

Consolidated financial statements of

**The Corporation of the
Municipality of Clarington**

December 31, 2007

The Corporation of the Municipality of Clarington

December 31, 2007

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Auditors' Report

To the Members of Council,
Inhabitants and Ratepayers of the
Corporation of the Municipality of Clarington

We have audited the consolidated statement of financial position of the Corporation of the Municipality of Clarington as at December 31, 2007 and the consolidated statements of financial activities and fund balance and of changes in financial position for the year then ended. These financial statements are the responsibility of the Municipality'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 Municipality 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
July 15, 2008

The Corporation of the Municipality of Clarington

Consolidated statement of financial position

as at December 31, 2007

	2007	2006
	\$	\$
Financial assets		
Cash and cash equivalents	40,013,015	20,044,797
Investments (Note 5)	18,256,014	32,490,460
Accounts receivable	8,377,760	8,336,349
Taxes receivable (Note 4)	10,014,983	8,103,539
Inventories for resale	72,805	75,782
Promissory notes receivable (Note 6)	8,321,000	8,321,000
Investment in Veridian Corporation (Note 7)	12,201,069	11,532,805
Total financial assets	97,256,646	88,904,732
Liabilities		
Accounts payable and accrued liabilities	9,616,455	9,707,038
Employee future benefits liabilities (Note 10)	2,829,424	2,067,608
Net long-term liabilities (Note 11)	35,287,839	19,421,640
Deferred revenue - general	5,475,058	4,119,375
Deferred revenue - obligatory reserve funds (Note 8)	12,776,479	15,644,701
Total liabilities	65,985,255	50,960,362
Net financial assets	31,271,391	37,944,370
Non-financial assets		
Prepaid expenses	606,867	569,565
Inventory supplies	346,181	411,126
Total non-financial assets	953,048	980,691
Net assets	32,224,439	38,925,061
Municipal position		
Fund balances		
Current fund (Note 12) - Schedule 1	564,050	233,588
Capital fund (Note 12) - Schedule 2	13,203,250	7,648,519
Reserves (Note 12) - Schedule 3	3,330,104	3,472,852
Reserve funds - general (Note 12) - Schedule 3	29,917,103	26,650,697
Reserve fund - Veridian Corporation net equity (Note 12) - Schedule 3	22,036,097	21,236,591
Total fund balances	69,050,604	59,242,247
Amounts to be recovered from future revenues (Note 13)	(36,826,165)	(20,317,186)
Municipal position	32,224,439	38,925,061

Approved by Council

Mayor

The Corporation of the Municipality of Clarington

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

	2007	2006
	\$	\$
Revenues		
Taxation and user charges		
Property taxation	32,466,378	29,353,860
Taxation from other governments	3,383,529	2,888,965
User charges	10,281,542	8,462,140
Grants		
Government of Canada	49,551	565,419
Province of Ontario	401,098	2,308,360
Other		
Deferred revenue earned	10,775,314	10,064,353
Investment income	3,508,550	3,520,502
Sale of land and equipment	70,574	279,311
Penalty and interest on taxes	1,319,003	1,185,897
Fines	294,298	102,399
Donations and contribution from others	2,429,960	2,024,141
Total revenues	64,979,797	60,755,347
Expenditures (Note 14)		
Current		
General government	8,083,350	7,990,123
Protection to persons and property	9,746,409	8,454,762
Transportation services	10,036,512	10,263,495
Environmental services	446,363	117,715
Health services	216,674	201,286
Recreational and cultural services	13,790,439	12,807,056
Planning and development	3,445,591	3,390,419
Total current expenditures	45,765,338	43,224,856
Capital		
General government	397,380	411,443
Protection to persons and property	1,666,296	728,106
Transportation services	12,295,929	8,414,538
Health services	2,230	32,230
Recreational and cultural services	12,705,243	9,531,454
Planning and development	32,624	42,062
Total capital expenditures	27,099,702	19,159,833
Total expenditures	72,865,040	62,384,689
Veridian Corporation (Note 7)		
Share of net earnings	1,212,264	1,217,229
Net expenditure	(6,672,979)	(412,113)
(Decrease) increase in amounts to be recovered		
Debt principal repayments	(1,458,801)	(1,471,600)
Increase in unfunded employee future benefit liabilities	642,780	52,244
Proceeds of debenture issue	17,325,000	1,111,640
Net increase (decrease) in amounts to be recovered	16,508,979	(307,716)
(Decrease) increase in non-financial assets	(27,643)	445,017
Change in fund balance	9,808,357	(274,812)
Fund balance, beginning of year	59,242,247	59,517,059
Fund balance, end of year	69,050,604	59,242,247

