
Consolidated financial statements of
The Corporation of the Town
of Whitby

December 31, 2019

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Independent Auditor's Report

To the Members of Council of
The Corporation of the Town of Whitby

Opinion

We have audited the consolidated financial statements of The Corporation of the Town of Whitby (the "Town"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Town as at December 31, 2019, and the results of its operations, changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Town in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Council for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Town's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Town or to cease operations, or has no realistic alternative but to do so.

Council is responsible for overseeing the Town's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The Corporation of the Town of Whitby
Consolidated statement of financial position

As at December 31, 2019

	Notes	2019 \$	2018 \$
Financial assets			
Cash	18	147,954,168	134,225,374
Investments		94,584,408	77,850,125
Taxes receivable	4	13,984,854	12,298,455
Accounts receivable		9,918,328	9,807,256
Investment in Government Business Enterprise	16	78,335,680	53,261,000
Long-term notes receivable	16	28,337,942	28,337,942
		373,115,380	315,780,152
Liabilities			
Accounts payable and accrued liabilities		22,915,034	22,364,266
Other current liabilities		5,110,728	4,391,546
Long term debt	5	3,850,000	4,000,000
Deferred revenue	6	150,942,309	121,823,257
Liability for contaminated sites	7	3,556,000	3,556,000
Employee future benefits liabilities	8	10,944,497	10,724,099
		197,318,568	166,859,168
Net financial assets		175,796,812	148,920,984
Non-financial assets			
Tangible capital assets	9	693,130,138	672,129,742
Prepaid expenses		1,333,306	1,265,137
Inventory of supplies		476,739	584,118
		694,940,183	673,978,997
Accumulated surplus	10	870,736,995	822,899,981

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

The Corporation of the Town of Whitby
Consolidated statement of operations
Year ended December 31, 2019

	Notes	Budget \$	2019 Actual \$	2018 Actual \$
Revenue	13			
Taxation		92,837,565	94,280,117	86,674,521
User fees and charges		24,488,561	27,774,418	23,332,670
Grants		517,860	1,392,924	797,781
Developer and other contributions earned	6	10,012,381	11,998,028	7,635,948
Gas tax revenue	6	3,871,600	2,076,761	3,925,433
Investment income		3,212,100	3,659,769	2,257,580
Fines, penalties and interest		2,918,000	3,073,683	2,913,764
Licenses and permits		1,127,759	1,317,770	858,238
Rents and other		1,798,062	3,871,428	4,383,079
Revenue recognized on contributed tangible capital assets	9	15,282,291	15,281,120	15,408,374
Change in valuation of investment in Government Business Enterprise	16	—	26,235,960	—
Net earnings, Government Business Enterprise	16	3,422,232	2,376,862	5,785,000
		159,488,411	193,338,840	153,972,388
Expenses (Schedule 1)				
General government		23,479,613	21,934,111	20,326,352
Protection to persons and property		27,791,306	28,266,607	27,065,612
Transportation services		43,727,362	49,162,719	41,579,121
Environmental services		9,565,265	8,956,008	7,192,014
Recreation and cultural services		34,413,550	31,176,415	33,790,599
Planning and development		6,719,884	4,470,018	4,658,289
Social and family services		1,552,302	1,535,948	1,614,793
		147,249,282	145,501,826	136,226,780
Annual surplus		12,239,129	47,837,014	17,745,608
Accumulated surplus, beginning of year		822,899,981	822,899,981	805,154,373
Accumulated surplus, end of year		835,139,110	870,736,995	822,899,981

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

The Corporation of the Town of Whitby
Consolidated statement of change in net financial assets
Year ended December 31, 2019

	Notes	Budget \$	2019 Actual \$	2018 Actual \$
Annual surplus	13	12,239,129	47,837,014	17,745,608
Acquisition of tangible capital assets	9	—	(52,211,235)	(37,109,283)
Amortization of tangible capital assets	9	—	25,269,790	25,327,405
Write down/disposal of tangible capital as	9	—	5,941,049	—
		12,239,129	26,836,618	5,963,730
(Increase) in prepaid expenses		—	(68,169)	(201,215)
Decrease (increase) in inventory of supplies		—	107,379	(78,074)
Change in net financial assets		12,239,129	26,875,828	5,684,441
Net financial assets, beginning of year		148,920,984	148,920,984	143,236,543
Net financial assets, end of year		161,160,113	175,796,812	148,920,984

