

Consolidated financial statements of

**The Corporation of the
Municipality of Clarington**

December 31, 2008

The Corporation of the Municipality of Clarington

December 31, 2008

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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, 2008 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, 2008 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
June 12, 2009

The Corporation of the Municipality of Clarington

Consolidated statement of financial position

as at December 31, 2008

	2008	2007
	\$	\$
Financial assets		
Cash and cash equivalents	36,351,438	40,013,015
Investments (Note 5)	24,254,090	18,256,014
Accounts receivable	6,812,529	8,377,760
Taxes receivable (Note 4)	9,985,973	10,014,983
Inventories for resale	52,474	72,805
Promissory notes receivable (Note 6)	8,321,000	8,321,000
Investment in Veridian Corporation (Note 7)	12,815,618	12,201,069
Total financial assets	98,593,122	97,256,646
Liabilities		
Accounts payable and accrued liabilities	8,012,140	9,616,455
Employee future benefits liabilities (Note 10)	3,352,951	2,829,424
Net long-term liabilities (Note 11)	34,536,404	35,287,839
Deferred revenue - general	5,103,422	5,475,058
Deferred revenue - obligatory reserve funds (Note 8)	13,202,663	12,776,479
Total liabilities	64,207,580	65,985,255
Net financial assets	34,385,542	31,271,391
Non-financial assets		
Prepaid expenses	575,146	606,867
Inventory supplies	316,544	346,181
Total non-financial assets	891,690	953,048
Net assets	35,277,232	32,224,439
Municipal position		
Fund balances		
Current fund (Note 12) - Schedule 1	(721,748)	564,050
Capital fund (Note 12) - Schedule 2	13,214,107	13,203,250
Reserves (Note 12) - Schedule 3	3,369,082	3,330,104
Reserve funds - general (Note 12) - Schedule 3	33,176,693	29,917,103
Reserve fund - Veridian Corporation net equity (Note 12) - Schedule 3	22,719,538	22,036,097
Total fund balances	71,757,672	69,050,604
Amounts to be recovered from future revenues (Note 13)	(36,480,440)	(36,826,165)
Municipal position	35,277,232	32,224,439

Approved by Council

Mayor

The Corporation of the Municipality of Clarington

Consolidated statement of financial activities and fund balance

year ended December 31, 2008

	2008	2007
	Budget	
	(Unaudited Note 21)	Actual
	\$	\$
Revenues		
Taxation and user charges		
Property taxation	33,934,464	34,448,144
Taxation from other governments	3,364,476	3,337,237
User charges	9,036,902	9,519,957
Grants		
Government of Canada	69,452	72,880
Province of Ontario	256,098	8,087,150
Other		
Deferred revenue earned	8,523,784	6,852,272
Investment income	1,525,658	3,335,464
Sale of land and equipment	-	76,026
Penalty and interest on taxes	1,040,000	1,465,160
Fines	121,500	225,252
Donations and contribution from others	363,597	1,134,478
Total revenues	58,235,931	68,554,020
Expenditures (Note 14)		
Current		
General government	8,670,253	8,405,308
Protection to persons and property	8,963,395	9,820,769
Transportation services	9,545,916	11,267,535
Environmental services	99,500	99,872
Health services	235,659	230,780
Recreational and cultural services	15,456,645	15,465,903
Planning and development	3,871,259	3,793,219
Total current expenditures	46,842,627	49,083,386
Capital		
General government	449,450	486,479
Protection to persons and property	695,000	237,431
Transportation services	7,013,326	7,327,826
Health services	9,503	9,503
Recreational and cultural services	3,189,720	9,436,143
Planning and development	36,305	44,850
Total capital expenditures	11,393,304	17,542,232
Total expenditures	58,235,931	66,625,618
Veridian Corporation		
Equity share of net income (Note 7)	-	1,185,749
Net revenues (expenditures)	-	3,114,151
(Decrease) increase in amounts		
to be recovered from future revenues		
Repayment of net long-term liabilities	-	(1,835,435)
Increase in unfunded employee future benefits liabilities	-	405,710
Proceeds of debenture issued	-	1,084,000
Net (decrease) increase in amounts to be recovered	-	(345,725)
Decrease in non-financial assets	-	(61,358)
Change in fund balance	-	2,707,068
Fund balances, beginning of year	69,050,604	59,242,247
Fund balances, end of year	-	71,757,672