The Corporation of the Municipality of Clarington

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

	2007	2006
	\$	\$
Operating activities		
Net expenditure	(6,672,979)	(412,113)
Veridian Corporation - share of net earnings not involving cash	(1,212,264)	(1,217,229)
	(7,885,243)	(1,629,342)
Uses:		
Increase in accounts receivable	(41,411)	-
Increase in taxes receivable	(1,911,444)	(387,903)
Increase in inventories for resale	-	(27,591)
Decrease in accounts payable and accrued liabilities	(90,583)	-
Decrease in deferred revenue - general	-	(600,888)
Decrease in deferred revenue - obligatory reserve funds	(2,868,222)	(1,401,069)
	(4,911,660)	(2,417,451)
Sources:		
Decrease in accounts receivable	-	1,560,513
Decrease in inventories for resale	2,977	-
Increase in deferred revenue - general	1,355,683	-
Increase in accounts payable and accrued liabilities	-	3,826,162
Increase in employee future benefits liabilities	761,816	119,621
	2,120,476	5,506,296
	(10,676,427)	1,459,503
Financing activities		
Repayment of net long term liabilities	(1,458,801)	(1,471,600)
Proceeds of debenture issue	17,325,000	1,111,640
	15,866,199	(359,960)
Investing activities		
Decrease in investments	14,234,446	226,216
Dividends received from Veridian Corporation	544,000	816,000
	14,778,446	1,042,216
Net inflow of cash and cash equivalents	19,968,218	2,141,759
Cash and cash equivalents, beginning of year	20,044,797	17,903,038
Cash and cash equivalents, end of year	40,013,015	20,044,797

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

The Municipality of Clarington is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, the Municipal Affairs Act and related legislation.

1. Significant accounting policies

The consolidated financial statements of the Corporation of the Municipality of Clarington are the representations of management prepared in accordance with local government accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

Significant accounting policies adopted are as follows:

(a) (i) Reporting entity

These consolidated financial statements reflect the assets, liabilities, revenues, and expenditures of the current fund, capital fund, reserve funds and reserves of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees controlled by the municipality, including the following:

- Board of Management for the Bowmanville Central Business District Improvement Area
- Board of Management for the Newcastle Central Business District Improvement Area
- Board of Management for the Orono Central Business District Improvement Area
- Clarington Older Adult Centre Board
- Clarington Public Library Board
- Clarington Museums and Archives
- Newcastle Arena Board
- Newcastle Community Hall Board
- Orono Arena and Community Centre Board
- Solina Hall Board
- Tyrone Community Hall Board
- Clarington Heritage Committee
- Bowmanville Santa Claus Parade Committee
- Orono Cemetery Board

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

(ii) Investment in Veridian Corporation

The Municipality's investment in Veridian Corporation is accounted for on a modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for investments in government business partnerships. Under the modified equity basis of accounting, the business partnership's accounting principles are not adjusted to conform to those of the Municipality and inter-organizational transactions and balances are not eliminated. The Municipality recognizes its equity interest in the annual income or loss of Veridian Corporation in its "Consolidated Statement of Financial Activities and Fund Balance" with a corresponding increase or decrease in its investment asset account. Any dividends that the Municipality may receive from Veridian Corporation and other capital transactions will be reflected as adjustments in the investment asset account.

(iii) Accounting for region and school board transactions

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

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

1. Significant accounting policies (continued)

(a) (continued)

(iv) Accounting for phase-in/capping provisions

Increases/decreases in property taxes levied as a result of the application of phase-in/capping legislation are not reflected in the Consolidated Statement of Financial Activities and fund balance but are reported on the Consolidated Statement of Financial Position.

