

Consolidated financial statements of

**The Corporation of the
Municipality of Clarington**

December 31, 2009

The Corporation of the Municipality of Clarington

December 31, 2009

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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, 2009 and the consolidated statements of operations, change in net financial assets and of cash flows 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 30, 2010

The Corporation of the Municipality of Clarington

Consolidated statement of financial position

as at December 31, 2009

	2009	2008 as restated (Note 2)
	\$	\$
Financial assets		
Cash and cash equivalents	29,801,786	36,351,438
Investments (Note 6)	25,035,899	24,254,090
Accounts receivable	6,899,979	6,812,529
Taxes receivable (Note 5)	11,814,175	9,985,973
Inventories for resale	42,968	52,474
Land held for resale	223,521	249,057
Promissory notes receivable (Note 7)	8,321,000	8,321,000
Investment in Veridian Corporation (Note 8)	13,196,195	12,815,618
Total financial assets	95,335,523	98,842,179
Liabilities		
Accounts payable and accrued liabilities	9,337,072	8,012,140
Employee future benefits liabilities (Note 11)	3,822,465	3,352,951
Net long-term liabilities (Note 12)	32,348,198	34,536,404
Deferred revenue - general	5,533,704	5,103,422
Deferred revenue - obligatory reserve funds (Note 9)	11,778,692	13,202,663
Total liabilities	62,820,131	64,207,580
Net financial assets	32,515,392	34,634,599
Non-financial assets		
Tangible capital assets (Note 18) (Schedule 1)	379,806,672	373,640,318
Prepaid expenses	609,743	575,146
Inventory supplies	273,268	316,544
Total non-financial assets	380,689,683	374,532,008
Accumulated surplus (Note 19)	413,205,075	409,166,607

The Corporation of the Municipality of Clarington

Consolidated statement of operations year ended December 31, 2009

	2009	2008
	Budget (Note 21) (unaudited)	as restated (Note 2) Actual
	\$	\$
Revenues		
Taxation and user charges		
Property taxation	35,742,796	36,132,168
Taxation from other governments	3,224,926	3,367,444
User charges	7,976,563	8,404,223
Grants		
Government of Canada	32,052	158,871
Province of Ontario	327,810	535,196
Other		
Deferred revenue earned	7,696,997	8,613,613
Investment income	1,843,133	2,531,308
Penalty and interest on taxes	1,250,000	1,559,214
Fines	150,500	248,209
Donations and contribution from others	92,399	504,521
Veridian Corporation		
Equity share of net income	-	1,495,777
Contributed tangible capital assets	5,747,821	5,747,821
Other income	-	274,188
Gain on disposal of tangible capital assets	-	10,256
Total revenues	64,084,997	69,582,809
Expenses		
General government	9,565,539	8,635,853
Protection to persons and property	10,159,500	11,703,512
Transportation services	20,266,045	20,267,828
Environmental services	992,789	1,045,006
Health services	232,250	197,528
Recreational and cultural services	19,279,444	18,710,583
Planning and development	4,800,531	4,984,031
Total expenses	65,296,098	65,544,341
Annual surplus	(1,211,101)	4,038,468
Accumulated surplus, beginning of year	409,166,607	409,166,607
Accumulated surplus, end of year	407,955,506	413,205,075

The Corporation of the Municipality of Clarington

Consolidated statement of changes in net financial assets

for the year ended December 31, 2009

	2009		2008
	Budget	Actual	(Note 2) Actual
	\$	\$	\$
Annual surplus	(1,211,101)	4,038,468	10,247,248
Amortization of tangible capital assets	14,470,162	14,470,162	14,081,859
Acquisition of tangible capital assets	(20,757,059)	(20,757,060)	(21,280,647)
Net book value of tangible capital asset disposals	-	120,544	4,344
(Increase) decrease in prepaid expenses	-	(34,597)	31,721
Decrease in inventory supplies	-	43,276	29,637
(Increase) decrease in net financial assets	(7,497,998)	(2,119,207)	3,114,162
Net financial assets, beginning of year	34,634,599	34,634,599	31,520,437
Net financial assets, end of year	27,136,601	32,515,392	34,634,599

