354)
Net long-term liabilities	(21,455,816)	(17,717,530)
Note receivable soccer facility	4,055,276	4,306,294
WSIB benefit liabilities	(1,806,100)	(1,773,100)
Reserves set aside for special purposes by Council		
Working capital	400,000	400,000
Self insurance	869,293	892,707
Replacement of capital equipment	1,321,737	1,755,707
Contingencies	1,616,554	1,546,554
Rate stabilization	15,053,798	15,361,372
City's share for development charge	4,018,582	4,962,624
Continuing studies	362,088	113,684
Vehicle replacement	1,247,455	1,058,940
Easement settlement	390	390
Eastern branch	67,458	10,882
Land Purchase	99,403	99,403
Seaton Development Review	1,741,987	1,537,189
Financial Systems	861,638	661,638
Senior Centre	375,000	300,000
Accessibility Initiatives	31,944	34,913
Winter Control	700,000	700,000
Sustainability Initiatives	43,585	1,665
Duffin Heights	3,889,593	4,119,453
Facilities	203,345	71,547
Accelerated Infrastructure Program	557,000	-
Reserve funds set aside for special purpose by Council		
Recreation programs and facilities	172,615	170,148
Acquisition of tangible capital assets	289,583	285,445
WSIB	3,001,701	2,760,341
Animal shelter	369,306	330,298
Men's slow pitch	150,262	148,114
Operations Centre	6,771,136	6,912,674
Roads & bridges	2,039,410	1,365,016
Stormwater management	559,190	497,214
	342,553,521	331,212,508

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

12. Pension agreement

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

OMERS provide pension services to over 460,000 active and retired members and about 1,000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension (the "Plan") by comparing the actuarial value of the invested assets to the estimated present value of all pension benefits that members have earned to-date. The most recent actuarial valuation of the Plan was conducted as at December 31, 2016. The results of this valuation disclosed total actuarial liabilities as at that date of \$87,554 million in respect of benefits accrued for service with actuarial assets at that date of \$81,834 million indicating an actuarial deficit of \$5,720 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employers. As a result, the City does not recognize any share of the OMERS pension surplus or deficit.

Contributions made by the City to OMERS on account of current service for 2016 were \$3,725,946 (2015 - \$3,719,031).

13. Trust Funds

Trust funds administered by the City amounting to \$355,149 (2015 - \$348,015) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations.

14. Related party transactions

Veridian Corporation

The City of Pickering is a principal shareholder in Veridian Corporation (Note 4). The City receives electricity and services from Veridian Corporation and its subsidiary.

	2016	2015
	\$	\$
Transactions		
Revenues		
Interest on promissory notes	1,229,138	1,229,138
Property taxes levied	44,749	58,559
Expenses		
Electrical energy and services	2,723,275	2,656,950
Balances		
Accounts payable and accrued liabilities	582,917	498,390
Promissory notes receivable	25,069,000	25,069,000

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

15. Guarantees

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

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

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

16. Contingent liabilities

Litigation

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

17. Contractual arrangement

The City entered into a provisional license agreement with the Pickering Soccer Club (PSC) for the PSC to occupy and operate the Pickering Indoor Soccer Facility (the Facility). The term of the agreement is 15 years from November 5, 2014 to November 4, 2029. Under the terms of the agreement, the PSC will repay 52.25% of the City's total cost of purchasing the land, constructing the Facility and the related improvements. In 2015, the City recorded a receivable from PSC in the amount of \$4,550,000 based on preliminary project cost figures, with a 15 year repayment term at a variable interest rate ranging from 1.2% to 3.8%. This amount will be adjusted for the total project construction costs, once the agreement is finalized. In 2015 and 2016, the City received all of the required payments based on the preliminary figures.

PSC has commenced its soccer program operations and is operating the Facility at its own expense including all repairs and maintenance. Once a final form of agreement is executed the total amount of the PSC's obligation will be re-calculated, as agreed, to reflect any adjustments to the total project construction costs.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

18. Budget figures

The 2016 Budget adopted by Council on March 29, 2016 was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis of accounting. The budget figures treated all tangible capital asset acquisitions as expenditures and did not include amortization expense on tangible capital assets or post-employment benefits expenses on a full accrual basis. As a result, the budget figures presented in the consolidated Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council on March 29, 2016 with adjustments as follows:

	2016			2016
	Council approved budget	Non TCA expenditures from capital	Post-employment benefits/ amortization	Budget presented in statements
	\$	\$	\$	\$
Revenue				
Taxation	64,143,654			64,143,654
Capital	14,270,521			14,270,521
Other	15,202,894			15,202,894
	93,617,069	-	-	93,617,069
Expenditures				
General government	16,138,575	172,000	571,607	16,882,182
Protection to persons and property	23,177,677	-	815,276	23,992,953
Transportation services	9,215,755	25,000	3,419,552	12,660,307
Environmental services	1,525,103	-	2,061,005	3,586,108
Social and family services	737,326	-	-	737,326
Recreational and cultural services	23,099,004	1,401,000	3,274,617	27,774,621
Planning and development	3,461,714	-	-	3,461,714
	77,355,154	1,598,000	10,142,057	89,095,211
Annual surplus (deficit)	16,261,915	(1,598,000)	(10,142,057)	4,521,858
Capital expenditures	(35,122,650)	1,598,000	-	(33,524,650)
Transfers from reserve and reserve funds	9,357,509			
Dividend from Veridian Corporation	1,927,000			
Principal repayment of debt	(3,890,774)			
Principal repayment of PSC note	206,000			
Debt proceeds	11,136,000			
Prior year operating fund surplus	(125,000)			

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

19. Segmented information

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

General Government

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

Protection to Persons and Property

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

Public Works Services

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

Social and Family Services

Social services for assistance or services for seniors.

Recreation and Culture Services

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

Planning and Development

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

Segmented information has been provided in the following pages.

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

19. Segmented information (continued)

							2016
	Protection to persons and property	Public works services	Recreational and cultural	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	8,332	1,192,283	1,627,407	-	170,341	219,989	3,218,352
User charges	3,765,491	56,634	5,506,795	704,719	36,699	754,989	10,825,327
Tax related revenues	-	-	-	-	-	66,915,373	66,915,373
Developer revenue	86,304	1,287,948	625,643	-	-	100,000	2,099,895
Contributed tangible capital assets	-	3,480,656	-	-	-	-	3,480,656
Equity Share of Veridian Corporation	-	-	-	-	-	4,252,377	4,252,377
Other revenues	1,347,377	443,115	196,086	53,902	-	2,823,058	4,863,538
Total revenue	5,207,504	6,460,636	7,955,931	758,621	207,040	75,065,786	95,655,518
Expenses							
Salaries and wages	19,295,191	4,731,624	15,054,280	2,303,012	315,925	8,907,197	50,607,229
Materials and supplies	2,218,542	3,671,262	6,538,346	165,930	207,444	4,824,890	17,626,414
Contracted services	551,701	1,292,939	909,674	202,067	102,551	1,205,822	4,264,754
Amortization	717,316	5,591,869	3,374,699	1,770	-	483,492	10,169,146
Loss (gain) on disposal of tangible capital assets	(18,400)	19,998	216,729	-	-	(4,213)	214,114
Other	155,647	186,880	695,991	9,945	167,451	216,934	1,432,848
Total expenses	22,919,997	15,494,572	26,789,719	2,682,724	793,371	15,634,122	84,314,505
Annual (deficit) surplus	(17,712,493)	(9,033,936)	(18,833,788)	(1,924,103)	(586,331)	59,431,664	11,341,013

The Corporation of the City of Pickering

Notes to the consolidated financial statements

December 31, 2016

19. Segmented information (continued)

							2015
	Protection to persons and property	Public works services	Recreational and cultural	Planning and development	Social and family services	General government	Consolidated
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Grants	1,950	536,520	1,379,429	20,000	76,223	28,418	2,042,540
User charges	2,232,616	84,372	5,424,791	639,176	38,263	709,801	9,129,019
Tax related revenues	-	-	-	-	-	64,298,957	64,298,957
Developer revenue	688,140	639,740	391,362	-	-	102,315	1,821,557
Contributed tangible capital assets	-	395,849	-	-	-	-	395,849
Equity Share of Veridian Corporation	-	-	-	-	-	3,632,643	3,632,643
Gain on disposal of tangible capital assets	20,824	398	22,236	-	-	11,131	54,589
Other revenues	1,174,482	195,081	4,957,946	35,900	-	2,954,708	9,318,117
Total revenue	4,118,012	1,851,960	12,175,764	695,076	114,486	71,737,973	90,693,271
Expenses							
Salaries and wages	18,949,520	4,684,388	14,527,816	2,275,714	327,946	8,778,097	49,543,481
Materials and supplies	2,450,084	3,760,455	6,342,036	183,579	150,673	4,585,693	17,472,520
Contracted services	527,684	1,489,364	701,495	177,222	64,960	774,947	3,735,672
Amortization	650,748	5,736,105	3,074,468	885	-	470,193	9,932,399
Other	152,663	228,802	658,954	9,945	200,088	203,809	1,454,261
Total expenses	22,730,699	15,899,114	25,304,769	2,647,345	743,667	14,812,739	82,138,333
Annual (deficit) surplus	(18,612,687)	(14,047,154)	(13,129,005)	(1,952,269)	(629,181)	56,925,234	8,554,938