(v) Fund accounting

Funds within the consolidated financial statements consist of current, capital, reserves, and reserve funds. Transfers between funds are recorded as adjustments to the appropriate municipal fund balances.

(vi) Trust funds

Trust funds and their related operations administered by the municipality are not included in these consolidated financial statements, but are reported separately on the "Trust Funds Statement of Financial Activities" and "Trust Fund Statement of Financial Position".

(b) Basis of accounting

(i) Accrual basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

(ii) Investments

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

(iii) Tangible capital assets

The historical cost and accumulated depreciation for capital assets are not recorded for municipal purposes. Acquisitions of capital assets are reported as capital expenditures on the "Consolidated Statement of Financial Activities and Fund Balance" in the period incurred.

(iv) Reserves and reserve funds

Certain amounts, as approved by Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.

(v) Deferred revenues

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.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(vi) Pension and employee future benefits obligations

The Municipality accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi-employer public sector pension fund, as a defined contribution plan. Vacation entitlements are accrued as entitlements are earned. Sick leave benefits are accrued where they are vested and subject to payout when an employee leaves the Municipality's employment. Other post-employment benefits are accrued in accordance with the projected benefit method, prorated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of all employees covered.

(vii) Government transfers

Government transfers are recognized in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

(viii) Use of estimates

The preparation of periodic financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

2. Trust funds

Trust funds administered by the Municipality amounting to \$11,162,156 (2006 - \$10,946,980) have not been included in the "Consolidated Statement of Financial Position" nor have their financial activities been included in the "Consolidated Statement of Financial Activities and Fund Balance".

Included in trust funds is an amount of \$10,000,000 received in 2001 from Natural Resources Canada (Canada). This money is being held in trust pending the issuance of a licence by the Canadian Nuclear Safety Commission to Canada, to construct (at Canada's cost) the Port Granby low-level radioactive long-term waste management facility. Upon issuance of the above noted licence, the \$10,000,000 will become a grant to the Municipality of Clarington.

3. Operations of school boards and The Regional Municipality of Durham

Further to Note 1(a)(iii), requisitions were made by the Regional Municipality of Durham and School Boards requiring the Municipality of Clarington to collect property taxes and payments in lieu of property taxes on their behalf. The amounts levied and remitted are summarized below:

	School Boards	Region of Durham
	\$	\$
Property taxes	25,530,672	54,057,687
Taxation from other governments	79,889	1,917,121
Total	25,610,561	55,974,808

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

4. Taxes receivable

The balance in taxes receivable, including penalties and interest, is comprised of the following:

	2007	2006
	\$	\$
Current year	5,628,195	4,686,843
Arrears previous years	4,386,788	3,416,696
	10,014,983	8,103,539

5. Investments

Total investments of \$18,256,014 (2006 - \$32,490,460) reported on the Consolidated Statement of Financial Position at cost plus accrued interest, have a market value (including accrued interest) of \$19,308,470 (2006 - \$33,667,080) at the end of the year. It is the Municipality's intention to hold these investments until maturity.

6. Promissory notes receivable

Promissory notes receivable from Veridian Corporation, are due November 1, 2009, and bear interest at 7.6% effective October 1, 2006. These promissory notes are convertible into common shares at the rate of one common share for every \$1,000 of principal then outstanding, on or before November 1, 2009. Interest revenue earned from these notes receivable totaled \$632,396 (2006 - \$632,396).

	2007	2006
	\$	\$
	8,321,000	8,321,000

7. Investment in Veridian Corporation

(a) Veridian Corporation is a government business partnership which is jointly owned by the City of Pickering, Town of Ajax, Municipality of Clarington and the City of Belleville. The Municipality of Clarington owns 1,360 of the outstanding common shares of Veridian Corporation. This represents a 13.6% share of ownership. The municipality is accounting for this investment using a modified equity basis in these financial statements. Veridian Corporation serves as the electric distribution utility for a number of municipalities including the four noted above, and conducts non-regulated utility service ventures through its subsidiaries.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

7. Investment in Veridian Corporation (continued)

(a) (continued)

