

Consolidated Financial Statements

**The Corporation of the City of
Sault Ste. Marie**

For the year ended December 31, 2006

The Corporation of the City of Sault Ste. Marie

Consolidated Financial Statements

For the year ended December 31, 2006

The Corporation of the City of Sault Ste. Marie

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Trust Funds

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Auditors' Report

To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the City of Sault Ste. Marie

We have audited the consolidated statement of financial position of The Corporation of the City of Sault Ste. Marie as at December 31, 2006 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation of the City of Sault Ste. Marie as at December 31, 2006 and the results of its operations and changes in financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2005 were audited by another firm of chartered accountants.

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
April 5, 2007

The Corporation of the City of Sault Ste. Marie

Consolidated Statement of Financial Position

December 31, 2006, with comparative figures for 2005

2006

2005

Assets

Financial Assets:

| | | |
|-----------------------------------|-------------------|-------------------|
| Cash and temporary investments | \$ 28,079,161 | \$ 11,512,635 |
| Taxes receivable | 5,639,698 | 4,944,738 |
| Temporary advances to trust funds | 41,864 | - |
| Accounts receivable | 20,865,152 | 33,145,163 |
| Other current assets | 1,151,537 | 645,477 |
| | <u>55,777,412</u> | <u>50,248,013</u> |

Non-financial assets:

| | | |
|---------------------------------|----------------------|----------------------|
| Inventories | 2,177,466 | 1,987,332 |
| Investment in PUC Inc. (note 8) | 60,033,667 | 60,202,301 |
| | <u>\$117,988,545</u> | <u>\$112,437,646</u> |

Liabilities

| | | |
|---|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 24,427,504 | \$ 21,054,643 |
| Temporary advances from trust funds | - | 116,148 |
| Future employee benefit obligations (note 15) | 22,965,328 | 22,454,061 |
| Deferred revenue - obligatory reserve funds (note 3) | 2,153,259 | 2,737,522 |
| Landfill closure and post closure liability (note 16) | 10,115,684 | 11,709,422 |
| Net long term liabilities (note 4) | 18,329,293 | 23,031,325 |
| | <u>77,991,068</u> | <u>81,103,121</u> |

Municipal position:

| | | |
|----------------------------------|----------------------|----------------------|
| Current fund (note 5) | 3,413,424 | 1,967,546 |
| Capital fund (note 5) | (14,874,878) | (7,098,795) |
| Reserves and reserve funds | 42,835,569 | 33,458,281 |
| Investment in PUC Inc. | 60,033,667 | 60,202,301 |
| | <u>91,407,782</u> | <u>88,529,333</u> |
| Amounts to be recovered (Note 6) | 51,410,305 | 57,194,808 |
| Net municipal position | <u>39,997,477</u> | <u>31,334,524</u> |
| | <u>\$117,988,545</u> | <u>\$112,437,645</u> |

The Corporation of the City of Sault Ste. Marie

Consolidated Statement of Financial Activities

| Year ended December 31, 2006, with comparative figures for 2005 | 2006 | 2005 |
|---|----------------------|----------------------|
| Revenues: | | |
| Property taxation | \$ 78,702,981 | \$ 74,489,809 |
| Taxation from other governments | 4,315,172 | 4,431,398 |
| Fees and user charges | 44,063,256 | 40,520,871 |
| Government grants | 61,801,755 | 61,662,179 |
| Investment income | 5,442,883 | 4,760,660 |
| Other | 3,778,518 | 3,720,922 |
| Obligatory reserve fund revenue recognized | 1,545,889 | - |
| Deferred user charges recognized | 19,901 | 1,146,042 |
| | <u>199,670,355</u> | <u>190,731,881</u> |
| Expenditures: | | |
| Current: | | |
| General government | 14,674,291 | 12,203,037 |
| Protection services | 30,102,074 | 28,202,931 |
| Transportation services | 25,220,983 | 23,247,863 |
| Environmental services | 13,084,349 | 17,810,936 |
| Health services | 6,483,649 | 6,377,135 |
| Social and family services | 33,057,320 | 31,628,666 |
| Social housing | 2,122,284 | 2,015,005 |
| Recreation and cultural services | 12,085,083 | 10,677,003 |
| Planning and development | 3,709,599 | 4,935,341 |
| | <u>140,539,632</u> | <u>137,097,917</u> |
| Capital: | | |
| General government | 853,042 | 632,646 |
| Protection services | 126,910 | 1,304,266 |
| Transportation services | 17,786,674 | 16,564,151 |
| Environmental services | 14,775,316 | 34,735,585 |
| Health services | 502,116 | 493,501 |
| Social and family services | - | 52,746 |
| Recreational and cultural services | 16,026,247 | 11,762,260 |
| Planning and development | 228,833 | 350,846 |
| | <u>50,299,138</u> | <u>65,896,001</u> |
| Total expenditures | <u>190,838,770</u> | <u>202,993,918</u> |
| Excess (deficiency) of revenue over expenditures before government business enterprise | 8,831,585 | (12,262,037) |
| PUC Inc. operating results | <u>(168,634)</u> | <u>(657,270)</u> |
| Net revenues (expenditures) for the year | <u>8,662,951</u> | <u>(12,919,307)</u> |
| Change in amounts to be recovered: | | |
| Debt principal repayments | (4,702,032) | (3,415,451) |
| Change in liabilities for post employment benefits and landfill closure and post-closure | <u>(1,082,470)</u> | <u>2,948,892</u> |
| | <u>(5,784,502)</u> | <u>(466,559)</u> |
| Change in fund balances for the year | 2,878,449 | (13,385,866) |
| Fund balances, beginning of year | <u>88,529,333</u> | <u>101,915,199</u> |
| Fund balances, end of year | <u>\$ 91,407,782</u> | <u>\$ 88,529,333</u> |