The Corporation of the Municipality of Clarington

Consolidated statement of cash flows year ended December 31, 2009

	2009	2008 as restated
	\$	(Note 2) \$
Operating activities		
Annual surplus	4,038,468	10,247,248
Non cash items		
Amortization of tangible capital assets	14,470,162	14,081,859
Gain on sale of tangible capital assets	(10,256)	(24,682)
Equity share of Veridian Corporation net income	(1,495,777)	(1,185,749)
Contributed tangible capital assets recorded in revenue	(5,747,821)	(5,259,560)
Change in non-cash operating items		
(Increase) decrease in accounts receivable	(87,450)	1,565,231
(Increase) decrease in taxes receivable	(1,828,202)	29,010
Decrease in inventories for resale	9,506	20,331
Decrease (increase) in inventory of land for resale	25,536	(10)
Increase (decrease) in accounts payable and accrued liabilities	1,324,932	(1,604,315)
Increase in employee future benefits liabilities	469,514	523,527
Increase (decrease) in deferred revenue - general	430,282	(371,636)
(Decrease) increase in deferred revenue - obligatory reserve funds	(1,423,971)	426,184
Increase (decrease) in prepaid expenses	(34,597)	31,721
Increase in inventory supplies	43,276	29,636
	10,183,602	18,508,795
Capital activities		
Acquisition of tangible capital assets	(15,009,239)	(16,021,087)
Proceeds from disposal of tangible capital assets	130,800	29,026
	(14,878,439)	(15,992,061)
Investing activities		
Increase in investments	(781,809)	(5,998,076)
Dividends received from - Veridian Corporation	1,115,200	571,200
	333,391	(5,426,876)
Financing activities		
Repayment of net-long term liabilities	(2,188,206)	(1,835,435)
Proceeds of debenture issue	-	1,084,000
	(2,188,206)	(751,435)
Net decrease of cash	(6,549,652)	(3,661,577)
Cash, beginning of year	36,351,438	40,013,015
Cash, end of year	29,801,786	36,351,438

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

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 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 financial assets, liabilities, non-financial assets, revenue, and expenses, of the Municipality of Clarington. 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 and its subsidiaries is accounted for on a modified equity basis, consistent with generally accepted accounting principles as recommended by PSAB for investments in government business enterprises. Under the modified equity basis of accounting, Veridian Corporation'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 Operations" 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, expenses, assets and liabilities with respect to the operations of the school boards and the Regional Municipality of Durham are not reflected in these financial statements.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

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 Operations but are reported on the Consolidated Statement of Financial Position.

(v) 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 Operations" and "Trust Fund Statement of Financial Position".

(b) Basis of accounting

(i) Accrual basis of accounting

Revenues and expenses 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; expenses 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) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations.

(a) Tangible capital assets ("TCA")

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land improvements	20-75 years
Buildings	5-75 years
Vehicles	7-20 years
Equipment	3-25 years
Linear roads	7-75 years
Linear storm sewers	40-75 years

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(iii) Non-financial assets (continued)

(a) Tangible capital assets ("TCA") (continued)

Amortization

The Municipality of Clarington uses the straight line method of amortization. For pooled assets and networks such as roads and storm sewers, one half of the annual amortization is charged in the year of acquisition or in-service date and in the year of disposal. For individual assets, if acquired (or in-service) in the first half of the year, the full year of the amortization is charged. If acquired (or in-service) in the second half of the year, one half of the annual amortization is charged. Similarly in the year of disposal, if the asset is disposed of in the first half of the year, one half of the amortization is charged but if disposed of in the second half of the year the full annual amortization is charged. Assets under construction are not amortized until the asset is available for productive use, at which time they are capitalized.

(b) Contribution of tangible capital assets

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

(c) Intangible assets

Intangible assets are not recognized in the consolidated financial statements.

(d) Inventories

Inventories held for consumption are recorded at the lower of cost or replacement cost.