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

The Corporation of the Town of Whitby**Consolidated statement of cash flows**

Year ended December 31, 2019

	2019	2018
	\$	\$
Operating activities		
Annual surplus	47,837,014	17,745,608
Items not involving cash		
Amortization	25,269,790	25,327,405
Write down/disposal of tangible capital assets	5,941,049	—
Change in valuation of investment in Government Business Enterprise	(26,235,960)	—
Net earnings of Government Business Enterprise	(2,376,862)	(5,785,000)
Value of contributed tangible assets recognized as revenue	(15,281,120)	(15,408,374)
Changes in non-cash assets and liabilities		
Taxes receivable	(1,686,399)	(1,016)
Accounts receivable	(111,072)	668,137
Inventory of supplies	107,379	(78,074)
Prepaid expenses	(68,169)	(201,215)
Accounts payable and accrued liabilities	550,768	4,315,365
Other current liabilities	719,182	801,060
Deferred revenue	29,119,052	18,137,872
Employee future benefits liability	220,398	227,425
	64,005,050	45,749,193
Capital activity		
Acquisition of tangible capital assets	(36,930,115)	(21,700,909)
Financing activities		
Repayment of long-term debt	(150,000)	—
Proceeds from issuance of long-term debt	—	4,000,000
	(150,000)	4,000,000
Investing activities		
Net changes in investments	(16,734,283)	(30,092,485)
Dividends from Government Business Enterprises	3,538,142	2,921,000
	(13,196,141)	(27,171,485)
Change in cash during the year	13,728,794	876,799
Cash, beginning of year	134,225,374	133,348,575
Cash, end of year	147,954,168	134,225,374

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

1. Significant accounting policies

The consolidated financial statements of The Corporation of the Town of Whitby (the "Town") are the representations of management prepared in accordance with accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

(a)

(i) *Reporting entity*

These consolidated financial statements reflect the assets, liabilities, accumulated surplus, revenues, expenses and annual surplus of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees which are controlled by the Town, including the following:

- Town of Whitby Public Library Board;
- Groveside Cemetery Board; and
- Downtown Whitby Business Improvement Area

All material inter-entity transactions and balances are eliminated on consolidation with the exception of transactions/balances with Government Business Enterprise (Note 1(a) (ii)).

(ii) *Investment in Government Business Enterprise*

In accordance with generally accepted accounting principles as recommended by PSAB for government business enterprises, Whitby Hydro Energy Corporation was accounted for on a modified equity basis. On April 1, 2019, Whitby Hydro Energy Corporation merged with Veridian Corporation to form Elexicon Corporation. The Town's investment in Elexicon is being accounted for on a modified equity basis. Under the modified equity basis of accounting, the business enterprise's accounting principles are not adjusted to conform to those of the Town and inter-organizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of Elexicon Corporation (formerly Whitby Hydro Energy Corporation) in its statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends that the Town receives from the Government Business Enterprise are reflected as reductions in the investment asset account.

(iii) *Accounting for region and school board transactions*

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards and the Region of Durham are not reflected in the municipal fund balances of these financial statements.

(iv) *Trust funds*

Trust funds and their related operations administered by the Town are not consolidated but are reported separately on the "Trust Funds Statement of Financial Activities and Change in Fund Balance" and the "Trust Funds Statement of Financial Position".

1. Significant accounting policies (continued)

(b) Basis of accounting

(i) Revenues and expenses

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

Tax revenue

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

(ii) Investments

Investments are recorded at lower of cost or market value.

(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.