The Corporation of the City of Sault Ste. Marie

Consolidated Statement of Changes in Financial Position

| Year ended December 31, 2006, with comparative figures for 2005 | 2006 | 2005 |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Net revenues (expenditures) for the year | \$ 8,662,951 | \$ (12,919,307) |
| Items not involving cash | | |
| PUC Inc. operating results | 168,634 | 657,270 |
| Future employee benefit obligations | 511,268 | 418,309 |
| Landfill closure | (1,593,738) | 2,530,583 |
| | <u>7,749,115</u> | <u>(9,313,145)</u> |
| Changes in non-cash working capital balances: | | |
| Decrease (increase) in taxes receivable | (694,960) | 1,328,222 |
| Decrease (increase) in accounts receivable | 12,280,011 | (11,766,104) |
| Decrease (increase) in other current assets | (506,060) | 98,023 |
| Decrease in temporary advances from trust funds | (158,012) | 179,289 |
| Increase in accounts payable and accrued liabilities | 3,372,861 | 9,339,163 |
| Increase (decrease) in deferred revenue - obligatory reserve funds | (584,263) | 915,624 |
| Increase in inventories | (190,134) | (104,203) |
| | <u>13,519,443</u> | <u>(9,986)</u> |
| Net change in cash from operations | <u>21,268,558</u> | <u>(9,323,131)</u> |
| Financing activities: | | |
| Repayment of long term liabilities | (4,702,032) | (3,415,451) |
| | <u>(4,702,032)</u> | <u>(3,415,451)</u> |
| Net change in cash and cash equivalents | 16,566,526 | (12,738,582) |
| Cash and cash equivalents, beginning of year | <u>11,512,635</u> | <u>24,251,217</u> |
| Cash and cash equivalents, end of year | <u>\$ 28,079,161</u> | <u>\$ 11,512,635</u> |

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

The City of Sault Ste. Marie 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 2001, Municipal Affairs Act, Provincial Offenses Act and other related legislation.

1. Summary of significant accounting policies:

The consolidated financial statements of The Corporation of the City of Sault Ste. Marie (the "City") are prepared by management in accordance with accounting principles generally accepted in Canada for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by The Corporation of The City of Sault Ste. Marie are as follows:

(a) Reporting entity:

(i) Consolidated entities:

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the City of Sault Ste. Marie and include the activities of all Committees of Council and the Sault Ste. Marie Police Services Board. These financial statements also include the Sault Ste. Marie Public Library Board and the City of Sault Ste. Marie Public Utilities Commission. All inter-departmental and inter-organizational assets and liabilities and revenues and expenditures have been eliminated on consolidation.

(ii) Related entities:

The consolidated financial statements do not reflect the assets, liabilities, sources of financing, expenditures and the activities of the following Boards and enterprises which are not under the control of Council.

Algoma Health Unit
District of Sault Ste. Marie Social Services Administration Board
Board of Management of Queenstown, The Sault Ste. Marie Central Business District Improvement Area
Board of Management of City Centre Business Improvement Area
Sault Ste. Marie Region Conservation Authority

(iii) Equity accounting:

Government business enterprises and partnerships are separate legal entities which do not rely on the municipality for funding. Investments in government business enterprises are accounted for using the modified equity method. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City's investment in PUC Inc. is a government business enterprise, and as such, it is reflected in the consolidated financial statements.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

1. Summary of significant accounting policies: (continued)

(b) Basis of accounting:

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

The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the municipality, and is the difference between its assets and liabilities. This provides information about the municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

(c) Fund accounting:

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

Trust funds and their related operations administered by the City are not included in these financial statements, but are reported on separately on the Trust Funds Statement of Continuity and the Statement of Financial Position.