(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. Reserves and reserve funds form part of the Municipality's accumulated surplus.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(v) Deferred revenues

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 in the fiscal year the services are performed. In addition, any contributions received with external restrictions are reported as deferred revenue in the Consolidated Statement of Financial Position. These amounts will be recognized as revenues in the period in which related expenses are incurred.

(vi) Pension and employee future benefits liabilities

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. The OMERS plan specifies the retirement benefits to be received by employees based on length of service and pay rates. Vacation entitlements are accrued as entitlements are earned. Sick leave benefits are accrued 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 ("ARSL") of all employees covered. The actuary determined ARSL to be 16.6 years.

(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 financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of financial assets, tangible capital 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 expenses during the year. Accounts involving significant estimates include the recording of accrued liabilities, employee future benefits liabilities and estimates relating to tangible capital assets. Actual results could differ from these estimates.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

2. Changes in accounting policy

The Municipality has implemented the PSAB financial statement presentation standards as prescribed in PS 1200 "Financial Statement Presentation" in the current reporting period. Comparatives have been reclassified to conform with the required presentation.

In addition, for the 2009 fiscal year the Municipality changed its accounting policy related to the treatment of tangible capital assets to comply with PS 3150 "Tangible Capital Assets." Capital assets are recorded at cost and amortized over their estimated useful lives. Previously the costs to acquire tangible capital assets were recorded as a capital expenditure when incurred. This change in accounting policy has been applied retroactively and prior periods have been restated.

Method used for determining the opening cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate costs and accumulated amortization of the assets. The Municipality of Clarington applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical costs records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost or a particular type of tangible capital asset. After defining replacement or reproduction cost, a deflator study was used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost for the year of acquisition.

This change in accounting policy has changed amounts reported in prior periods as follows:

Accumulated surplus	
General revenue fund	(721,748)
Capital fund - internal	13,214,107
Reserves	3,369,082
Reserve funds - general	33,176,693
Reserve funds - Veridian Corporation	22,719,538
Amounts to be recovered from future revenues	(36,480,440)
Accumulated surplus as previously reported	35,277,232
Net book value of tangible capital assets	373,640,318
Inventory of land held for resale	249,057
Accumulated surplus, as restated	409,166,607

Annual surplus	
Net revenue, as previously reported	3,114,151
Change in prepaids and inventory previously adjusted to expense	(61,358)
Revenue recognized on contributed tangible capital assets	5,259,560
Assets capitalized but previously expensed	16,021,098
Amortization expense not previously recorded	(14,081,859)
Net book value of assets sold	(4,344)
Annual surplus, as restated	10,247,248

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

3. Trust funds

Trust funds administered by the Municipality amounting to \$11,286,013 (2008 - \$11,230,278) have not been included in the "Consolidated Statement of Financial Position" nor have their financial activities been included in the "Consolidated Statement of Operations".

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.

4. 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 Municipality of Durham
	\$	\$
Property taxes	26,775,113	61,592,240
Taxation from other governments	77,589	2,095,373
Total	26,852,702	63,687,613

5. Taxes receivable

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

	2009	2008
	\$	\$
Current year	6,925,613	5,838,073
Arrears previous years	4,888,562	4,147,900
Total	11,814,175	9,985,973

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

6. Investments

Total investments of \$25,035,899 (2008 - \$24,254,090) reported on the Consolidated Statement of Financial Position at cost plus accrued interest, have a market value (including accrued interest) of \$27,074,310 (2008 - \$26,319,131) at the end of the year. It is the Municipality's intention to hold these investments until maturity.

7. Promissory notes receivable

	2009	2008
	\$	\$
Promissory note receivable from Veridian Corporation maturing November 12, 2012 and bearing interest at 7.62% until April 30, 2010, then the greater of 6% or the Ontario Energy Board deemed long-term debt rate on an annual basis to maturity (6% effective May 1, 2010)	2,355,000	2,355,000
Promissory note receivable from Veridian Connections Inc. maturing November 1, 2039 and bearing interest at 7.62% until April 30, 2010, then 5.57% from May 1, 2010 to December 31, 2014 and then the Ontario Energy Board deemed long-term debt rate for each successive five year period thereafter	5,966,000	5,966,000
	8,321,000	8,321,000

Interest revenue earned from these notes receivable totaled \$632,396 (2008 - \$632,396).