Tangible capital assets

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 excluding land are amortized on a straight-line basis over their estimated useful lives as follows:

	<u>Useful life-years</u>
Land improvements	10-20
Building and building improvements	10-50
Vehicles, machinery and equipment	5-20
Stormwater management	15-75
Road infrastructure	<u>25-50</u>

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

Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value as the date of receipt and also are recorded as revenue.

Interest capitalization

The Town's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of tangible capital assets.

1. Significant accounting policies (continued)

(b) Basis of accounting (continued)

(iv) Deferred revenue – obligatory reserve funds

Deferred revenue – obligatory reserve funds represents development charge contributions, payments in lieu of parkland, building code net revenues, Invest in Ontario grants, and gas tax, levied or received under the authority of federal and provincial legislation and Town by-laws. These amounts have been collected but the related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the related services are performed.

(v) Deferred revenue – general

Deferred revenue – general represents user charges and other fees, which have been collected, for which the related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the related services are performed.

(vi) Employee future benefits liabilities

The present value of the cost of providing employees with future benefits programs is recognized as employees earn these entitlements through service.

(vii) Government transfers

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

(viii) Reserves and reserve funds

Certain amounts, as approved by Town 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.

(ix) Liability for contaminated sites

A liability for the remediation of a contaminated site is recognized as the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the Town is either directly responsible or accepts responsibility, it is expected that the future economic benefit will be given up, and a reasonable estimate of the amount is determinable. If the likelihood of the Town's obligation to incur these costs is either not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

(x) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Significant estimates relate to taxes receivable, accounts receivable, employee future benefits liabilities and accounts payable and accrued liabilities. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

The Corporation of the Town of Whitby
Notes to the consolidated financial statements
December 31, 2019

2. Operations of school boards and the Region of Durham

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

	School Boards	Region of Durham	2019 Total	2018 Total
	\$	\$	\$	\$
Taxation	56,252,206	141,278,013	197,530,219	188,511,848
Payment in lieu of taxes	616,614	2,511,723	3,128,337	2,434,289
Amounts raised and remitted	56,868,820	143,789,736	200,658,556	190,946,137

3. Trust funds

Trust funds administered by the Town amounting to \$1,326,402 (\$1,254,959 in 2018) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations". The trust funds have been reported separately on the "Trust Funds Statement of Financial Activities and Change in Fund Balance" and "Trust Funds Statement of Financial Position".

4. Taxes receivable

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

	2019	2018
	\$	\$
Current year	8,070,550	7,115,987
Arrears previous years	5,914,304	5,182,468
	13,984,854	12,298,455

5. Long term debt

The Town has assumed responsibility for the payment of principal and interest charges on certain debt issued by the Regional Municipality of Durham on the Town's behalf. The debt issued bears interest at rates ranging from 2.2%-3.35% and matures on September 14 of each of the years 2020 to 2038 inclusive. As at December 31, 2019, the principal amount outstanding is \$ 3,850,000. Principal repayments are summarized as follows:

	\$
2020	154,000
2021	158,000
2022	162,000
2023	166,000
2024	171,000
Thereafter	3,039,000
	3,850,000

5. Long term debt (continued)

The above debt issued in the name of the Town has been approved by by-law as required by legislation. The annual principal and interest payments required to service this liability is within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing. Interest paid or payable in 2019 and included in expenses is \$124,072 (nil in 2018).

6. Deferred revenue

Deferred revenue represents 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 related services are performed. Deferred revenues balances are summarized as follows:

	2019	2018
	\$	\$
Obligatory reserve funds		
Development charges	109,036,901	87,301,915
Subdivider contributions	12,749,533	14,086,936
Parkland	8,998,880	8,431,972
Federal gas tax	12,094,384	6,027,061
Building Code Act	1,268,385	—
Deferred revenue – general	6,794,226	5,975,373
	150,942,309	121,823,257

The changes during the year in obligatory reserve funds which are reflected directly in the deferred revenue balance are analyzed as follows:

	Development charges act	Subdivider Contributions	Federal gas tax	Parkland	Building code act	Total
	\$	\$	\$	\$	\$	\$
Opening balance	87,301,914	14,086,937	6,027,061	8,431,972	—	115,847,884
Restricted fund received	28,711,871	606,317	7,853,376	353,968	3,053,883	40,579,415
Interest earned	2,791,750	285,673	290,708	232,757	—	3,600,888
Revenue recognized	(9,768,634)	(2,229,394)	(2,076,761)	(19,817)	(1,785,498)	(15,880,104)
Closing balance	109,036,901	12,749,533	12,094,384	8,998,880	1,268,385	144,148,083

7. Liability for contaminated site

The Town has recorded an unfunded liability of \$3,556,000 (\$3,556,000 in 2018) for the estimated remediation costs associated with a Town owned site with identified contaminants in the soil. The liability estimate for the site identified was based on an environmental assessment conducted by a third party engineering firm. At this time, the Town does not anticipate obtaining any recoveries in respect of the estimated liability.

8. Employee future benefits liabilities

The Town makes available to qualifying employees who retire before the age of 65, the opportunity to continue their coverage for such benefits as extended health and drugs, dental care and life insurance. Coverage ceases at the age of 65. The accrued benefit liability and the expense for the year ended December 31, 2019 are based on the results and assumptions of an actuarial valuation as at December 31, 2019. The significant actuarial assumptions used in estimating the Town's related accrued benefit obligation are as follows:

Discount rate	4.00%
Inflation rate	1.75% per year
Dental benefit cost escalation	3.75% per year
Medical benefit cash escalation	4.75% per year reducing to 3.75% per year over 3 years

Information about the Town's post retirement benefit plan is as follows:

Accrued benefit liability

	2019	2018
	\$	\$
Accrued benefit obligation	11,680,457	11,593,698
Unamortized actuarial loss	(735,960)	(869,599)
Employee future benefit liability	10,944,497	10,724,099

Expense

	2019	2018
	\$	\$
Current year benefit expense	636,776	600,279
Amortization of actuarial losses	120,888	120,888
Interest on accrued benefit obligation	456,795	452,566
	1,214,459	1,173,733

9. Tangible capital assets

(i) Contributed tangible capital assets

The Town records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or of the transfer of risk and responsibility. Typical examples are land, roadways, and storm sewer lines installed by a developer as part of a subdivision agreement. Transfer of tangible capital assets in 2019 amounted to \$15,281,120 (\$15,408,374 in 2018).

(ii) Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value of one Canadian dollar, because of the difficulty of determining a tenable valuation and/or the assets were older than their estimated expected useful lives, and therefore were fully amortized.

9. Tangible capital assets (continued)

(iii) Works of art and historical treasures

The Town applies efforts to protect and preserve a number of owned historical buildings, collections of equipment, artifacts, documents and exhibits and works of art. These assets are not held for financial gain or to provide service but rather for public exhibition, education or research in furtherance of public service. These historical treasures and works of art are not recognized as tangible capital assets in the financial statements. The acquisition or betterment of such assets is recognized in the financial statements as an operating expense.

The Corporation of the Town of Whitby
Notes to the consolidated financial statements
December 31, 2019

9. Tangible capital assets (continued)

(iv) Other

No interest was capitalized during the year (nil in 2018).

	Land	Land improvements	Building and building improvements	Vehicles, machinery and equipment	Stormwater management	Road infrastructure	Work in progress	2019 Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, beginning of year	79,407,108	88,836,919	158,173,258	47,879,789	79,191,693	638,494,635	4,972,223	1,096,955,625
Additions	4,864,056	3,535,957	521,887	2,672,510	1,571,272	19,285,721	20,664,307	53,115,710
Work in process completed	—	—	—	—	—	—	(904,475)	(904,475)
Write downs/disposals	—	(222,950)	(15,108)	(11,808,847)	(130,138)	(14,895,425)	—	(27,072,468)
Balance, end of year	84,271,164	92,149,926	158,680,037	38,743,452	80,632,827	642,884,931	24,732,055	1,122,094,392
Accumulated amortization								
Balance, beginning of year	—	35,060,199	75,512,558	35,694,542	18,058,693	260,499,891	—	424,825,883
Write downs/disposals	—	(156,835)	—	(11,342,339)	(14,190)	(9,618,055)	—	(21,131,419)
Amortization expense	—	2,624,398	1,966,338	690,760	1,111,891	18,876,403	—	25,269,790
Balance, end of year	—	37,527,762	77,478,896	25,042,963	19,156,394	269,758,239	—	428,964,254
Net book value, end of year	84,271,164	54,622,164	81,201,141	13,700,489	61,476,433	373,126,692	24,732,055	693,130,138