The Corporation of the Municipality of Clarington

Consolidated statement of changes in financial position

year ended December 31, 2008

	2008	2007
	\$	\$
Operating activities		
Net revenues (expenditures)	3,114,151	(6,672,979)
Veridian Corporation - share of net income not involving cash	(1,185,749)	(1,212,264)
	1,928,402	(7,885,243)
Uses:		
Increase in accounts receivable	-	(41,411)
Increase in taxes receivable	-	(1,911,444)
Decrease in accounts payable and accrued liabilities	(1,604,315)	(90,583)
Decrease in deferred revenue - general	(371,636)	-
Decrease in deferred revenue - obligatory reserve funds	-	(2,868,222)
	(1,975,951)	(4,911,660)
Sources:		
Decrease in accounts receivable	1,565,231	-
Decrease in taxes receivable	29,010	-
Decrease in inventories for resale	20,331	2,977
Increase in deferred revenue - general	-	1,355,683
Increase in employee future benefits liabilities	523,527	761,816
Increase in deferred revenue - obligatory reserve funds	426,184	-
	2,564,283	2,120,476
	2,516,734	(10,676,427)
Financing activities		
Repayment of net long-term liabilities	(1,835,435)	(1,458,801)
Proceeds of debenture issues	1,084,000	17,325,000
	(751,435)	15,866,199
Investing activities		
(Increase) decrease in investments	(5,998,076)	14,234,446
Dividends received from Veridian Corporation	571,200	544,000
	(5,426,876)	14,778,446
Net (outflow) inflow of cash and cash equivalents	(3,661,577)	19,968,218
Cash and cash equivalents, beginning of year	40,013,015	20,044,797
Cash and cash equivalents, end of year	36,351,438	40,013,015

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

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 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 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 Regional Municipality 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, 2008

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 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 deferred until the related expenditures are made.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(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. 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 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 \$11,230,278 (2007 - \$11,162,156) 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.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

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 Municipality of Durham
	\$	\$
Property taxes	26,102,011	57,922,093
Taxation from other governments	83,252	2,042,315
Total	26,185,263	59,964,408

4. Taxes receivable

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

	2008	2007
	\$	\$
Current year	5,838,073	5,628,195
Arrears previous years	4,147,900	4,386,788
	9,985,973	10,014,983

5. Investments

Total investments of \$24,254,090 (2007 - \$18,256,014) reported on the Consolidated Statement of Financial Position at cost plus accrued interest, have a market value (including accrued interest) of \$26,319,131 (2007 - \$19,308,470) 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 (2007 - \$632,396).

	2008	2007
	\$	\$
	8,321,000	8,321,000

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

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 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:

	2008	2007
	\$	\$
Financial position		
Assets		
Current	69,599,771	75,527,060
Capital and intangibles	145,018,348	140,321,861
Other	12,367,366	6,900,487
Total assets	226,985,485	222,749,408
Liabilities		
Current	108,931,221	53,948,442
Long-term debt	-	60,794,000
Other	23,821,779	18,293,223
Total liabilities	132,753,000	133,035,665
Shareholders' Equity		
Share capital	67,285,173	67,285,173
Contributed capital	24,910	24,910
Retained earnings	26,922,402	22,403,660
Total shareholders' equity	94,232,485	89,713,743
Total liabilities and shareholders' equity	226,985,485	222,749,408
Financial activities		
Revenues	228,759,331	235,271,455
Other income	9,211,416	6,878,200
Expenses	(229,252,005)	(233,235,950)
Net income for the year	8,718,742	8,913,705

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

7. Investment in Veridian Corporation (continued)

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

	2008	2007
	\$	\$
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 net income	5,073,589	3,887,840
Net increase in value of investment	400,126	400,126
Accumulated dividends received	(2,804,592)	(2,233,392)
Total equity	21,136,618	20,522,069
Municipality of Clarington's investment represented by:		
Investment in Veridian Corporation	12,815,618	12,201,069
Promissory notes receivable	8,321,000	8,321,000
	21,136,618	20,522,069

(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, 2008

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.:*

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) *Payments in lieu of corporate income 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. As of February 29, 2008, regulations for these new rules were not released by the Minister of Finance. In the absence of the new regulation, the amount of additional tax liability related to excess interest cannot be determined. The Corporation and subsidiary, VCI, paid interest to municipalities of \$4,620,344 during 2008 that may be subject to the new tax regulations.