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 Municipality.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

8. Investment in Veridian Corporation

- (a) Veridian Corporation is a government business enterprise which is 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 communities including the four noted above, and conducts non-regulated utility service ventures through its subsidiaries.

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

	2009	2008
	\$	\$
Financial position		
Assets		
Current	78,951,113	69,599,771
Capital and intangibles	160,303,199	144,357,602
Other	19,350,539	13,028,112
Total assets	258,604,851	226,985,485
Liabilities		
Current	73,264,994	108,931,221
Long-term debt	60,794,000	-
Other	27,515,014	23,821,779
Total liabilities	161,574,008	132,753,000
Shareholders' Equity		
Share capital	67,285,173	67,285,173
Contributed capital	24,910	24,910
Retained earnings	29,720,760	26,922,402
Total shareholders' equity	97,030,843	94,232,485
Total liabilities and shareholders' equity	258,604,851	226,985,485
Financial activities		
Revenues	246,318,763	228,759,331
Other income	6,553,673	9,002,241
Expenses	(243,691,109)	(229,103,101)
Earnings from discontinued operations	1,817,031	60,271
Net earnings for the year	10,998,358	8,718,742

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

8. Investment in Veridian Corporation (continued)

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

	2009	2008
	\$	\$
Promissory notes receivable (Note 7)	8,321,000	8,321,000
Initial investment in shares of the Corporation	10,146,495	10,146,495
Accumulated net income	6,569,366	5,073,589
Net increase in value of investment	400,126	400,126
Accumulated dividends received	(3,919,792)	(2,804,592)
Total equity	21,517,195	21,136,618
Municipality of Clarington's investment represented by:		
Investment in Veridian Corporation	13,196,195	12,815,618
Promissory notes receivable	8,321,000	8,321,000
Total	21,517,195	21,136,618

(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*

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

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, 2009

8. 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 parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements.

(iii) *Contractual obligation - Hydro One Networks Inc.*

The Corporation's subsidiary, Veridian Connections Inc. ("VCI"), is party to a connection and cost recovery agreement with Hydro One related to the construction by Hydro One 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 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 \$9,974,670.

(iv) *Environmental liability*

Environment Canada has issued new regulations governing the management of polychlorinated biphenyls (PCBs). The Corporation is in the process of determining the extent and impact that the new regulations will have on the Corporation. As at December 31, 2009, the cost of testing performed to date has been included within regulatory assets; however, costs related to additional testing or remediation have not been accrued as the amount is not determinable.

(d) Lease commitments - Veridian Corporation

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

	\$
2010	622,000
2011	588,000
2012	153,000
2013	2,000
2014	2,000
Thereafter	72,000
	<hr/> 1,439,000 <hr/>

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

9. Deferred revenue - obligatory reserve funds

The continuity of "deferred revenue - obligatory reserve funds" of the Municipality is summarized:

	2009	2008
	\$	\$
Balance, beginning of year	13,202,663	12,776,479
Contributions		
Contributions from developers	4,552,452	6,303,178
Investment income	368,064	476,604
Federal Gas Tax	2,269,126	1,134,563
	<u>7,189,642</u>	<u>7,914,345</u>
Decreases		
Revenue recognized in the year	8,613,613	6,852,272
Other transfers - net	-	635,889
	<u>8,613,613</u>	<u>7,488,161</u>
Change in deferred revenue during the year	<u>(1,423,971)</u>	426,184
Balance, end of year	<u>11,778,692</u>	<u>13,202,663</u>

Balance, end of year - analyzed as follows:

	2009	2008
	\$	\$
Federal gas tax	1,581,340	154,853
Building Code Act	145,987	171,748
Fire equipment	1,586,160	1,546,499
Development charges	8,465,205	11,329,563
Total deferred revenue - obligatory reserve funds	<u>11,778,692</u>	<u>13,202,663</u>

10. Pension agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of approximately 302 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 \$1,432,764 (2008 - \$1,366,128) for current service.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

11. Employee future benefits liabilities

(a) Accumulated sick leave entitlement

(i) Firefighters

The Municipality provides a sick leave accumulation plan for firefighters which accumulate 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, 2009 was \$702,257 (2008 - \$541,167).