The Corporation of the Town of Whitby
Notes to the consolidated financial statements
December 31, 2019

9. Tangible capital assets (continued)

(iv) Other (continued)

	Land	Land improvements	Building and building improvements	Vehicles, machinery and equipment	Stormwater management	Road infrastructure	Work in progress	2018 Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, beginning of year	79,407,108	87,274,935	152,271,052	43,559,779	74,613,797	609,476,767	15,965,176	1,062,568,614
Additions	—	1,197,407	2,151,410	4,092,807	4,023,804	20,671,632	4,972,223	37,109,283
Work in process completed	—	364,577	3,750,796	227,203	554,092	11,068,508	(15,965,176)	—
Write downs	—	—	—	—	—	(2,722,272)	—	(2,722,272)
Balance, end of year	<u>79,407,108</u>	<u>88,836,919</u>	<u>158,173,258</u>	<u>47,879,789</u>	<u>79,191,693</u>	<u>638,494,635</u>	<u>4,972,223</u>	<u>1,096,955,625</u>
Accumulated amortization								
Balance, beginning of year	—	32,734,123	71,084,225	32,602,757	17,106,081	248,693,564	—	402,220,750
Write downs	—	—	—	—	—	(2,722,272)	—	(2,722,272)
Amortization expense	—	2,326,076	4,428,333	3,091,785	952,612	14,528,599	—	25,327,405
Balance, end of year	<u>—</u>	<u>35,060,199</u>	<u>75,512,558</u>	<u>35,694,542</u>	<u>18,058,693</u>	<u>260,499,891</u>	<u>—</u>	<u>424,825,883</u>
Net book value, end of year	<u>79,407,108</u>	<u>53,776,720</u>	<u>82,660,700</u>	<u>12,185,247</u>	<u>61,133,000</u>	<u>377,994,744</u>	<u>4,972,223</u>	<u>672,129,742</u>

10. Accumulated surplus

Accumulated surplus consists of individual fund surplus, reserves and reserve funds and invested in tangible capital assets as follows:

	2019	2018
	\$	\$
General	5,936,156	5,872,144
Unfunded employee future benefits	(10,944,497)	(10,724,099)
Debenture recovery in future years	(3,850,000)	(4,000,000)
Unfunded liability for contaminated sites	(3,556,000)	(3,556,000)
Internal borrowings from deferred revenue	(3,718,876)	(4,643,955)
Unfunded capital	(13,918,505)	(4,381,471)
Equity in government business enterprise	106,673,622	81,598,942
Reserve and Reserve Funds	100,984,957	90,604,678
Invested in tangible capital assets	693,130,138	672,129,742
	870,736,995	822,899,981

11. Internal loans

As a means of funding various capital acquisitions, funds are borrowed by the Operating Fund from Development Charges. These funds are secured by promissory notes and are repaid over a determined period of time. The financing arrangements and ultimate repayment are approved by Council through the current budget process. The following is a summary of the internal loan balances.

	2019	2018
	\$	\$
Whitby Public Library	1,899,854	2,564,880
Recreation and Cultural	359,396	387,430
Soccer Club	1,459,626	1,691,645
	3,718,876	4,643,955

12. Pension agreements

The Town makes contributions to the Ontario Municipal Employees Retirement System ("OMERS") which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. The Plan is a defined benefit plan that specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Contributions to OMERS for the year were \$10,934,753 (\$10,293,938 in 2018).