(d) Temporary investments:

Temporary investments are recorded at the lower of cost and market value.

(e) Inventories:

Inventories held for resale are stated at the lower of cost and net realizable value, while inventories of supplies are stated at lower of cost and replacement value.

(f) Capital assets:

The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as a capital expenditure on the consolidated statement of financial activities in the period of acquisition.

(g) Amounts to be recovered:

Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

1. Summary of significant accounting policies: (continued)

(h) Reserves and reserve funds:

Certain amounts, as approved by City 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.

(i) Government grants:

Government grants are recognized in the financial statements as revenues in the period in which events giving rise to the grants occur, providing the grants are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(j) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles for local governments in Canada 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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

(k) Pension and employee benefits:

The City accounts for its participation in the Ontario Municipal Employee Retirement Fund (OMERS), a multi-employer public sector pension fund, as a defined benefit plan.

Vacation entitlements are accrued for as entitlements are earned.

Sick leave benefits accrue to City employees at a rate of one and a half days per month. Unused sick days are banked and may be used in the future if sick leave is beyond yearly allocation. No cash payments are made for unused sick time upon termination or retirement.

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. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

(l) Deferred revenue - obligatory reserve funds:

The City receives certain subdivider contributions and other revenues under the authority of provincial legislation and City by-laws. These funds, by their nature, are restricted in their use and, until applied to specific expenditures, are recorded as deferred revenue. Amounts applied to qualifying expenditures are recorded as revenue in the fiscal period they are expended.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

1. Summary of significant accounting policies: (continued)

(m) Taxation and related revenues:

Property tax billings are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation (MPAC). Tax rates are established annually by City Council, incorporating amounts to be raised for local services and amounts the city is required to collect on behalf of the Province of Ontario in respect of education taxes.

A normal part of the assessment process is the issue of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued.

Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

The City is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

2. Tax revenues:

Property tax billings are prepared by the City based on an assessment roll prepared by the Municipal Property Assessment Corporation ("MPAC"), an agency of the Ontario government. All assessed property values in the City were reviewed and new values established based on a common valuation date which was used by the City in computing the property tax bills from 1998 to 2005. However, the property tax revenue and tax receivables of the City are subject to measurement uncertainty as a significant number of appeals submitted by ratepayers have yet to be heard.

The City has established a reserve for tax appeals in the amount of NIL (2005 - \$1,750,000). Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined.

3. Deferred revenue - obligatory reserve funds:

The balances in the obligatory reserve funds of the City consist of:

| | 2006 | 2005 |
|---------------------------|--------------|--------------|
| Obligatory Reserve Funds: | | |
| Development charges act | \$ 394,018 | \$ 376,189 |
| Provincial Gas Tax | 599,716 | 577,710 |
| Federal Gas Tax | 823,655 | 1,453,990 |
| Parkland | 335,870 | 329,633 |
| | <hr/> | <hr/> |
| | \$ 2,153,259 | \$ 2,737,522 |

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

4. Long-term liabilities:

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Total long term obligations incurred by the City | <u>\$ 18,329,293</u> | <u>\$ 23,031,325</u> |

Principal payments due on net long term obligations for the next five fiscal years and thereafter are as follows:

| | 2007 To 2011 | 2012 To 2016 | 2017 and Thereafter | Total |
|---------------------------------|---------------------|--------------------|------------------------|---------------------|
| From general municipal revenues | \$10,306,768 | \$4,457,801 | \$2,772,275 | \$17,536,844 |
| From benefitting landowners | 593,997 | 198,452 | - | 792,449 |
| | <u>\$10,900,765</u> | <u>\$4,656,253</u> | <u>\$2,772,275</u> | <u>\$18,329,293</u> |

The annual principal and interest payments required to service the long term obligations of the municipality are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

The long term obligations issued in the name of the City have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law.

The above long-term debt has various maturity dates and interest rates ranging from due on demand to 2020 and 0% to 8.07% respectively.

Interest paid in the year and included in current expenditures is \$1,034,642 (2005-\$1,219,533).