(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, 2009 amounted to \$2,166 (2008 - \$1,996)

(b) Post employment benefits - other

The Municipality makes available to qualifying employees who retire before the age of 65 (firefighters - age 60) the opportunity of continuing their coverage for benefits such 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 accrued benefit obligation at December 31, 2009 and the changes in the accrued benefit obligation for the 2009 fiscal year was determined by actuarial valuation prepared as at January 1, 2008.

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.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

11. Employee future benefits liabilities (continued)

(c) Information about the Municipality's employee future benefits liabilities is as follows:

	2009	2008
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	4,211,463	3,817,911
Employer current service cost	269,460	257,585
Plan amendments	-	73,336
Interest cost	219,841	203,533
Benefits paid	(90,190)	(84,730)
Actuarial gains	(50,200)	(56,172)
Balance, end of year	4,560,374	4,211,463
Unamortized net actuarial losses	(737,909)	(858,512)
Employee future benefits liabilities, end of year	3,822,465	3,352,951

12. Net long-term liabilities

(a) The net long-term liabilities 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 2.65% to 5.75%. At the end of the year, the outstanding principal amount of this liability is \$32,348,198 (2008 - \$34,536,404).

	2009	2008	Interest rate
	\$	\$	%
Region By-law # 71-2001	3,755,000	4,390,000	5.500 to 5.750
Region By-law # 56-2002	7,573,000	8,311,000	4.100 to 5.600
Region By-law # 45-2004	2,530,000	2,719,000	2.800 to 5.450
Region By-law # 52-2006	951,198	1,007,404	5.120
Region By-law # 07-2007	16,509,000	17,025,000	4.30 to 4.75
Region By-law # 65-2008	1,030,000	1,084,000	2.65 to 5.20
	32,348,198	34,536,404	

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

12. Net long-term liabilities (continued)

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

	\$
2010	2,813,120
2011	5,334,186
2012	7,466,411
2013	1,566,803
2014	3,066,371
Thereafter	12,101,307
	<u>32,348,198</u>

- (c) 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 net long-term liabilities amounted to \$1,688,052 (2008 - \$1,878,720) and is reported on the Consolidated Statement of Operations.

13. Classification of expenses by object

The Consolidated Statement of Operations present the expenses by function; the following classifies those same expenses by object:

	2009	2008
	\$	\$
Salaries, wages and employee benefits	31,226,747	30,039,899
Operating materials and supplies	13,985,544	14,462,446
Contracted services	3,730,483	3,842,640
Rents and financial expenses	170,338	176,770
External transfers to others	273,015	265,404
Amortization expense	14,470,162	14,081,859
Interest on net long-term liabilities	1,688,052	1,878,720
Total expenses by object	<u>65,544,341</u>	<u>64,747,738</u>

14. Contingencies

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 consolidated 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.

15. Contractual commitments

During the year the Municipality had work done on several major projects with contract values totaling approximately \$43,630,881. These contracts relate to the construction and expansion of certain permanent facilities. Approximately \$1,002,328 relating to these contracts had not been expended as at December 31, 2009.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

16. Related party transactions and balances - Veridian Corporation

	2009	2008
	\$	\$
Transactions		
Interest earned on promissory notes	632,396	632,396
Property taxes	34,709	34,123
Energy and services purchases	597,279	657,286
Balances		
Promissory notes receivable	8,321,000	8,321,000
Accounts payable and accrued liabilities	102,629	102,356

17. 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 these consolidated financial statements with respect to these agreements.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

18. Tangible capital assets

The continuity of the historical cost and accumulated amortization for various categories of tangible capital assets can be found in Schedule 1.