(v) *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, 2008, no obligation has been accrued regarding the new regulations.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

7. Investment in Veridian Corporation (continued)

(d) Lease commitments - Veridian Corporation

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

	\$
2009	715,300
2010	627,800
2011	578,800
2012	140,000
2013	2,000
Thereafter	74,000
	<u>2,137,900</u>

8. Deferred revenue – obligatory reserve funds

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

	2008	2007
	\$	\$
Balance, beginning of year	<u>12,776,479</u>	15,644,701
Contributions		
Contributions from developers	6,303,178	6,629,877
Investment income	476,604	616,805
Other	1,134,563	907,711
	<u>7,914,345</u>	8,154,393
Decreases		
Revenue recognized in current operations	2,986,714	2,320,706
Revenue recognized in capital operations	3,865,558	8,454,608
Other transfers - net	635,889	247,301
	<u>7,488,161</u>	11,022,615
Change in deferred revenue during the year	426,184	(2,868,222)
Balance, end of year	<u>13,202,663</u>	12,776,479

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

8. Deferred revenue – obligatory reserve funds (continued)

Balance, end of year - analyzed as follows:

	2008	2007
	\$	\$
Federal gas tax	154,853	30,297
Building code act	171,748	108,545
Fire equipment	1,546,499	-
Development charges	11,329,563	12,001,748
Clarington/Region station A funds	-	635,889
Total deferred revenue – obligatory reserve funds	13,202,663	12,776,479

9. Pension agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of approximately 308 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 \$1,366,128 (2007 - \$1,298,093) for current service.

10. 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, 2008 was \$541,167 (2007 - \$413,009).

(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, 2008 amounted to \$ 1,996 (2007 - \$1,834)

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

10. Employee future benefits liabilities (continued)

(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, 2008 and the changes in the accrued benefit obligation for the 2008 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.

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

	2008	2007
	\$	\$
Accrued benefit obligation		
Balance, beginning of year	3,817,911	2,158,921
Employer current service cost	257,585	208,478
Plan amendments	73,336	40,092
Interest cost	203,533	196,183
Benefits paid	(84,730)	(141,449)
Actuarial (gains) losses	(56,172)	944,538
Other adjustments	-	411,148
Balance, end of year	4,211,463	3,817,911
Unamortized net actuarial losses	(858,512)	(988,487)
Employee future benefits liabilities, end of year	3,352,951	2,829,424

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

11. 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 \$34,536,404 (2008 - \$35,287,839).

	2008	2007	Interest rate
	\$	\$	%
Region By-law # 71-2001	4,390,000	4,993,000	5.500 to 5.750
Region By-law # 56-2002	8,311,000	9,011,000	4.100 to 5.600
Region By-law # 45-2004	2,719,000	2,898,000	2.800 to 5.450
Region By-law # 52-2006	1,007,404	1,060,839	5.120
Region By-law # 07-2007	17,025,000	17,325,000	4.30 to 4.75
Region By-law # 65-2008	1,084,000	-	2.65 to 5.20
	34,536,404	35,287,839	

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

	\$
2009	2,188,206
2010	2,813,120
2011	5,334,186
2012	7,466,411
2013	1,566,803
Thereafter	15,167,678
	34,536,404

- (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 \$1,878,720 (2007 - \$1,572,992) 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, 2008

12. Municipal fund balances at the end of the year

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

	2008	2007
	\$	\$
For general increase of taxation	(1,115,928)	(32,416)
For general reduction of user charges	394,180	596,466
	(721,748)	564,050
For the acquisition of tangible capital assets	13,214,107	13,203,250
Reserves	3,369,082	3,330,104
Reserve funds - general	33,176,693	29,917,103
Reserve fund - Veridian Corporation net equity	22,719,538	22,036,097
	71,757,672	69,050,604