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial value of the Plan was conducted at December 31, 2019. The results of this valuation disclosed total actuarial liabilities of \$107.7 billion in respect of benefits accrued for service with actuarial assets at that date of \$104.3 billion indicating an actuarial deficit of \$3.4 billion. As OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Town does not recognize any share of the OMERS pension surplus or deficit.

The Corporation of the Town of Whitby
Notes to the consolidated financial statements
December 31, 2019

13. Budget figures

The 2019 operating budget adopted by Council was not prepared on a basis consistent with that used to report actual results. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget figures did not include amortization expense on tangible capital assets, capital expenses or post-employment benefits. As a result, the budget figures presented in the Consolidated Statements of Operations and Change in Net Financial Assets represent the budget adopted by Council with adjustments as follows:

	Operating budget adopted by council \$	Adjust for consolidated entities \$	PSAS adjustments \$	2019 budget presented in statements \$
Taxation	92,837,565			92,837,565
User fees and charges	23,432,196	465,000	591,365	24,488,561
Developer and other contributions	—	10,012,381	—	10,012,381
Gas tax revenue	—	3,871,600	—	3,871,600
Revenue recognized on contributed tangible capital assets	—	15,282,291	—	15,282,291
Other	10,471,931	512,000	2,012,082	12,996,013
	126,741,692	30,143,272	2,603,447	159,488,411
Expenses				
General government	23,665,544	(5,084,931)	4,899,000	23,479,613
Protection	26,415,926	—	1,375,380	27,791,306
Transportation	20,461,762	—	23,265,600	43,727,362
Environmental	3,853,265	—	5,712,000	9,565,265
Social and family	1,134,522	412,780	5,000	1,552,302
Recreation and culture	21,331,553	5,366,597	7,715,400	34,413,550
Planning and development	4,320,134	94,750	2,305,000	6,719,884
Interfund transfers	25,558,986	2,938,813	(28,497,799)	—
	126,741,692	3,728,009	16,779,581	147,249,282
Annual surplus	—	26,415,263	(14,176,134)	12,239,129

14. Contingent liabilities

Unsettled legal claims and potential other claims

The Town has been named as the defendant in certain legal actions in which damages have been sought. The outcome of these actions is not determinable at this time and, accordingly, no provision has been made in these financial statements for any liability that may result.

15. Contractual obligations

The Town of Whitby has entered into a front-ending agreement with West Whitby Landowners Group to receive a credit towards development charges that would otherwise be due under the Town of Whitby development charge by-law in exchange for the construction of infrastructure assets that will become tangible capital assets of the Town.

15. Contractual obligations (continued)

Development charge revenue is recognized as the West Whitby Landowners Group is reimbursed for the up-fronted infrastructure assets. In 2019, \$3,876,709 of development charge revenue and infrastructure assets (work-in-process) was recognized (nil in 2018).

The estimated value for the construction of infrastructure based on signed agreements is \$31,079,000.

16. Investment in government business enterprise

In accordance with the requirements in Bill 35 (The Energy Competition Act, 1998) the Town of Whitby (the "Town"), passed a transfer by-law, effective November 1, 2000, that transferred substantially all of the assets and liabilities of the Whitby Hydro-Electric Commission to Whitby Hydro Energy Corporation. Whitby Hydro Energy Corporation carried on the former business of the Commission with all its rights, duties, obligations and responsibilities until March 31, 2019. Whitby Hydro, as a government business enterprise, was accounted for using the modified equity basis.

(a) Equity in Whitby Hydro Energy Corporation at date of amalgamation

	2019	2018
	\$	\$
Balance, beginning of year	81,598,942	78,734,942
Changes during the year		
Net income for the year	198,000	5,785,000
	81,796,942	84,519,942
Dividend received from Whitby Hydro Energy Corporation	(1,302,000)	(2,921,000)
Balance, end of year	80,494,942	81,598,942

	2019	2018
	\$	\$
Investment in Whitby Hydro Energy Corporation	52,157,000	53,261,000
Long-term notes receivable	28,337,942	28,337,942
	80,494,942	81,598,942

(b) Amalgamation of Whitby Hydro and Veridian Corporation

Effective April 1, 2019, Whitby Hydro Energy Corporation amalgamated with Veridian Corporation to form Elexicon Corporation. The Town of Whitby received consideration totalling \$110,758, including 32,000 common shares representing a 32% ownership interest, and a redemption of \$1,025,000 for special Class B shares. The resulting increase in the Town's investment in the Government Business Enterprise at the date of amalgamation was \$26,235,960.