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

5. Municipal fund balances:

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Current fund for the reduction of taxation or user charges: | | |
| City of Sault Ste. Marie | \$ 822,988 | \$ 432,011 |
| Library | 91,252 | 45,850 |
| Public Utilities Commission | <u>2,499,184</u> | <u>1,489,685</u> |
| | <u>3,413,424</u> | <u>1,967,546</u> |
| Unfinanced capital outlay | (14,874,878) | (7,098,795) |
| Reserves | 24,334,726 | 16,736,714 |
| Reserve funds | 18,500,843 | 16,721,567 |
| Net investment in PUC Inc. | <u>60,033,667</u> | <u>60,202,301</u> |
| | <u>87,994,358</u> | <u>86,561,787</u> |
| | <u>\$ 91,407,782</u> | <u>\$ 88,529,333</u> |

The unfinanced capital outlay will be funded by way of debenture debt of approximately \$12 million with the balance being funded through general revenues within the term of Council.

The balance available for the general reduction of taxation for the fiscal year ending December 31, 2006 has been reduced by an amount of \$9,347,003 (2005 - \$380,788) transferred to reserves as authorized by a resolution of Council on April 10, 2007 (2005 - April 25, 2006). Had this reduction not been made, the amount available for general reduction of taxation would have been \$10,169,989 (2005 - \$812,799).

6. Amounts to be recovered:

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Net long term liabilities | 18,329,293 | 23,031,325 |
| Future employee benefits obligations | 22,965,328 | 22,454,061 |
| Landfill closure and post closure liability | <u>10,115,684</u> | <u>11,709,422</u> |
| | <u>\$ 51,410,305</u> | <u>\$ 57,194,808</u> |

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

7. Expenditures by object:

The following is a summary of current and capital expenditures for the year reported on the consolidated statement of financial activities by the object of expenditure:

| | <u>2006</u> | <u>2005</u> |
|---------------------------------------|----------------------|----------------------|
| Current: | | |
| Salaries, wages and employee benefits | \$ 71,487,854 | \$ 68,158,031 |
| Materials | 18,708,895 | 16,870,021 |
| Contracted services | 20,720,037 | 23,789,851 |
| Rents and financial expenses | 421,329 | 193,347 |
| Interest on long term debt | 1,034,642 | 1,219,534 |
| Transfer payments | 28,166,875 | 26,867,133 |
| | <u>\$140,539,632</u> | <u>\$137,097,917</u> |
| Capital: | | |
| Materials | \$ 3,039,224 | \$ 2,590,480 |
| Contracted services | 47,259,914 | 63,305,521 |
| | <u>\$ 50,299,138</u> | <u>\$ 65,896,001</u> |

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

8. Investment in PUC Inc.:

PUC Inc. is a business enterprise of the City, and is accounted for on a modified equity basis.

PUC Inc. is incorporated under the laws of the Province of Ontario and provides municipal electrical distribution and other services to the residents of Sault Ste. Marie. The City owns 100% of the outstanding shares of PUC Inc. The note payable of \$15,240,000 is unsecured, bears interest at 8.5% per annum, and is payable one year after demand. The note payable of \$25,000,000 is unsecured, bears interest at rates negotiated periodically, and is payable one year after demand.

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Financial position: | | |
| Current assets | \$ 24,732,506 | \$ 30,891,393 |
| Future income tax assets | 659,207 | 671,782 |
| Capital assets | 43,484,252 | 43,387,291 |
| Regulatory assets | 1,217,901 | 3,807,614 |
| | <u>\$ 70,093,866</u> | <u>\$ 78,758,080</u> |
| Current liabilities | \$ 9,041,298 | \$ 17,590,629 |
| Employee future benefit obligations | 1,018,901 | 965,150 |
| Notes payable | 40,240,000 | 40,240,000 |
| Total liabilities | 50,300,199 | 58,795,779 |
| Shareholder's equity | 19,793,667 | 19,962,301 |
| Total Liabilities and Equity | <u>\$ 70,093,866</u> | <u>\$ 78,758,080</u> |
| Results of operations: | | |
| Revenues | \$ 64,682,531 | \$ 70,587,325 |
| Expenditures | 64,784,568 | 71,195,645 |
| Provision for payment in lieu of taxes | (66,597) | (48,950) |
| Net income (loss) for the year | <u>\$ (168,634)</u> | <u>\$ (657,270)</u> |
| The City's investment in PUC Inc. is comprised of: | | |
| Common shares | \$ 6,098,248 | \$ 6,098,248 |
| Special shares | 14,620,000 | 14,620,000 |
| Retained earnings (deficit) | (924,581) | (755,947) |
| Equity, end of year | 19,793,667 | 19,962,301 |
| Notes receivable | 40,240,000 | 40,240,000 |
| Net Investment in PUC Inc. | <u>\$ 60,033,667</u> | <u>\$ 60,202,301</u> |

9. Pension agreements:

The City makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2006 was \$3,707,530 (2005 - \$3,208,138).