The following table provides condensed supplementary financial information of the corporation for the year ended December 31:

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

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

7. Investment in Veridian Corporation (continued)

(b) Municipality of Clarington's equity represented by:

	2007	2006
	\$	\$
Promissory notes receivable (Note 6)	8,321,000	8,321,000
Initial investment in shares of the Corporation	10,146,495	10,146,495
Accumulated earnings	3,887,840	2,675,576
Net increase in value of investment	400,126	400,126
Accumulated dividends received	(2,233,392)	(1,689,392)
Total equity	20,522,069	19,853,805
Municipality of Clarington's investment represented by:		
Investment in Veridian Corporation	12,201,069	11,532,805
Promissory notes receivable	8,321,000	8,321,000
Total	20,522,069	19,853,805

(c) 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 \$30 million per occurrence are covered by MEARIE.*

(ii) *Other claims*

This 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).

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.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

7. Investment in Veridian Corporation (continued)

(c) (continued)

(ii) *Other claims (continued)*

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 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 Ministry 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.

(d) Lease commitments - Veridian Corporation

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
	<hr/> <u>2,959,867</u>

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

8. Deferred revenue – obligatory reserve funds

Deferred revenues represent externally restricted 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 the year the related service is performed. Under certain circumstances these funds may possibly be refunded. The continuity of "deferred revenue - obligatory reserve funds" of the Municipality are summarized:

	2007	2006
	\$	\$
Balance, beginning of year	15,644,701	17,045,770
Contributions		
Contributions from developers	6,629,877	7,233,295
Investment income	616,805	461,039
Other	907,711	968,949
	8,154,393	8,663,283
Decreases		
Transfers to current fund	2,320,706	2,775,800
Transfers to capital fund	8,454,608	7,288,553
Other transfers - net	247,301	-
	11,022,615	10,064,353
Change in deferred revenue	(2,868,222)	(1,401,069)
Balance, end of year	12,776,479	15,644,701

Balance, end of year - analyzed as follows:

	2007	2006
	\$	\$
Federal Gas Tax	30,297	30,367
Building Code Act	108,545	-
Parking facilities	-	303,162
Development charges	12,001,748	14,696,468
Clarington/Region Station A Funds	635,889	614,704
Total deferred revenue	12,776,479	15,644,701

9. Pension agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement Systems (OMERS), which is a multi-employer plan, on behalf of approximately 294 employees. The plan is defined benefit plan that specifies the amount of retirement benefits to be received by employees based on length of service and rates of pay. Contributions to OMERS were \$1,298,093 (2006 - \$1,195,264) for current service.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

10. Employee future benefits obligations

(a) Accumulated sick leave entitlement

(i) Firefighters

The Municipality provides a sick leave accumulation plan for firefighters which accumulates at the rate of one day per month of completed years of service to a maximum of 182 days. These employees may become entitled to a cash payment on retirement, early retirement, termination, or death, at the rate of 50% of the accumulated credit, to a maximum of one-half a year's salary. The estimated liability at December 31, 2007 was \$413,009 (2006 - \$362,914).

(ii) Other

During the 1993 fiscal year, the Municipality negotiated an agreement with all employees (except firefighters) to terminate the sick leave benefit plan which had been in effect for many years. The Municipality agreed to pay to those employees covered by the plan and who had at least five years service with the Corporation a cash equivalent of 50% of sick leave days accumulated to July 1, 1993 to a maximum of 120 days of salary. Remuneration for the buying out of sick days identified will be available to the employee at any time up to the time that the employee either leaves the Corporation or retires, at the rate of remuneration in effect at July 31, 1993. The estimated liability at December 31, 2007 amounted to \$ 1,834 (2006 - \$10,359)

(b) Post employment benefits - other

During 2002, the Municipality approved, an employee benefit plan, which gives qualifying employees who retire before the age of 65 (firefighters - age 60) the opportunity of continuing their coverage for such benefits as medical (extended health), dental, and life insurance benefits. Coverage ceases at age 65. Dependant upon the eligibility, the cost of this coverage may be a shared responsibility between the Municipality and the retired employees.