13. Amounts to be recovered from future revenues

	2008	2007
	\$	\$
Employee future benefits liabilities	3,352,951	2,829,424
Less amount recorded through operations	(1,408,915)	(1,291,098)
Unfunded employee future benefits liabilities	1,944,036	1,538,326
Net long-term liabilities	34,536,404	35,287,839
	36,480,440	36,826,165

14. Classification of expenditures by object

The Consolidated Statement of Financial Activities and Fund Balance present the expenditures by function; the following classifies those same expenditures by object:

	2008	2007
	\$	\$
Salaries, wages and employee benefits	30,039,899	28,228,036
Operating materials and supplies	12,879,953	12,353,981
Contracted services	3,842,640	3,234,394
Rents and financial expenses	176,770	271,865
External transfers to others	265,404	104,070
Tangible capital assets	17,542,232	27,099,702
Debt services	1,878,720	1,572,992
Total expenditures by object	66,625,618	72,865,040

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

15. 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.

16. Contractual commitments

During the year the Municipality had work done on several major projects with contract values totaling approximately \$40,997,786. These contracts relate to the construction and expansion of certain permanent facilities. Approximately \$3,361,518 relating to these contracts had not been expended as at December 31, 2008.

17. Related party transactions and balances - Veridian Corporation

	2008	2007
	\$	\$
Transactions		
Interest earned on promissory notes	632,396	632,396
Property taxes	34,123	33,175
Energy and services purchases	657,286	677,504
Balances		
Promissory notes receivable	8,321,000	8,321,000
Accounts payable and accrued liabilities	102,356	97,768

18. 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.

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

18. Guarantees (continued)

(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.

19. 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 onward, 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, 2008 the Municipality does not have detailed tangible capital asset information to disclose. For the year ended December 31, 2008 expenditures for tangible capital asset incurred during the year are recorded as capital expenditures in the Consolidated Statement of Financial Activities and Fund Balance.

20. Segmented information

The Municipality provides a wide range of services to its residents. Segmented information has been provided in Schedule 4 for the following Municipal services:

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

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

The Corporation of the Municipality of Clarington

Notes to the consolidated financial statements

December 31, 2008

21. Budget figures

The approved operating and capital budgets for 2008 are reflected on the consolidated schedule of current fund financial activities and fund balance, consolidated schedule of capital fund financial activities and fund balance, and the consolidated statement of financial activities and fund balance. The budgets established for the capital fund operations are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with the current year actual amounts. As well, the Municipality does not have a budget for activity within reserves and reserve funds, with the exception being those transactions which flow through either the current or capital fund budgets. Budget figures have been reclassified for the purposes of these consolidated financial statements to comply with PSAB reporting principles.

The Corporation of the Municipality of Clarington

Consolidated schedule of current fund financial activities

and fund balance - Schedule 1

year ended December 31, 2008

	2008	2007
	Budget (Unaudited) (Note 21)	Actual
	\$	\$
Revenues		
Taxation and user charges		
Property taxation	33,934,464	34,448,144
Taxation from other governments	3,364,476	3,337,237
User charges	9,036,902	9,519,957
Grants		
Government of Canada	69,452	72,880
Province of Ontario	256,098	341,277
Other		
Investment income	534,458	497,565
Penalty and interest on taxes	1,040,000	1,465,160
Fines	121,500	225,252
Donations	85,173	159,491
Deferred revenue earned	2,977,764	2,986,714
Total revenues	51,420,287	53,053,677
Expenditures		
General government	8,670,253	8,405,308
Protection to persons and property	8,963,395	9,820,769
Transportation services	9,545,916	11,267,535
Environmental services	99,500	99,872
Health services	235,659	230,780
Recreational and cultural services	15,456,645	15,465,903
Planning and development	3,871,259	3,793,219
Total expenditures	46,842,627	49,083,386
Net revenues	4,577,660	3,970,291
Financing and transfers		
Transfers to reserves	(177,500)	(867,397)
Transfers to reserve funds	(1,767,000)	(2,767,917)
Transfers to capital fund	(3,169,471)	(3,325,060)
Transfers from reserves	103,375	444,660
Transfers from reserve funds	2,449,077	2,740,708
Transfers from capital fund	10,000	10,000
Repayment of net long-term liabilities	(2,026,141)	(1,835,435)
Decrease in non-financial assets	-	(61,358)
Increase in unfunded employee future benefits liabilities	-	405,710
Net financing and transfers	(4,577,660)	(5,256,089)
Change in current fund balance	-	(1,285,798)
Current fund balance, beginning of year	-	564,050
Current fund balance, end of year	-	(721,748)