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

10. Budget amounts:

Under accounting principles generally accepted for local governments in Canada, budget amounts are to be reported on the consolidated statement of financial activities for comparative purposes. The 2006 budget amounts for the City, approved by Council, have been restated to conform to the basis of preparation of the revenues and expenditures on the Consolidated Schedule of Current Fund Operations.

City Council completes separate budget reviews for its operating and capital budgets each year. The approved operating budget for 2006 is reflected on the Consolidated Schedule of Current Fund Operations. For capital spending, budgets are set for individual projects and funding for these activities is determined annually and made by transfers from reserve funds and by the application of applicable grants or other funds available to apply to capital projects. During 2006, Council approved, net transfers totalling \$4,737,315 (2005 - \$7,915,806) from reserves and reserve funds for capital projects. As many capital projects are carried out over one or more years, it is not practical to present annualized budget information on the Consolidated Schedule of Capital Fund Operations.

11. Operations of school boards:

During 2006, the City collected and transferred property taxes totalling \$23,848,775 (2005 - \$25,037,869) on behalf of area school boards.

12. Trust funds:

The trust funds administered by the City amounting to \$5,883,806 (2005 - \$5,645,582) are presented in a separate financial statement of trust fund balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's financial position or financial activities. At December 31, 2006, the trusts fund balances are comprised of:

| | 2006 | 2005 |
|------------------------------------|---------------------|---------------------|
| Cemetery care and maintenance | \$ 3,879,036 | \$ 3,732,814 |
| Pre-need assurance | 1,310,747 | 1,190,220 |
| Transit employees pension | 558,855 | 559,256 |
| Historic Sites | 9,129 | 27,975 |
| Heritage SSM | 53,029 | 50,957 |
| Ontario Home Renewal Program | 66,554 | 75,741 |
| Ontario Home Renewal Plan (Rental) | 6,456 | 8,619 |
| | <u>\$ 5,883,806</u> | <u>\$ 5,645,582</u> |

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

13. Commitments:

The City has committed to providing funding of \$27,500,000, as of 2008, to a proposed new hospital for Sault Ste. Marie. A reserve fund has been designated to accumulate \$2,100,000 per year plus investment income. Of the annual contribution to the reserve fund, \$1,100,000 is to be levied upon the taxpayers of Sault Ste. Marie, while the other \$1,000,000 is derived from the City's share of Charity Casino revenues.

The City has entered into a ten year lease ending May 14, 2010 for premises rental at base annual amounts of \$663,652 plus additional rent designed to offset landlord costs. A sub-lease to a commercial sub-tenant is structured to provide sufficient funds to meet the City's obligation under the head lease.

The City has entered into contracts for upgrading the East End Sewage Treatment Plant at an estimated cost of \$52,794,000 and the construction of a Sports and Entertainment Centre at an estimated cost of \$25,040,400. The East End Sewage Treatment Plant funding is approximately 40% by the City, of which \$8,500,000 will be funded by debt issue. The remaining 60% will be funded by grants from the Province. The Sports and Entertainment Centre funding is approximately 70% by the City, of which \$13,000,000 will be funded by debt issue. The remaining 30% is funded by federal and provincial grants.

14. Contingent liabilities:

The City has been named in litigation matters, the outcome of which is not determinable and accordingly, no provision has been made for them in these financial statements. Should any loss result from these claims, such loss would be charged to operations in the year of resolution.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

15. Future employee benefit obligations:

Employee future benefits are liabilities of the City to its employees and early retirees for the following benefits earned but not taken as at December 31, 2006:

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Future payments required to W.S.I.B. | \$ 9,832,893 | \$ 9,792,835 |
| Post employment and post retirement benefits | 6,959,254 | 6,517,131 |
| Vacation pay | 5,454,550 | 5,201,549 |
| Sick leave benefits | 718,631 | 942,546 |
| | <u>\$ 22,965,328</u> | <u>\$ 22,454,061</u> |

(i) Post employment and post retirement benefits:

The City provides non-pension benefits to employees and retirees until they reach 65 years of age. The values that follow have been estimated based upon employee data available during the actuarial review which was completed as at December 31, 2005.

The benefit liability continuity is as follows:

| | 2006 | 2005 |
|---------------------------------------|---------------------|---------------------|
| Accrued benefit obligation, January 1 | \$ 6,517,131 | \$ 6,148,287 |
| Expense | 755,507 | 673,177 |
| Payments | 313,384 | 304,333 |
| | <u>\$ 6,959,254</u> | <u>\$ 6,517,131</u> |

(ii) Significant assumptions:

Discount rate 5.25% (previously 6%)
Health cost increase 5%-8%

It is estimated that a 1% increase in assumed trend rates would increase this liability by approximately \$832,555, while a 1% decrease would reduce the liability by \$729,847.