16. Investment in government business enterprise (continued)

(c) Equity in Elexicon Corporation

Elexicon Corporation, as a government business enterprise, is accounted for on the modified equity basis in these financial statements. Elexicon Corporation serves as the electrical distribution utility for a number of communities including the Town of Whitby, Town of Ajax, City of Pickering, City of Belleville and the Municipality of Clarington, and conducts non-regulated utility service ventures through its subsidiaries. The following table provides condensed supplementary consolidated financial information for the corporation and its subsidiaries for the year ended December 31. The amounts are disclosed in thousands of dollars:

	2019 (000's) \$
Assets	
Current	84,933
Capital and intangibles	506,254
Other	256
Total assets	591,443
Regulatory balances	15,145
Total assets and regulatory balances	606,588
Liabilities	
Current	87,413
Long-term debt	180,360
Other	91,408
Total liabilities	359,181
Shareholders' equity	
Share capital	97,692
Contributed capital	25
2019 Contributed surplus	79,301
Accumulated other comprehensive loss	(816)
Retained earnings	68,597
Total equity	244,799
Regulatory balances	2,608
Total liabilities, equity and regulatory balances	606,588
Comprehensive income	
Commodity revenue	305,445
Commodity expenses	(311,627)
Distribution revenue	58,759
Operating expenses	(49,195)
Other expense	(5,253)
Accumulated other comprehensive loss	(500)
Net movements in regulatory balances, net of tax	9,180
Total comprehensive income for the year	6,809

16. Investment in government business enterprise (continued)

(c) Equity in Elexicon Corporation (continued)

The Town's equity in Elexicon Corporation is as follows at the end of 2019:

	2019
	\$
Equity balance on amalgamation	80,494,942
Change in valuation of investment	26,235,960
Equity share of net earnings for the period from April 1, 2019 to December 31, 2019	2,178,862
Dividend received	(2,236,142)
Balance, end of year	106,673,622
	2019
	\$
Investment in Elexicon Corporation	78,335,680
Long-term notes receivable	28,337,942
	106,673,622

(d) Promissory notes receivable

The long-term notes receivable of \$28,337,942 previously owed by Whitby Hydro was assumed by Elexicon Corporation on amalgamation, amended and restated, and form part of the investment in the government business enterprise. Interest revenue earned totaled \$1,377,768 (\$2,000,000 in 2018).

Commencing April 1, 2019 for a ten-year period, interest on the note will be determined based on the deemed long-term interest rate prescribed by the Ontario Energy Board in its most recent cost of capital parameter update ("OEB rate"). As of April 1, 2019, the OEB rate was determined at 4.47% less 30 basis points.

On the tenth year anniversary of the note, the interest rate will be adjusted to the OEB rate in effect at that time. Thereafter, the interest rate will be adjusted to the OEB rate in effect at the earlier of:

- (i) The five year anniversary of the most recent interest rate adjustment of these notes, and
- (ii) The date on which Elexicon Energy Inc. files a cost of service application with the Ontario Energy Board.

The Town may demand full or partial repayment with sixty days' notice of the principal and accrued interest. The Town has agreed not to demand repayment of the notes prior to December 31, 2020.

16. Investment in government business enterprise (continued)

(e) *Contingencies and guarantees of Elexicon 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. MEARIE also provides vehicle and property insurance to the Corporation.

Insurance premiums charged to each member utility consist of a levy per \$1,000 of service revenue subject to a credit or surcharge based on each electric utility's claims experience. The maximum coverage is \$30,000,000 per occurrence for liability insurance, \$21,000,000 for vehicle insurance and \$164,885,000 for property insurance, plus \$10,000,000 excess coverage on top of the regular liability and vehicle coverage.