The Corporation of the Municipality of Clarington

Consolidated schedule of capital fund financial activities and fund balance - Schedule 2 year ended December 31, 2008

		2008	2007
	Budget (Unaudited) (Note 21)	Actual	Actual
	\$	\$	\$
Revenues			
Government of Canada Grants	-	-	12,511
Province of Ontario Grants	-	7,745,873	88,831
Contribution from others	581,000	334,617	1,872,809
Deferred revenue earned	5,546,020	3,865,558	8,454,608
Investment income	-	505,051	572,332
Sale of land and equipment	-	76,026	70,574
Donations	-	4,481	6,284
Total revenues	6,127,020	12,531,606	11,077,949
Expenditures			
General government	449,450	486,479	397,380
Protection to persons and property	695,000	237,431	1,666,296
Transportation services	7,013,326	7,327,826	12,295,929
Health services	9,503	9,503	2,230
Recreational and cultural services	3,189,720	9,436,143	12,705,243
Planning and development	36,305	44,850	32,624
Total expenditures	11,393,304	17,542,232	27,099,702
Net expenditures	(5,266,284)	(5,010,626)	(16,021,753)
Financing and transfers			
Transfers from current fund	3,411,799	3,325,060	2,977,202
Transfers from reserves and reserve funds	2,999,047	3,177,309	2,987,973
Proceeds of debenture issued	-	1,084,000	17,325,000
Transfers to current fund	(10,000)	(10,000)	(10,000)
Transfers to reserves and reserve funds	(1,134,562)	(2,554,886)	(1,703,691)
Net financing and transfers	5,266,284	5,021,483	21,576,484
Change in capital fund balance	-	10,857	5,554,731
Capital fund balance, beginning of year	-	13,203,250	7,648,519
Capital fund balance, end of year	-	13,214,107	13,203,250

The Corporation of the Municipality of Clarington

Consolidated schedule of reserves and reserve funds financial activities and fund balance - Schedule 3 year ended December 31, 2008

	2008	2007
	\$	\$
Revenues		
Investment income	2,332,848	2,008,578
	2,332,848	2,008,578
Financing and transfers		
Transfers from current fund	3,635,314	4,823,871
Transfers from capital fund	2,554,886	1,703,691
Transfers to current fund	(3,185,368)	(3,084,568)
Transfers to capital fund	(3,177,309)	(2,987,973)
Other transfers - net	635,889	247,301
Veridian Corporation	1,185,749	1,212,264
Net financing and transfers	1,649,161	1,914,586
Change in reserves and reserve fund balances	3,982,009	3,923,164
Reserves and reserve funds balance, beginning of year	55,283,304	51,360,140
Reserves and reserve funds balance, end of year	59,265,313	55,283,304
Analyzed as follows:		
Reserves set aside for specific purposes by Council:		
Tax write-off	259,614	426,856
Acquisition of capital assets	2,233,935	2,290,268
Legal/consulting issues	573,666	383,266
Park development	10,000	10,000
Hockey museum	24,646	27,492
Election expenses	103,311	53,311
Fire prevention	110,585	85,585
Waterfront trail	20,585	20,585
Burketon park improvements	7,569	7,569
Samuel Wilmont nature area	25,171	25,172
Total reserves	3,369,082	3,330,104
Reserve funds set aside for specific purposes by Council:		
General municipal purposes	5,368,116	4,105,439
Rate stabilization	4,531,508	4,977,318
Recreation programs and facilities	519,597	441,314
Debenture repayment	289,298	261,905
Industrial development	66,837	53,896
Other cultural	274,208	245,521
Acquisition of capital assets	6,678,297	6,527,485
Newcastle Waterfront study	66,159	63,408
Municipal capital works	7,503,882	5,829,710
Other capital - unspecified	2,410,505	1,634,319
Road contributions	4,991,241	5,322,065
Westside Bridge/Bowmanville Marsh	111,479	106,844
Port Granby LLRW	155,567	148,285
Community Improvement Plan	84,574	79,383
Business Improvement Areas	125,425	120,211
	33,176,693	29,917,103
Veridian Corporation net equity	22,719,538	22,036,097
Total reserve funds	55,896,231	51,953,200
Total reserves and reverse funds	59,265,313	55,283,304

