

Consolidated Financial Statements

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

For the year ended December 31, 2007

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

Consolidated Financial Statements  
For the year ended December 31, 2007

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

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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, 2007 and the consolidated statements of financial activities and fund balances and changes in financial position for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Sault Ste. Marie as at December 31, 2007 and the results of its financial activities and changes in financial position for the year then ended in accordance with the accounting principles disclosed in the summary of significant accounting policies accompanying the financial statements.

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada  
June 12, 2008

# The Corporation of the City of Sault Ste. Marie

## Consolidated Statement of Financial Position

December 31, 2007, with comparative figures for 2006

2007

2006

### Assets

#### Financial assets:

Cash and temporary investments	\$ 41,295,078	\$ 28,079,161
Taxes receivable	5,319,289	5,639,698
Temporary advances to trust funds	-	41,864
Accounts receivable	17,510,094	20,865,152
Other current assets	715,252	1,151,537
	<u>64,839,713</u>	<u>55,797,412</u>

#### Non-financial assets:

Investment in PUC Inc. (note 8)	59,791,992	60,033,667
Inventories	2,102,778	2,177,466
	<u>61,894,770</u>	<u>62,211,133</u>

\$126,734,483    \$117,988,545

### Liabilities and Municipal Position

#### Liabilities:

Accounts payable and accrued liabilities	\$ 17,032,566	\$ 24,427,504
Temporary advances from trust funds	19,155	-
Future employee benefit obligations (note 6)	24,131,334	22,965,328
Deferred revenue - obligatory reserve funds (note 3)	2,856,163	2,153,259
Landfill closure and post-closure liability (note 16)	10,992,629	10,115,684
Net long-term liabilities (note 4)	26,586,752	18,329,293
	<u>81,618,599</u>	<u>77,991,068</u>

#### Municipal position:

Current fund (note 5)	4,068,223	3,413,424
Capital fund (note 5)	(570,832)	(14,874,878)
Reserves and reserve funds (note 5)	43,537,216	42,835,569
Investment in PUC Inc. (note 8)	59,791,992	60,033,667
	<u>106,826,599</u>	<u>91,407,782</u>
Amounts to be recovered (note 6)	(61,710,715)	(51,410,305)
	<u>45,115,884</u>	<u>39,997,477</u>

\$126,734,483    \$117,988,545

Contingent liabilities (note 14)		
Commitments (note 15)		

# The Corporation of the City of Sault Ste. Marie

## Consolidated Statement of Financial Activities and Changes in Fund Balances

Year Ended December 31, 2007, with comparative figures for 2006	2007	2006
<b>Revenues:</b>		
Property taxation	\$ 81,131,423	\$ 78,702,981
Taxation from other governments	4,368,265	4,315,172
Fees and user charges	47,006,228	44,063,256
Government grants	40,671,981	61,801,755
Investment income	5,416,931	5,442,883
Other	2,863,161	3,778,518
Obligatory reserve fund revenue recognized	1,209,436	1,545,889
Deferred user charges recognized	17,282	19,901
	<u>182,684,707</u>	<u>199,670,355</u>
<b>Expenditures:</b>		
<b>Current:</b>		
General government	12,482,285	14,674,291
Protection services	32,384,235	30,102,074
Transportation services	25,737,330	25,220,983
Environmental services	18,157,299	13,084,349
Health services	6,302,816	6,483,649
Social and family services	31,694,311	33,057,320
Social housing	1,933,317	2,122,284
Recreation and cultural services	13,137,649	12,085,083
Planning and development	4,256,425	3,709,599
Contribution to new hospital construction	2,216,249	458,523
	<u>148,301,916</u>	<u>140,998,155</u>
<b>Capital:</b>		
General government	1,216,206	853,042
Protection services	3,923,685	126,910
Transportation services	13,881,312	17,328,151
Environmental services	7,085,885	14,775,316
Health services	649,141	502,116
Social and family services	12,150	-
Recreational and cultural services	2,164,571	16,026,247
Planning and development	-	228,833
	<u>28,932,950</u>	<u>49,840,615</u>
<b>Total expenditures</b>	<u>177,234,866</u>	<u>190,838,770</u>
<b>Excess of revenue over expenditures before government business enterprise</b>	<b>5,449,841</b>	<b>8,831,585</b>
<b>PUC Inc. operating results</b>	<u>(241,675)</u>	<u>(168,634)</u>
<b>Net revenues for the year</b>	<u>5,208,166</u>	<u>8,662,951</u>
<b>Change in amounts to be recovered:</b>		
New debt issued	11,130,240	-
Debt principal repayments	(2,962,541)	(4,702,032)
Change in liabilities for post employment benefits and landfill closure and post-closure	<u>2,042,952</u>	<u>(1,082,470)</u>
	<u>10,210,651</u>	<u>(5,784,502)</u>
<b>Change in fund balances for the year</b>	<b>15,418,817</b>	<b>2,878,449</b>
<b>Fund balances, beginning of year</b>	<u>91,407,782</u>	<u>88,529,333</u>
<b>Fund balances, end of year</b>	<u>\$ 106,826,599</u>	<u>\$ 91,407,782</u>