(iii) Accrued sick leave:

Sick leave benefits accrue to City employees at a rate of one and a half days per month. Unused sick days are banked and may be used in the future if sick leave is beyond yearly allocation. No cash payments are made for unused sick time upon termination or retirement.

(iv) Accrued vacation pay:

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2006.

(v) Future payments for Worker's Safety and Insurance Board (WSIB):

Under the provisions of the Workplace Safety and Insurance Board Act the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund current disability payments. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2006

16. Landfill closure and post closure liability:

The Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post closure care of solid waste landfill sites. This requirement is to be provided for over the estimated life of the landfill site based on usage.

Landfill closure and post closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a sixty year period using the best information available to management. Future events may result in significant changes to the estimated total expenditures, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The City operates one primary landfill site, the 5th Line Landfill. The site has capacity of approximately 3,000,000 metric tons with approximately 662,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 11.5 years (extended one year from previous estimates).

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$12,980,000 (2005 - \$15,260,000). At December 31, 2006, an amount of \$10,115,684 (2005 - \$11,709,422) with respect to landfill closure and post-closure liabilities has been accrued. The City has established a reserve to contribute to the cost of closing and maintaining the landfill site.

The City is currently reviewing future solid waste disposal options which may extend the operating life of the landfill.

The Corporation of the City of Sault Ste. Marie

Consolidated Schedule of Current Fund Operations

| Year ended December 31, 2006, with comparative figures for 2005 | 2006 | 2006 | 2005 |
|---|-----------------------|---------------------|---------------------|
| | Budget (Unaudited) | Actual | Actual |
| Revenue: | | | |
| Property taxation | \$ 78,424,468 | \$ 78,702,981 | \$ 74,489,809 |
| Taxation from other governments | 4,446,785 | 4,315,172 | 4,431,398 |
| Fees and user charges | 42,180,064 | 44,063,256 | 40,520,871 |
| Government grants | 31,247,550 | 45,964,572 | 29,405,676 |
| Investment income | 4,086,000 | 4,743,626 | 4,294,788 |
| Other | 1,493,438 | 2,950,883 | 2,859,649 |
| | <u>161,878,305</u> | <u>180,740,490</u> | <u>156,002,191</u> |
| Expenditures: | | | |
| General government | 11,653,633 | 14,674,291 | 12,203,037 |
| Protection services | 29,828,380 | 30,102,074 | 28,202,931 |
| Transportation services | 23,772,473 | 25,220,983 | 23,247,863 |
| Environmental services | 15,743,113 | 13,084,349 | 17,810,936 |
| Health services | 6,169,995 | 6,483,649 | 6,377,135 |
| Social and family services | 32,212,392 | 33,057,320 | 31,628,666 |
| Social Housing | 2,129,175 | 2,122,284 | 2,015,005 |
| Recreation and cultural services | 10,821,647 | 12,085,083 | 10,677,003 |
| Planning and development | 2,811,965 | 3,709,599 | 4,935,341 |
| | <u>135,142,773</u> | <u>140,539,632</u> | <u>137,097,917</u> |
| Net revenues for the year | <u>26,735,532</u> | <u>40,200,858</u> | <u>18,904,274</u> |
| Financing and transfers: | | | |
| Debt principal repayments | 3,151,032 | 4,702,032 | 3,415,451 |
| Change in landfill closure liability | - | 1,593,738 | (2,530,583) |
| Change in future employee benefit obligation | - | (511,268) | (418,309) |
| Transfers to capital fund operations | 16,437,220 | 19,555,132 | 14,921,307 |
| Transfers to reserves and reserve funds | 7,343,412 | 13,415,346 | 4,208,206 |
| | <u>26,931,664</u> | <u>38,754,980</u> | <u>19,596,072</u> |
| Change in fund balance for the year | (196,132) | 1,445,878 | (691,798) |
| Current fund, beginning of the year | <u>1,967,548</u> | <u>1,967,546</u> | <u>2,659,344</u> |
| Current fund, end of the year | <u>\$ 1,771,416</u> | <u>\$ 3,413,424</u> | <u>\$ 1,967,546</u> |