The significant actuarial assumptions employed for the valuation are as follows:

- (i) Future cost of long-term debt (discount rate) will be 5.0% per year.
- (ii) Future inflation rates will be 4.0% per year.
- (iii) Future dental premium rates will escalate at a 5.0% rate per year.
- (iv) Future Extended Health and Travel premium rates will escalate at 9.0% per year in 2008 grading down to 5% per year in and after 2018.

(c) Employee future benefit liabilities which were based on a December 31, 2007 actuarial valuation, have been calculated as follows:

	2007	2006
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	2,158,921	2,054,519
Employer current service cost	208,478	93,309
Plan amendments	40,092	-
Interest cost	196,183	122,722
Benefits paid	(141,449)	(111,629)
Actuarial losses	944,538	-
Other adjustments	411,148	-
Balance, end of year	3,817,911	2,158,921
Unamortized net actuarial loss	(988,487)	(91,313)
Employee future benefits liability, end of year	2,829,424	2,067,608

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

11. Net long-term liabilities

- (a) The balance of the Municipal Debt reported on the "Consolidated Statement of Financial Position" is made up of the following:

The Municipality has assumed responsibility for payment of principal and interest charges on certain long-term liabilities issued by the Regional Municipality of Durham. Interest rates range from 2.80% to 5.75%. At the end of the year, the outstanding principal amount of this liability is \$35,287,839 (2006 - \$19,421,640).

	2007	2006	Interest rate
	\$	\$	%
Region By-law # 71-2001	4,993,000	5,567,000	4.500 to 5.750
Region By-law # 56-2002	9,011,000	9,674,000	4.100 to 5.600
Region By-law # 45-2004	2,898,000	3,069,000	2.800 to 5.450
Region By-law # 52-2006	1,060,839	1,111,640	5.120
Region By-law # 07-2007	17,325,000	-	4.30 to 4.75
	35,287,839	19,421,640	

- (b) Of the municipal debt reported in (a) of this note, principal payments are payable from general municipal revenues as follows:

	\$
2008	1,835,435
2009	2,134,205
2010	2,758,121
2011	5,278,186
2012	7,408,411
Thereafter	15,873,481
	35,287,839

- (c) The municipal debt in (a) issued in the name of the municipality has received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved on or after January 1, 1993 have been approved by 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.
- (d) Total interest expense related to the above net long-term liabilities amounted to \$1,572,992 (2006 - \$1,078,755) and is reported on the Consolidated Statement of Financial Activities and Fund Balance.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

12. Municipal fund balances at the end of the year

(a) Municipality of Clarington's fund balances are comprised of the following:

	2007	2006
	\$	\$
For general increase of taxation	(32,416)	(300,700)
For general reduction of user charges	596,466	534,288
	564,050	233,588
For the acquisition of capital assets	13,203,250	7,648,519
Reserves	3,330,104	3,472,852
Reserve funds - general	29,917,103	26,650,697
Reserve fund - Veridian Corporation net equity	22,036,097	21,236,591
	69,050,604	59,242,247

13. Amounts to be recovered from future revenues

	2007	2006
	\$	\$
Employee future benefits obligations	2,829,424	2,067,608
Less amount recorded through operations	(1,291,098)	(1,172,062)
	1,538,326	895,546
Net long-term liabilities	35,287,839	19,421,640
	36,826,165	20,317,186

14. Classification of expenditures by object

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

	2007	2006
	\$	\$
Salaries, wages and employee benefits	28,228,036	25,891,725
Operating materials and supplies	12,353,981	12,519,250
Contracted services	3,234,394	2,182,419
Rents and financial expenses	271,865	157,752
External transfers to others	104,070	1,394,955
Tangible capital assets	27,099,702	19,159,833
Debt services	1,572,992	1,078,755
Total expenditures by object	72,865,040	62,384,689

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

15. Contingencies

A delay claim which has been submitted to the Municipality by a contractor relating to the reconstruction of the Municipal Centre has been settled. The Municipality has commenced legal proceedings against an architectural firm for damages resulting from deficient work related to this settlement.