# The Corporation of the City of Sault Ste. Marie

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 2007, with comparative figures for 2006	2007	2006
Operating activities:		
Net revenues for the year	\$ 5,208,166	\$ 8,662,951
Items not involving cash		
PUC Inc. operating results	241,675	168,634
Future employee benefit obligations	1,166,006	513,268
Landfill closure and post-closure liability	876,945	(1,593,738)
	<u>7,492,792</u>	<u>7,749,115</u>
Changes in non-cash working capital balances:		
Decrease (Increase) in taxes receivable	320,409	(694,960)
Decrease in accounts receivable	3,355,058	12,280,011
Decrease (Increase) in other current assets	436,285	(506,060)
Decrease (Increase) in inventories	74,688	(190,134)
Increase (Decrease) in accounts payable and accrued liabilities	(7,394,938)	3,372,861
Increase (Decrease) in deferred revenue - obligatory reserve funds	702,904	(584,263)
Decrease (Increase) in temporary advances from trust funds	61,020	(158,012)
	<u>(2,444,574)</u>	<u>13,519,443</u>
	<u>5,048,218</u>	<u>21,268,558</u>
Financing activities:		
Additions to long-term liabilities	11,130,240	-
Repayment of long-term liabilities	(2,962,541)	(4,702,032)
	<u>8,167,699</u>	<u>(4,702,032)</u>
Net change in cash and temporary investments	13,215,917	16,566,526
Cash and temporary investments, beginning of year	<u>28,079,161</u>	<u>11,512,635</u>
Cash and temporary investments, end of year	<u>\$ 41,295,078</u>	<u>\$ 28,079,161</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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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 Public Health  
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 Public Region Conservation Authority

# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

December 31, 2007

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### 1. Summary of significant accounting policies (continued):

(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.

(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 and changes in fund balances in the period of acquisition.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 1. Summary of significant accounting policies (continued):

### (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.

### (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 as 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.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 1. Summary of significant accounting policies (continued):

### (l) Deferred revenue-obligatory reserve funds:

The City receives certain 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.

### (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 amount 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 2007. 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 \$252,986 (2006 - Nil). Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

### 3. Deferred revenue- obligatory reserve funds:

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

	2007	2006
Obligatory reserve funds:		
Development charges act	\$ 418,257	\$ 394,018
Provincial Gas Tax	278,161	599,716
Federal Gas Tax	260,410	823,655
Parkland	357,475	335,870
Building permits Bill 124	1,541,860	-
	<u>\$ 2,856,163</u>	<u>\$ 2,153,259</u>

### 4. Long-term liabilities:

	2007	2006
Total long-term liabilities incurred by the City	<u>\$ 26,586,752</u>	<u>\$ 18,329,293</u>

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

	2008 to 2012	2013 to 2017	2018 and thereafter	Total
From general municipal revenues	\$12,244,531	\$7,886,161	\$6,456,060	<u>\$26,586,752</u>

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

The long-term liabilities 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 liabilities has various maturity dates and interest rates ranging from due on demand to 2021 and 0% to 8.07% respectively.

Interest paid in the year and included in current expenditures is \$882,327 (2006-\$1,034,642).

# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

December 31, 2007

### 5. Municipal fund balances:

	<u>2007</u>	<u>2006</u>
Current fund for the reduction of taxation or user charges:		
City of Sault Ste. Marie	\$ 564,154	\$ 822,988
Library	74,660	91,252
Public Utilities Commission	<u>3,429,409</u>	<u>2,499,184</u>
	<u>4,068,223</u>	<u>3,413,424</u>
Unfinanced capital outlay	(570,832)	(14,874,878)
Reserves	24,631,780	24,334,726
Reserve funds	18,905,436	18,500,843
Net investment in PUC Inc.	<u>59,791,992</u>	<u>60,033,667</u>
	<u>102,758,376</u>	<u>87,994,358</u>
	<u>\$106,826,599</u>	<u>\$ 91,407,782</u>

The unfinanced capital outlay will be 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, 2007 has been reduced by an amount of \$1,747,815 (2006 - \$9,347,003) transferred to reserves as authorized by a resolution of Council on April 30, 2008 (2006 - April 10, 2007). Had this reduction not been made, the amount available for general reduction of taxation would have been \$2,311,970 (2006 - \$10,169,989).

### 6. Amounts to be recovered:

	<u>2007</u>	<u>2006</u>
Net long term liabilities	26,586,752	18,329,293
Future employee benefits obligations	24,131,334	22,965,328
Landfill closure and post closure liability	<u>10,992,629</u>	<u>10,115,684</u>
	<u>\$ 61,710,715</u>	<u>\$ 51,410,305</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 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 the expenditure:

	<u>2007</u>	<u>2006</u>
Current:		
Salaries, wages and employee benefits	\$ 76,725,793	\$ 71,487,854
Materials	19,908,251	18,708,895
Contracted services	21,039,442	20,720,037
Rents and financial expenses	114,016	421,329
Interest on long term debt	882,327	1,034,642
Transfer payments	27,415,838	28,166,875
Transfer to obligatory reserve funds	1,745,624	-
Contribution to new hospital construction	2,216,249	458,523
	<u>\$150,047,540</u>	<u>\$140,998,155</u>
Capital:		
Materials	\$ 2,551,899	\$ 3,039,224
Contracted services	26,381,051	46,801,391
	<u>\$ 28,932,950</u>	<u>\$ 49,840,615</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

## 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.

	<u>2007</u>	<u>2006</u>
Financial position:		
Current assets	\$ 29,029,832	\$ 24,732,506
Future income tax assets	486,010	659,207
Capital assets	44,260,976	43,484,252
Regulatory assets	-	1,217,901
	<u>\$ 73,776,818</u>	<u>\$ 70,093,866</u>
Current liabilities	\$ 12,596,250	\$ 9,041,298
Employee future benefit obligations	1,082,003	1,018,901
Notes payable	40,240,000	40,240,000
Regulatory liabilities	306,573	-
Total liabilities	<u>54,224,826</u>	<u>50,300,199</u>
Shareholder's equity	<u>19,551,992</u>	<u>19,793,667</u>
Total liabilities and equity	<u>\$ 73,776,818</u>	<u>\$ 70,093,866</u>
Results of operations:		
Revenues	\$ 67,292,879	\$ 64,682,531
Expenditures	66,876,857	64,784,568
Provision for payment in lieu of taxes	<u>(657,697)</u>	<u>(66,597)</u>
Net income (loss) for the year	<u>\$ (241,675)</u>	<u>\$ (168,634)</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)	<u>(1,166,256)</u>	<u>(924,581)</u>
Equity, end of year	<u>19,551,992</u>	<u>19,793,667</u>
Notes receivable	<u>40,240,000</u>	<u>40,240,000</u>
Net investment in PUC Inc.	<u>\$ 59,791,992</u>	<u>\$ 60,033,667</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 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 benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2007 was \$3,925,839 (2006 - \$3,707,530).

## 10. Budget amounts:

Under generally accepted accounting principles for local governments in Canada, budget amounts are to be reported on the consolidated statement of financial activities for comparative purposes. The 2007 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 2007 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 2007, Council approved, net transfers totalling \$6,512,154 (2006 - \$4,737,315) 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 2007, the City collected and transferred property taxes totalling \$23,766,331 (2006 - \$23,848,775) on behalf of area school boards.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 12. Trust funds:

The trust funds administered by the City amounting to \$6,203,417 (2006 - \$5,883,806) are presented in a separate trust funds financial statement. 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, 2007, the trust fund balances are comprised of:

	2007	2006
Cemetery Care and Maintenance funds	\$ 4,045,905	\$ 3,879,036
Pre-need assurance	1,453,635	1,310,747
Transit employees pension	575,145	558,855
Historic Sites	10,556	9,129
Heritage Sault Ste. Marie	55,413	53,029
Ontario Home Renewal Program	56,849	66,554
Ontario Home Renewal Plan (Rental)	5,914	6,456
	<u>\$ 6,203,417</u>	<u>\$ 5,883,806</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## 13. Commitments:

The City has committed to providing total funding of \$29,500,000 for the new hospital under construction in Sault Ste. Marie of which \$2,960,328 has been contributed to date. 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. Funding is expected to be advanced in 2010.

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.

## 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, 2007

## 15. Future employee benefit obligation:

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, 2007:

	2007	2006
Future payments required to W.S.I.B.	\$ 9,725,249	\$ 9,832,893
Post-employment and post-retirement benefits	8,114,394	6,959,254
Vacation pay	6,013,546	5,454,550
Sick leave benefits	278,145	718,631
	<u>\$ 24,131,334</u>	<u>\$ 22,965,328</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, 2007. The benefit liability continuity is as follows:

	2007	2006
Accrued benefit obligation, January 1	\$ 6,959,254	\$ 6,517,131
Expense	1,473,493	755,507
Payments	<u>(318,353)</u>	<u>(313,384)</u>
	<u>\$ 8,114,394</u>	<u>\$ 6,959,254</u>

### (ii) Significant assumptions:

Discount rate            5.5% (previously 5.25%)  
 Health cost increase    5%-9%

It is estimated that a 1% increase in assumed trend rates would increase this liability by approximately \$798,819, while a 1% decrease would reduce the liability by \$709,057.

### (iii) Sick leave benefits:

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, 2007.

### (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, 2007

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## **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 580,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 9.7 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$13,630,000 (2006 - \$12,980,000). At December 31, 2007, an amount of \$10,992,629 (2006 - \$10,115,684) with respect to landfill closure and post-closure liability has been accrued and will be funded from future taxation revenues.

The City will be undertaking a full environmental assessment of the landfill site to determine future options which may extend the operating life of the landfill.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2007

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## **17. Future accounting and reporting changes:**

In September 2006, the Public Sector Accounting Board issued amendments to PS 3150, Tangible Capital Assets requiring that all entities will be required to account for tangible capital assets at historical cost and amortize the cost over the estimated useful life of the assets. The transitional provisions require the City to adopt the recommendations effective January 1, 2009. Management is currently in the process of evaluating the impact of these new standards.

Furthermore, commencing in fiscal 2007, Public Sector Accounting Guideline PSG-7 requires certain disclosures of tangible capital assets, to the extent it has the information. PSG-7 provides transitional guidance on presenting information related to tangible capital assets by way of a note to the financial statements until Section 3150 – Tangible Capital Assets comes into affect on January 1, 2009.

During 2007, the City has worked towards compliance with the new standards. As at December 31, 2007, the municipality has begun inventorying all Land, Building, Infrastructure, Machinery and Equipment, and Vehicle assets. Valuation of these assets is in progress. Work has also begun on establishing policies relating to Tangible Capital Asset reporting, including asset classifications, useful life and depreciation methods.

As management is currently in the process of gathering its required information for adoption of PS 3150, the City has not gathered sufficient information on each category of major asset for disclosure under PSG-7.

## **18. Comparative figures:**

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2007.