Further information relating to tangible capital assets is as follows:

i) Contributed tangible capital assets

The Municipality of Clarington records all tangible assets contributed by an external party at fair value on the earlier date received or of the transfer of risk and responsibility. Typical examples are roadways, storm sewers, sidewalks and streetlights installed by a developer as part of a subdivision agreement. For subdivision assets, the recorded date is considered to be the date of acceptance with the exclusion of streetlights with the recorded date as the date of completion. Prior years contributed assets are recorded based on the tangible capital asset valuation of inventory. In 2009, there were contributed assets of \$5,747,821 (2008 - \$5,259,560).

ii) Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value of one Canadian dollar (\$1.00) because of the difficulty of determining a tenable valuation. The most significant such assets are the Municipality's road allowances. The 2009 road network had 1556 segments (2008 - 1536), each of which has been assigned a value of a dollar for the road allowance itself. Others include unopened road allowances in existence since horse and carriage days. There were 364 segments valued at \$10 each.

iii) Works of Art and Historical Treasures

The Municipality has two historical collections. One is the former Total Hockey collection currently insured for \$150,000 and the Clarington museum collection currently insured for \$350,000. Also included in historical treasures are the cenotaphs located in Bowmanville, Newcastle, Orono and Newtonville. Due to the rural history, there are several abandoned cemeteries located throughout the Municipality. The land is included in the Land asset account, however, all associated physical items are considered a historical treasure. This includes historical signs and cairns or concrete structures built for old headstones.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

19. Accumulated surplus

Accumulated surplus is comprised of the following:

	2009	2008
	\$	\$
Invested in tangible capital assets	379,806,672	373,640,318
General Revenue Fund	1,544,217	(721,748)
Capital Fund	11,877,364	13,214,106
Inventory - surplus land	223,521	249,057
Net long-term liabilities to be recovered from future revenues	(32,348,198)	(34,536,404)
Unfunded employee benefits and post-employment liabilities	(2,243,804)	(1,944,035)
Reserves set aside for specific purposes by Council:		
Tax write-off	206,045	259,614
Acquisition of capital assets	2,409,793	2,233,935
Legal/consulting issues	528,718	573,666
Community services development	-	10,000
Hockey museum	21,209	24,646
Election expenses	177,431	103,311
Fire prevention	50,632	110,585
Waterfront trail	20,585	20,585
Burketon park improvements	7,569	7,569
Samuel Wilmont nature area	25,171	25,171
Reserve funds set aside for specific purposes by Council:		
General municipal purposes	2,862,064	5,368,116
Rate stabilization	2,628,878	4,531,508
Recreation programs and facilities	417,852	519,597
Debenture repayment	292,804	289,298
Industrial development	273,327	66,837
Other cultural	270,562	274,208
Acquisition of capital assets	6,853,314	6,678,297
Newcastle Waterfront study	67,973	66,159
Municipal capital works	6,791,046	7,503,882
Other capital - unspecified	2,397,486	2,410,505
Road contributions	4,413,248	4,991,241
Westside Bridge/Bowmanville Marsh	98,593	111,479
Port Granby LLRW	159,834	155,567
Community Improvement Plan	87,250	84,574
Business Improvement Areas	139,587	125,425
Equity in		
Veridian Corporation	23,144,332	22,719,538
Accumulated surplus	413,205,075	409,166,607

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2009

20. Segmented information

The Municipality provides a wide range of services to its residents. Segmented information has been provided in Schedule 2 for the following Municipal services:

- Protection to persons and property
- Transportation services
- Environmental services
- Recreation and culture
- Planning and development
- Health and social service
- General government

For each reported segment, revenues and expenses represent amounts that are directly attributable to each segment. Tax revenues are reported as part of general government.

21. Budget amounts

The budgets originally approved by the Municipality for 2009, adjusted as noted below, are reflected on the Consolidated Statement of Operations and the Consolidated Statement of Changes in Net Financial Assets.