The Corporation of the City of Sault Ste. Marie

Consolidated Schedule of Capital Fund Operations

| Year ended December 31, 2006 with comparative figures for 2005 | 2006 | 2005 |
|--|------------------------|-----------------------|
| Revenues: | | |
| Government grants | \$ 15,837,183 | \$ 32,256,503 |
| Transfer from obligatory reserve fund | 1,545,889 | - |
| Other | 827,635 | 861,273 |
| Deferred user charges recognized | 19,901 | 1,166,514 |
| | <u>18,230,608</u> | <u>34,284,290</u> |
| Expenditures: | | |
| General government | 853,042 | 632,646 |
| Protection services | 126,910 | 1,304,266 |
| Transportation services | 17,786,674 | 16,564,151 |
| Environmental services | 14,775,316 | 34,735,585 |
| Health services | 502,116 | 493,501 |
| Social and family services | - | 52,746 |
| Recreation and cultural services | 16,026,247 | 11,762,260 |
| Planning and development | 228,833 | 350,846 |
| | <u>50,299,138</u> | <u>65,896,001</u> |
| Net expenditures for the year | <u>(32,068,530)</u> | <u>(31,611,711)</u> |
| Financing and transfers: | | |
| Transfers from current fund operations | 19,555,132 | 14,921,307 |
| Transfers from reserves and reserve funds | 4,737,315 | 7,915,806 |
| | <u>24,292,447</u> | <u>22,837,113</u> |
| Change in fund balance for the year | (7,776,083) | (8,774,598) |
| Capital fund, beginning of the year | <u>(7,098,795)</u> | <u>1,675,803</u> |
| Capital fund, end of the year | <u>\$ (14,874,878)</u> | <u>\$ (7,098,795)</u> |

The Corporation of the City of Sault Ste. Marie

Consolidated Schedule of Reserves and Reserve Funds

| Year ended December 31, with comparative figures for 2005 | 2006 | 2005 |
|---|----------------------|----------------------|
| Revenues: | | |
| Investment income | \$ 699,257 | \$ 465,872 |
| Transfer to obligatory reserve fund | - | (20,472) |
| | <u>699,257</u> | <u>445,400</u> |
| Net transfers from (to) other funds: | | |
| Transfer from current fund operations | 13,415,346 | 4,208,206 |
| Transfer to capital fund operations | (4,737,315) | (7,915,806) |
| | <u>8,678,031</u> | <u>(3,707,600)</u> |
| Change in balance for the year | 9,377,288 | (3,262,200) |
| Reserves and reserve funds, beginning of year | <u>33,458,281</u> | <u>36,720,481</u> |
| Reserves and reserve funds, end of the year | <u>\$ 42,835,569</u> | <u>\$ 33,458,281</u> |
| Analyzed as follows: | | |
| Reserves set aside for specific purpose by Council: | | |
| Working capital | \$ 2,161,007 | \$ 2,161,007 |
| Acquisition of fixed assets | 2,725,296 | 2,766,545 |
| Construction projects | 138,431 | 191,689 |
| Planning and development | 827,733 | 962,433 |
| Parking facilities | 215,373 | 232,121 |
| Other programs | 13,237,465 | 5,384,404 |
| Waste disposal site | 5,029,421 | 5,038,515 |
| | <u>24,334,726</u> | <u>16,736,714</u> |
| Reserve funds set aside for specific purpose by Council: | | |
| Sewage plants | 1,110,142 | 1,072,644 |
| Cemetery development | 1,566,903 | 1,916,032 |
| Industrial land | 39,526 | 38,191 |
| Property purchases | 522,979 | 635,804 |
| Hospital development | 15,169,576 | 12,970,275 |
| Other programs | 91,717 | 88,621 |
| | <u>18,500,843</u> | <u>16,721,567</u> |
| Reserves and reserve funds, end of the year | <u>\$ 42,835,569</u> | <u>\$ 33,458,281</u> |

Trust Funds Financial Statements

**The Corporation of the City
of Sault Ste. Marie**

For the year ended December 31, 2006

Auditors' Report

To the Members of Council, Inhabitants and Ratepayers
of the The Corporation of the City of Sault Ste. Marie

We have audited the statement of financial position of the trust funds of The Corporation of the City of Sault Ste. Marie as at December 31, 2006 and the statement of continuity of the trust funds for the year then ended. These financial statements are the responsibility of the City'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 financial statements present fairly, in all material respects, the financial position of the trust funds of The Corporation of the City of Sault Ste. Marie as at December 31, 2006 and the continuity of the trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2005 were audited by another firm of chartered accountants.