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

The Corporation's subsidiary, Elexicon Energy Inc. ("EEI"), 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, EEI is obliged to pay a capital contribution equal to the difference between these revenues and the construction costs allocated to EEI. The construction costs allocated to EEI for the project are \$19,950,000.

Hydro One has performed a true-up based on actual load at the end of the tenth anniversary of the in-service date and the Corporation has paid \$637,000 to Hydro One and recognized the same as an intangible asset. The Corporation has also recorded a current liability and a corresponding intangible asset for \$1,533,000 as at December 31, 2019, based on management's best estimate of the future transformation connection revenues shortfall. Hydro One is expected to perform another true-up based on actual load at the end of the fifteenth anniversary of the in-service date.

(iii) *Prudential Support*

Purchasers of electricity in Ontario, through the Independent Electricity System Operator ("IESO"), are required to provide security to mitigate the risk of default based on their expected activity in the market. The IESO could draw on this security if the Corporation fails to make the payment required on a default notice issued by the IESO. The Corporation has provided a \$64,000,000 guarantee to the IESO on behalf of EEI. Additionally, the Corporation has provided a \$6,900,000 letter of credit to the IESO for prudential support.

(iv) *General claims*

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

16. Investment in government business enterprise (continued)

(f) Lease commitments

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

	<u>\$</u>
2020	475,000
2021	363,000
2022	229,000
2023	179,000
2024	124,000
Thereafter	<u>210,000</u>
	<u><u>1,580,000</u></u>

17. Segmented information

The Town provides a wide range of services to its residents.

Segmented information has been provided in Schedule 1 for the following Town Services:

- Protection to persons and property
- Public works services (transportation and environmental)
- Recreation and Culture
- Planning and Development
- General Government and Social and Family Services

Revenues and expenses directly attributable to each segment are reported by segment. Typically general government expenses are incurred in support of all services. Similarly general government revenues including taxes are used to finance all activities of the Town. For purposes of segmented reporting general government revenues and expenses have not been allocated to the other services but rather are shown separately.

18. Comparative figures

Certain of prior year's comparative figures have been reclassified to conform with current year presentation.

19. Subsequent event

Subsequent to the year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial position, results of operations and cash flows of the Town in future periods.

The Corporation of the Town of Whitby

Schedule 1 – Consolidated schedule of segmented disclosure

Year ended December 31, 2019

	Protection to persons and property \$	Public works services \$	Recreation and culture \$	Planning and development \$	General government/ social and family services \$	Consolidated \$
Revenue						
Tax revenues	—	—	—	—	94,280,117	94,280,117
Grants	7,840	1,009,436	285,511	9,100	81,037	1,392,924
Developer contributions used	1,833,001	7,116,527	2,314,031	619,403	115,066	11,998,028
Revenue recognized on contributed assets	—	15,281,120	—	—	—	15,281,120
Other revenue	6,043,961	9,670,202	9,540,718	1,379,389	43,752,381	70,386,651
	7,884,802	33,077,285	12,140,260	2,007,892	138,228,601	193,338,840
Expenses						
Salaries and wages	23,799,247	15,907,140	19,506,024	3,923,355	14,112,143	77,247,909
Materials and supplies	1,274,226	12,300,943	3,833,647	476,708	2,987,149	20,872,673
Contracted services	1,340,274	3,926,808	3,553,258	57,753	2,502,625	11,380,718
Other	543,722	247,466	836,827	12,202	3,149,470	4,789,687
Loss on disposal of tangible capital assets	5,768	5,874,428	60,853	—	—	5,941,049
Amortization	1,303,370	19,861,942	3,385,806	—	718,672	25,269,790
	28,266,607	58,118,727	31,176,415	4,470,018	23,470,059	145,501,826
Annual (deficit) surplus	(20,381,805)	(25,041,442)	(19,036,155)	(2,462,126)	114,758,542	47,837,014