As well, various legal actions and claims have been initiated by and against the Municipality, the outcomes of which cannot be determined at the time of reporting. Accordingly, no provision has been made in these financial statements for any liability which may result. Should any gain or loss occur as a result of the above legal actions the Municipality will account for the gain/loss when it is likely that such a gain/loss will occur and the amount is measurable.

16. Budget figures

Budgets established for capital funds, reserves and reserve funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have, therefore, not been reflected on the "Consolidated Statement of Financial Activities and Fund Balances", the "Consolidated Schedule of Capital Fund Activities and Fund Balance" and the "Consolidated Schedule of Reserves and Reserve Fund Activities and Fund Balance".

17. Contractual commitments

During the year the Municipality had work done on several major projects with contract values totaling approximately \$30,748,028. These contracts relate to the construction and expansion of certain permanent facilities. Approximately \$9,570,271 relating to these contracts had not been expended as at December 31, 2007.

18. Related party transactions and balances - Veridian Corporation

	2007	2006
	\$	\$
Transactions		
Interest earned on promissory notes	632,395	632,396
Property taxes	33,175	31,677
Energy and services purchases	677,504	724,259
Balances		
Promissory notes receivable	8,321,000	8,321,000
Accounts payable	97,768	103,136

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2007

19. Guarantees

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

- (i) The Municipality has provided indemnities under lease agreements for the use of various facilities or land. Under the terms of these agreements the Municipality 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 Municipality 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 Municipality, subject to certain restrictions. The Municipality 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 Municipality. The maximum amount of any potential future payment cannot be reasonably estimated.
- (iii) The Municipality 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 Municipality 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 Municipality 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 Municipality 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.

20. Tangible capital assets

For fiscal years commencing after January 1, 2009, the Municipality 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 Municipality is currently working toward obtaining the necessary information in order to comply with PS3150. 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 Municipality is currently working on a plan to implement PS3150 but as at December 31, 2007 the Municipality 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 and Fund Balance.

The Corporation of the Municipality of Clarington

Consolidated schedule of current fund financial activities and fund balance - Schedule 1 year ended December 31, 2007

	2007	2006	
	Budget (Unaudited) (Note 16) \$	Actual \$	Actual \$
Revenues			
Taxation and user charges			
Property taxation	31,801,251	32,466,378	29,353,860
Taxation from other governments	2,814,080	3,383,529	2,888,965
User charges	8,866,186	10,281,542	8,462,140
Grants			
Government of Canada	25,103	37,040	19,668
Province of Ontario	270,088	312,267	256,827
Other			
Investment income	1,313,548	927,640	1,084,764
Penalty and interest on taxes	1,030,000	1,319,003	1,185,897
Fines	95,500	294,298	102,399
Donations	173,566	303,566	244,557
Deferred revenue earned	2,918,157	2,320,706	2,775,800
Contributions from others	-	-	3,039
Total revenues	49,307,479	51,645,969	46,377,916
Expenditures			
General government	8,111,334	8,083,350	7,990,123
Protection to persons and property	8,417,675	9,746,409	8,454,762
Transportation services	9,014,478	10,036,512	10,263,495
Environmental services	115,000	446,363	117,715
Health services	225,978	216,674	201,286
Recreational and cultural services	14,451,123	13,790,439	12,807,056
Planning and development	4,038,329	3,445,591	3,390,419
Total expenditures	44,373,917	45,765,338	43,224,856
Net revenue	4,933,562	5,880,631	3,153,060
Financing and transfers			
Transfers to reserves	(175,000)	(778,990)	(575,990)
Transfers to reserve funds	(1,767,000)	(4,044,881)	(1,752,493)
Transfers to capital fund	(3,059,516)	(2,977,202)	(3,018,433)
Transfers from reserves	175,600	448,378	667,725
Transfers from reserve funds	1,499,155	2,636,190	2,838,530
Transfers from capital fund	10,000	10,000	270,013
Debt principal repayments	(1,616,801)	(1,458,801)	(1,471,600)
Increase (decrease) in non-financial assets	-	(27,643)	445,017
Increase in unfunded employee future benefit liabilities	-	642,780	52,244
Net financing and transfers	(4,933,562)	(5,550,169)	(2,544,987)
Change in current fund balance	-	330,462	608,073
Current fund balance, beginning of year	-	233,588	(374,485)
Current fund balance, end of year	-	564,050	233,588