The Corporation of The Municipality of Clarington

Consolidated schedule of segmented information - Schedule 4
year ended December 31, 2008

2008

	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Health services	General government	Total
	\$	\$	\$	\$	\$	\$	\$
Current revenue							
Grants	(107,914)	-	(157,550)	(19,000)	-	(129,693)	(414,157)
Tax revenues	-	-	-	-	-	(37,785,381)	(37,785,381)
Other revenues	(1,750,280)	(1,054,156)	(8,588,777)	(819,148)	(276,210)	(2,365,568)	(14,854,139)
Total current revenue	(1,858,194)	(1,054,156)	(8,746,327)	(838,148)	(276,210)	(40,280,642)	(53,053,677)
Current expenditures							
Salaries, wages & employee benefits	8,385,988	5,296,384	8,448,846	2,569,701	156,860	5,182,120	30,039,899
Materials and supplies	906,138	4,526,593	4,575,382	820,435	73,888	1,977,517	12,879,953
Contracted services	528,643	1,544,430	546,921	403,083	-	819,563	3,842,640
Other	-	-	1,894,754	-	32	426,108	2,320,894
Total current expenditures	9,820,769	11,367,407	15,465,903	3,793,219	230,780	8,405,308	49,083,386
Capital revenue							
Grants	(24,025)	(1,913,794)	(4,285,780)	-	-	(46,299)	(6,269,898)
Developer revenue	-	(293,286)	(10,120)	-	-	-	(303,406)
Other revenues	-	(4,611,083)	(835,172)	-	-	(512,047)	(5,958,302)
Total capital revenue	(24,025)	(6,818,163)	(5,131,072)	-	-	(558,346)	(12,531,606)
Capital expenditures	237,431	7,327,826	9,436,143	44,850	9,503	486,479	17,542,232
Net (expenditures) revenues before transfers	8,175,981	10,822,914	11,024,647	2,999,921	(35,927)	(31,947,201)	1,040,335

The Corporation of The Municipality of Clarington

Consolidated schedule of segmented information - Schedule 4
year ended December 31, 2007

2007

	Protection to persons and property	Public works services	Recreation and culture	Planning and development	Health services	General government	Total
	\$	\$	\$	\$	\$	\$	\$
Current revenue							
Grants	(62,191)	-	(146,191)	-	-	(140,925)	(349,307)
Tax revenues	-	-	-	-	-	(35,849,907)	(35,849,907)
Other revenues	(2,468,163)	(1,282,220)	(7,897,230)	(969,637)	(241,953)	(2,587,552)	(15,446,755)
Total current revenue	(2,530,354)	(1,282,220)	(8,043,421)	(969,637)	(241,953)	(38,578,384)	(51,645,969)
Current expenditures							
Salaries, wages & employee benefits	8,414,387	4,907,834	7,526,883	2,417,024	150,290	4,811,618	28,228,036
Materials and supplies	902,186	4,274,182	4,307,376	706,768	66,352	2,097,117	12,353,981
Contracted services	429,836	1,370,901	515,335	321,799	-	596,523	3,234,394
Other	-	(70,041)	1,564,993	-	32	453,943	1,948,927
Total current expenditures	9,746,409	10,482,876	13,914,587	3,445,591	216,674	7,959,201	45,765,338
Capital revenue							
Grants	-	(988,980)	(74,508)	-	-	-	(1,063,488)
Developer revenue	-	(1,288,387)	(572,785)	-	-	-	(1,861,172)
Other revenues	(966,987)	(5,875,224)	(708,331)	-	-	(602,747)	(8,153,289)
Total capital revenue	(966,987)	(8,152,591)	(1,355,624)	-	-	(602,747)	(11,077,949)
Capital expenditures	1,666,296	12,295,929	12,705,243	32,624	2,230	397,380	27,099,702
Net (expenditures) revenues before transfers	7,915,364	13,343,994	17,220,785	2,508,578	(23,049)	(30,824,550)	10,141,122