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
April 5, 2007

The Corporation of the City of Sault Ste. Marie

Trust Funds

Statement of Financial Position

December 31, 2006, with comparative figures for 2005

| | | | | | | | | 2006 | 2005 |
|-----------------------------|-------------------------|-----------------------|------------------------------|--|-------------------|------------------|---------------------------------|--------------------|--------------------|
| | Care and Maintenance | Pre-need Assurance | Ontario Home Renewal Plan | Ontario Home Renewal Plan (Rental) | Historic Sites | Heritage SSM | Transit Employees Pension | Total | Total |
| Assets | | | | | | | | | |
| Cash and investments | \$3,945,217 | \$1,235,047 | \$ 27,446 | \$ 1,589 | \$ 31,068 | \$ 53,029 | \$ 558,855 | 5,852,251 | \$5,443,782 |
| Receivable from other funds | (66,181) | 75,700 | - | - | 27 | - | - | 9,546 | 168,105 |
| Loans receivable (Note 2) | - | - | 70,415 | 5,005 | - | - | - | 75,420 | 85,639 |
| | \$3,879,036 | \$1,310,747 | \$ 97,861 | \$ 6,594 | \$ 31,095 | \$ 53,029 | \$ 558,855 | \$5,937,217 | \$5,697,526 |
| Liabilities | | | | | | | | | |
| Payable to other funds | \$ - | \$ - | \$ 31,307 | \$ 138 | \$ 21,966 | \$ - | \$ - | \$ 53,411 | \$ 51,944 |
| | 3,879,036 | 1,310,747 | 66,554 | 6,456 | 9,129 | 53,029 | 558,855 | 5,883,806 | 5,645,582 |
| | \$3,879,036 | \$1,310,747 | \$ 97,861 | \$ 6,594 | \$ 31,095 | \$ 53,029 | \$ 558,855 | \$5,937,217 | \$5,697,526 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie

Trust Funds Statement of Continuity

Year ended December 31, 2006, with comparative figures for 2005

| | | | | | | | | 2006 | 2005 |
|---------------------------------|-------------------------|-----------------------|------------------------------|--|-------------------|-----------------|---------------------------------|-------------|-------------|
| | Care and Maintenance | Pre-need Assurance | Ontario Home Renewal Plan | Ontario Home Renewal Plan (Rental) | Historic Sites | Heritage SSM | Transit Employees Pension | Total | Total |
| Balance, beginning of the year | \$3,732,814 | \$1,190,220 | \$ 75,741 | \$ 8,619 | \$ 27,975 | \$ 50,957 | \$559,256 | \$5,645,582 | \$5,306,943 |
| Revenue: | | | | | | | | | |
| Capital receipts | 146,222 | 75,699 | - | - | 1,395 | - | - | 223,316 | 378,385 |
| Interest earned | 187,682 | 44,828 | 1,509 | 535 | 1,725 | 2,072 | 17,420 | 255,771 | 189,254 |
| | 333,904 | 120,527 | 1,509 | 535 | 3,120 | 2,072 | 17,420 | 479,087 | 567,639 |
| Expenditures: | | | | | | | | | |
| Contributions to revenue fund | 187,682 | - | 997 | 88 | - | - | - | 188,767 | 148,333 |
| Transfer to Province of Ontario | - | - | 9,190 | 2,560 | - | - | - | 11,750 | 23,433 |
| Transfer to capital project | - | - | - | - | 21,966 | - | - | 21,966 | 20,309 |
| Administration charges | - | - | 509 | 50 | - | - | 17,821 | 18,380 | 36,925 |
| | 187,682 | - | 10,696 | 2,698 | 21,966 | - | 17,821 | 240,863 | 229,000 |
| Balance, end of the year | \$3,879,036 | \$1,310,747 | \$ 66,554 | \$ 6,456 | \$ 9,129 | \$ 53,029 | \$ 558,855 | \$5,883,806 | \$5,645,582 |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie

Trust Funds
Notes to Financial Statements
December 31, 2006

1. Summary of significant accounting policies:

Basis of accounting

The financial statements are prepared by management and are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable. Expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

2. Ontario home renewal program:

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans were limited to \$7,500, of which the maximum deferred portion was \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 2006 comprise repayable loans of \$23,747 (2005 - \$26,439) and deferred loans of \$51,799 (2005 - \$59,199). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continuous ownership and occupancy. The deferred portion of the loan is deferred for a five year period. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balance of the loans immediately become due and payable by the homeowner.

The Province of Ontario legislated an end to the OHRP program in 1993. As of July 16, 1993 no new loans were issued. All funds collected on outstanding OHRP loans will be remitted to the Province by March 1 of the following year. However, municipalities will be provided an administration fee of five per cent of the balances collected after December 31, 1993 and are permitted to retain the interest earned on unremitted OHRP trust account balances.

3. Investments:

Total investments by the trust funds of \$3,379,655 (2005 - \$3,232,328) included in cash and investments on the Statement of Financial Position at cost, have a market value of \$3,384,783 (2005 - \$3,278,864) at the end of the year.