- An amount for amortization expense has been added and is based on the actual amortization expense recorded in the year, as amortization was not included in the original council approved budget.
- Amounts for the cost of contributed tangible capital assets and the related revenue have been added and are based on actual amounts, as neither the cost of the contributed tangible capital assets nor the revenue was included in the original council approved budget.
- Amounts included in the original council approved capital budget which are not recognized as tangible capital assets are included in Consolidated Statement of Operations under the appropriate functional expense category, while those recognized as tangible capital assets are included in the Consolidated Statement of Change in Net Financial Assets.

Budget figures have been restated for purposes of these consolidated financial statements to comply with PSAB reporting requirements and are not audited.

The Corporation of the Municipality of Clarington

Consolidated schedule of tangible capital assets - Schedule 1

For the year ended December 31, 2009

2009

	General					Infrastructure							Total
	Land	Land improvements	Buildings	Vehicles	Equipment	Land	Linear road & related	Linear storm sewers	Buildings	Vehicles	Equipment	Assets under construction	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cost													
Balance, beginning of year	44,126,786	17,981,706	69,006,033	6,201,740	9,413,626	2,989,304	300,254,963	55,428,956	1,909,431	7,826,240	42,868	26,133,360	541,315,013
Add: additions during the year	1,523,419	1,325,410	20,907,452	1,073,700	1,579,542	20	7,612,633	1,989,062	-	1,442,473	10,988	5,712,789	43,177,487
Less: disposals/transfers during the year	-	(96,892)	(175,573)	(328,819)	(447,695)	-	(717,774)	-	-	(813,173)	-	(22,420,428)	(25,000,355)
Balance, end transfers of year	45,650,205	19,210,224	89,737,912	6,946,620	10,545,473	2,989,324	307,149,822	57,418,018	1,909,431	8,455,540	53,856	9,425,721	559,492,146
Accumulated amortization													
Balance, beginning of year	-	5,761,938	24,847,311	2,913,928	4,920,541	-	113,355,010	10,030,439	1,268,349	4,560,348	16,831	-	167,674,695
Add: amortization during the year	-	546,711	2,376,728	588,672	1,004,623	-	8,477,724	759,738	48,307	664,447	3,212	-	14,470,163
Less: accumulated amortization on disposals	-	(84,292)	(124,109)	(328,819)	(431,691)	-	(711,128)	-	-	(779,344)	-	-	(2,459,383)
Balance, end of year	-	6,224,357	27,099,930	3,173,781	5,493,472	-	121,121,606	10,790,177	1,316,656	4,445,451	20,043	-	179,685,474
Net book value of tangible capital assets	45,650,205	12,985,867	62,637,982	3,772,839	5,052,001	2,989,324	186,028,216	46,627,841	592,775	4,010,089	33,813	9,425,721	379,806,672

The Corporation of the Municipality of Clarington

Consolidated schedule of tangible capital assets - Schedule 1

For the year ended December 31, 2008

	General					Infrastructure							2008
													(Note 2)
	Land	Land improvements	Buildings	Vehicles	Equipment	Land	Linear road & related	Linear storm sewers	Buildings	Vehicles	Equipment	Assets under construction	Total
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost													
Balance, beginning of year	42,602,586	15,933,684	68,848,538	5,300,787	9,159,415	2,989,295	290,892,717	54,923,887	1,909,431	7,647,995	42,868	20,612,949	520,864,152
Add: additions during the year	1,524,200	2,048,021	169,849	993,846	918,388	19	9,362,246	505,070	-	238,596	-	9,584,418	25,344,655
Less: disposals/transfers during the year	-	-	(12,353)	(92,893)	(664,178)	(10)	-	-	-	(60,351)	-	(4,064,009)	(4,893,794)
Balance, end transfers of year	44,126,786	17,981,705	69,006,034	6,201,740	9,413,625	2,989,304	300,254,963	55,428,957	1,909,431	7,826,240	42,868	26,133,360	541,315,013
Accumulated amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance, beginning of year	-	5,279,566	22,752,155	2,545,097	4,645,370	-	104,718,664	9,287,329	1,218,209	3,957,537	14,351	-	154,418,277
Add: amortization during the year	-	482,375	2,107,508	459,164	937,575	-	8,636,346	743,110	50,141	663,163	2,480	-	14,081,862
Less: accumulated amortization on disposals	-	-	(12,353)	(90,333)	(662,403)	-	-	-	-	(60,352)	-	-	(825,442)
Balance, end of year	-	5,761,941	24,847,310	2,913,928	4,920,542	-	113,355,010	10,030,439	1,268,350	4,560,348	16,831	-	167,674,695
Net book value of tangible capital assets	44,126,786	12,219,768	44,158,722	3,287,812	4,493,085	2,989,304	186,899,953	45,398,517	641,082	3,265,892	26,037	26,133,360	373,640,318

