Management Assumptions and Estimates

The preparation of financial statements necessarily includes amounts based on the best estimates and professional judgement of management. A summary of instances where management has made significant assumptions and estimates is provided below:

Revenues:

Revenues are accounted for in the year in which events occurred that gave rise to the revenues, which is as the revenue is earned. An estimate of fees and charges for services provided to the year-end is recorded, regardless of whether invoices (bills) have been prepared and sent out.

Government transfers:
Approval for government transfer funding for capital projects is generally required before projects are started. However, the actual funding is sometimes not confirmed and assumptions must be made regarding any portions of expenses incurred which may not be eligible for reimbursement. Exact amounts of certain government transfers are not known at year-end and are estimated based upon the best information available.

Subsidiary operations - EPCOR
Certain estimates are necessary since the regulatory environment that EPCOR operates in often requires amounts to be recorded at estimated values until finalized and adjusted pursuant to subsequent regulatory decisions or proceedings. The City reporting reflects the estimates made by EPCOR management in preparing their statements.

Asset valuation:

Accounts receivable/Taxes receivable:
Financial assets must be valued at the lower of cost or net realizable value. Management estimates the amount of accounts receivable and taxes receivable that will not be collectable and provides an allowance for doubtful accounts. Estimates are based upon such factors as an aging of outstanding balances, collection experience, legal advice and known factors such as customers in bankruptcy.

In the case of property tax forfeitures, information regarding property values (assessment or appraisal) is used to ensure that an allowance is calculated for any portion of the receivable balance that exceeds the value of the property that the City may ultimately receive in the case of default.

Investments:

Investments are recorded at amortized cost less amounts written off to reflect any permanent declines in market values. The cost of certain short-term notes and deposits and international shares exceed market value as at December 31, 2010. Management is monitoring the situation, but is of the opinion that the loss in value is a temporary decline. No adjustment was made to reduce the carrying value of investments in the current year.

Tangible capital assets:
Assumptions regarding the estimated useful lives of tangible capital assets (note 1, part i) and patterns of usage are applied to calculate the appropriate amortization charge to be recognized on an annual basis. Engineering estimates are used in determining the calculations, where appropriate.

Land values are stated based upon the lower of cost or net realizable value. Appraisal estimates are sometimes required in order to apply this policy.

Expenses:

Expenses are accounted for in the year in which goods and services are acquired, regardless of when payment takes place.

Liabilities:

Accounts payable and accrued liabilities:
Liabilities are recorded for goods or services received by the end of the year. In some cases this relates to a portion of an invoice, or includes amounts for which final invoices have not yet been received. Management uses estimation techniques to calculate the appropriate expenses to be recognized, which may involve a pro-ration based on time, consumption, etc. Reliance may be placed on engineering certificates regarding percentage of completion for construction.

Accrued liabilities may result where final decisions/actions have not been completed, but where there is a likelihood of payment and the amount can be estimated. Management records accrued liabilities based upon a legal and financial assessment of likelihood and anticipated dollar amount.

Where employee contracts are not settled for a year being reported on, it is necessary to make assumptions regarding the likely contract settlement(s) in order to properly record wages, benefits and vacation liability for the year. All union contracts were subject to negotiation as at the end of 2010, requiring assumptions to be made.

Employee benefit and pension obligations:
The City sponsors supplementary pension Plans for the Fire Fighters and Fire Chiefs. Liabilities for future benefits related to the Plans are calculated by

external professional actuaries, and reflected in the financial statements. In performing their work, the actuaries rely on management's estimates regarding the long-term borrowing rates (discount rates), rate of investment return on assets, rate of future salary increases, and inflation rates. Management's assumptions are reviewed against the overall industry framework for reasonableness. The actuaries also apply estimates based upon mortality tables, retirement ages, etc.

A similar process is applied with respect to obligations for the Income Replacement Plan (a previous City benefit plan), post-employment benefits, the Long-term Disability Plan and the Supplementary Management Retirement Plan. Estimates based upon historic experience are used to calculate obligations for outstanding claims of short-term disability, major medical and dental benefit plans.

Landfill closure and post-closure care:
Municipalities are required to record an obligation relating to the closure and post-closure care of a solid waste landfill site. In the City's case, the landfill reached full capacity and was closed in August 2009. The obligation relates to the present value of the future post-closure care costs, based upon engineering estimates and applying a discounting factor equal to the average long-term borrowing rate.

Contingent assets and liabilities:

Contingencies are the result of existing conditions or situations involving uncertainties that will be resolved in the future when one or more events occur or fail to occur. Although such amounts are not recorded, information to describe significant contingencies must be disclosed in the financial statements. Management applies judgement as to what is significant. No contingent assets have been disclosed within the financial statements. Contingent liabilities have been disclosed in Note 20 to the financial statements with respect to pending litigation and potential environmental obligations.