The Corporation of the Municipality of Clarington

Consolidated schedule of capital fund financial activities and fund balance - Schedule 2 year ended December 31, 2007

	2007	2006
	\$	\$
Revenues		
Government of Canada Grants	12,511	545,751
Province of Ontario Grants	88,831	2,051,533
Contribution from others	1,872,809	1,272,622
Deferred revenue earned	8,454,608	7,288,553
Investment income	572,332	288,017
Sale of land and equipment	70,574	279,311
Donations	6,284	7,178
Total revenues	11,077,949	11,732,965
Expenditures		
General government	397,380	411,443
Protection to persons and property	1,666,296	728,106
Transportation services	12,295,929	8,414,538
Health services	2,230	32,230
Recreational and cultural services	12,705,243	9,531,454
Planning and development	32,624	42,062
Total expenditures	27,099,702	19,159,833
Net expenditure	(16,021,753)	(7,426,868)
Financing and transfers		
Transfers from current fund	2,977,202	3,018,433
Transfers from reserves and reserve funds	2,987,973	5,935,815
Proceeds of debenture issue	17,325,000	1,111,640
Transfers to current fund	(10,000)	(270,013)
Transfers to reserves and reserve funds	(1,703,691)	(1,145,122)
Net financing and transfers	21,576,484	8,650,753
Change in capital fund balance	5,554,731	1,223,886
Capital fund balance, beginning of year	7,648,519	6,424,633
Capital fund balance, end of year	13,203,250	7,648,519

The Corporation of the Municipality of Clarington

Consolidated schedule of reserve and reserve funds financial activities and fund balance - Schedule 3 year ended December 31, 2007

	2007	2006
	\$	\$
Revenues		
Investment income	2,008,578	2,147,721
Other	247,301	496,744
Veridian Corporation	1,212,264	1,217,229
Total revenues	3,468,143	3,861,694
Transfers from/(to) other funds		
Transfers from current fund	4,823,871	2,328,483
Transfers from capital fund	1,703,691	1,145,122
Transfers to current fund	(3,084,568)	(3,506,255)
Transfers to capital fund	(2,987,973)	(5,935,815)
Total net transfers	455,021	(5,968,465)
Change in reserves and reserve fund balances	3,923,164	(2,106,771)
Reserves and reserve funds balance, beginning of year	51,360,140	53,466,911
Reserves and reserve funds balance, end of year	55,283,304	51,360,140
Analyzed as follows:		
Reserves set aside for specific purposes by Council:		
Tax write-off	426,856	601,856
Acquisition of capital assets	2,290,268	2,414,655
Legal/consulting issues	383,266	269,120
Park development	10,000	10,000
Hockey museum	27,492	20,000
Election expenses	53,311	3,311
Fire prevention	85,585	100,585
Waterfront trail	20,585	20,585
Burketon park improvements	7,569	7,569
Samuel Wilmont nature area	25,172	25,171
Total reserves	3,330,104	3,472,852
Reserve funds set aside for specific purposes by Council:		
General municipal purposes	4,105,439	3,473,287
Rate stabilization	4,977,318	4,766,871
Recreation programs and facilities	441,314	319,014
Debenture repayment	261,905	227,214
Industrial development	53,896	87,193
Other cultural	245,521	144,777
Acquisition of capital assets	6,527,485	6,292,222
Newcastle Waterfront study	63,408	61,296
Municipal capital works	5,829,710	4,000,477
Other capital - unspecified	1,634,319	1,543,463
Road contributions	5,322,065	5,379,208
Westside Bridge/Bowmanville Marsh	106,844	103,285
Port Granby LLRW	148,285	142,792
Community Improvement Plan	79,383	52,155
Business Improvement Areas	120,211	57,442
	29,917,103	26,650,697
Municipal government business partnership - Veridian Corporation	22,036,097	21,236,591
Total reserve funds	51,953,200	47,887,288
Total reserves and reverse funds	55,283,304	51,360,140