The Corporation of The Municipality of Clarington

Consolidated schedule of segmented information - Schedule 2

year ended December 31, 2009

								2009
	General Government	Protection to persons and property	Transportation services	Environmental services	Health and social services	Recreation and culture	Planning and development	Total
	\$	\$		\$	\$	\$	\$	\$
Revenue								
Grants	120,419	131,356	-	-	-	442,293	-	694,068
Tax revenues	39,499,612	-	-	-	-	-	-	39,499,612
Other revenues	6,340,898	591,958	6,200,925	86,448	3,254,442	6,456,892	709,745	23,641,308
Contributed tangible capital assets	-	-	3,531,607	2,201,194	-	15,020	-	5,747,821
Total revenue	45,960,929	723,314	9,732,532	2,287,642	3,254,442	6,914,206	709,745	69,582,809
Expenses								
Salaries, wages & employee benefits	5,284,353	9,578,836	5,053,215	3,543	133,065	8,615,014	2,558,721	31,226,747
Materials and supplies	1,646,366	896,746	5,366,605	7,342	64,330	4,979,919	1,024,237	13,985,545
Contracted services	706,149	365,576	629,797	155,832	-	476,857	1,396,272	3,730,483
Amortization expense	605,067	862,354	9,218,211	878,289	101	2,901,339	4,801	14,470,162
Other	393,918	-	-	-	32	1,737,454	-	2,131,404
Total expenses	8,635,853	11,703,512	20,267,828	1,045,006	197,528	18,710,583	4,984,031	65,544,341
Annual surplus (deficit)	37,325,076	(10,980,198)	(10,535,296)	1,242,636	3,056,914	(12,846,300)	(4,274,286)	4,038,468

The Corporation of The Municipality of Clarington

Consolidated schedule of segmented information - Schedule 2

year ended December 31, 2008

								2008
	General Government	Protection to persons and property	Transportation services	Environmental services	Health and social services	Recreation and culture	Planning and development	(Restated - Note 2) Total
	\$	\$		\$	\$	\$	\$	\$
Revenue								
Grants	175,992	1,607,914	1,913,794	-	-	4,443,330	19,000	8,160,030
Tax revenues	37,785,381	-	-	-	-	-	-	37,785,381
Other revenues	6,692,022	1,936,524	4,543,589	-	276,210	9,522,522	819,148	23,790,015
Contributed tangible capital assets	-	5,936	4,158,714	643,950	-	450,960	-	5,259,560
Total revenue	44,653,395	3,550,374	10,616,097	643,950	276,210	14,416,812	838,148	74,994,986
Expenses								
Salaries, wages & employee benefits	5,182,120	8,385,988	5,296,384	-	156,860	8,448,846	2,569,701	30,039,899
Materials and supplies	2,161,781	977,802	5,316,860	99,872	73,888	4,966,957	865,285	14,462,445
Contracted services	819,563	528,643	1,544,430	-	-	546,921	403,083	3,842,640
Amortization expense	597,688	803,857	9,367,821	848,248	101	2,459,345	4,801	14,081,861
Other	426,107	-	-	-	32	1,894,754	-	2,320,893
Total expenses	9,187,259	10,696,290	21,525,495	948,120	230,881	18,316,823	3,842,870	64,747,738
Annual surplus (deficit)	35,466,136	(7,145,916)	(10,909,398)	(304,170)	45,329	(3,900,011)	(3,004,722)	10,247,248