# The Corporation of the City of Sault Ste. Marie

## Consolidated Schedule of Current Fund Operations

Year ended December 31, 2007, with comparative figures for 2006	2007	2007	2006
	Budget (Unaudited)	Actual	Actual
<b>Revenue:</b>			
Property taxation	\$ 80,557,662	\$ 81,131,423	\$ 78,702,981
Taxation from other governments	4,339,965	4,368,265	4,315,172
Fees and user charges	46,964,196	47,006,228	44,063,256
Government grants	32,680,075	32,803,096	45,964,572
Investment income	4,105,000	4,593,726	4,743,626
Other	1,297,121	2,061,730	2,950,883
	<u>169,944,019</u>	<u>171,964,468</u>	<u>180,740,490</u>
<b>Expenditures:</b>			
General government	12,706,653	12,482,285	14,674,291
Protection services	31,227,216	32,384,235	30,102,074
Transportation services	25,665,284	25,737,330	25,220,983
Environmental services	20,418,015	18,157,299	13,084,349
Health services	5,860,330	6,302,816	6,483,649
Social and family services	32,549,974	31,694,311	33,057,320
Social housing	2,112,925	1,933,317	2,122,284
Recreation and cultural services	11,296,790	13,137,649	12,085,083
Planning and development	3,367,410	4,256,425	3,709,599
Contribution to new hospital construction	-	2,216,249	458,523
	<u>145,204,597</u>	<u>148,301,916</u>	<u>140,998,155</u>
Excess of revenues over expenditures	<u>24,739,422</u>	<u>23,662,552</u>	<u>39,742,335</u>
<b>Financing and transfers:</b>			
Debt principal repayments	2,321,046	2,962,541	4,702,032
Change in landfill closure liability	-	(876,945)	1,593,738
Change in future employee benefit obligation	-	(1,166,007)	(511,268)
Transfers to capital fund operations	16,161,961	15,937,568	19,096,609
Transfers to reserves and reserve funds	8,106,266	6,150,596	13,415,346
	<u>26,589,273</u>	<u>23,007,753</u>	<u>38,296,457</u>
Change in fund balance for the year	(1,849,851)	654,799	1,445,878
Current fund, beginning of the year	<u>3,413,424</u>	<u>3,413,424</u>	<u>1,967,546</u>
Current fund, end of the year	<u>\$ 1,563,573</u>	<u>\$ 4,068,223</u>	<u>\$ 3,413,424</u>

# The Corporation of the City of Sault Ste. Marie

## Consolidated Schedule of Capital Fund Operations

Year ended December 31, 2007 with comparative figures for 2006	2007	2006
<b>Revenues:</b>		
Government grants	\$ 7,628,885	\$ 15,837,183
Obligatory reserve fund revenue recognized	1,209,436	1,545,889
Other	801,431	827,635
Deferred user charges recognized	17,282	19,901
	<u>9,657,034</u>	<u>18,230,608</u>
<b>Expenditures:</b>		
General government	1,216,206	853,042
Protection services	3,923,685	126,910
Transportation services	13,881,312	17,328,151
Environmental services	7,085,885	14,775,316
Health services	649,141	502,116
Social and family services	12,150	-
Recreation and cultural services	2,164,571	16,026,247
Planning and development	-	228,833
	<u>28,932,950</u>	<u>49,840,615</u>
Excess of expenditures over revenues	<u>(19,275,916)</u>	<u>(31,610,007)</u>
<b>Financing and transfers:</b>		
New debt issued	11,130,240	-
Transfers from current fund operations	15,937,568	19,096,609
Transfers from reserves and reserve funds	6,512,154	4,737,315
	<u>33,579,962</u>	<u>23,833,924</u>
Change in fund balance for the year	14,304,046	(7,776,083)
Capital fund, beginning of the year	<u>(14,874,878)</u>	<u>(7,098,795)</u>
Capital fund, end of the year	<u>\$ (570,832)</u>	<u>\$ (14,874,878)</u>

# The Corporation of the City of Sault Ste. Marie

## Consolidated Schedule of Reserves and Reserve Funds

Year ended December 31, 2007 with comparative figures for 2006	2007	2006
<b>Revenues:</b>		
Investment income	\$ 823,205	\$ 699,257
Government grants	240,000	-
	<u>1,063,205</u>	<u>699,257</u>
<b>Net transfers from (to) other funds:</b>		
Transfer from current fund operations	7,692,456	13,415,346
Transfer to capital fund operations	(6,512,154)	(4,737,315)
Transfer to obligatory reserve funds	(1,541,860)	-
	<u>(361,558)</u>	<u>8,678,031</u>
Change in balance for the year	701,647	9,377,288
Reserves and reserve funds, beginning of the year	<u>42,835,569</u>	<u>33,458,281</u>
Reserves and reserve funds, end of the year	<u>\$ 43,537,216</u>	<u>\$ 42,835,569</u>
<b>Analyzed as follows:</b>		
<b>Reserves set aside for specific purpose by Council:</b>		
Working capital	\$ 2,161,008	\$ 2,161,007
Acquisition of fixed assets	3,903,933	2,725,296
Construction projects	138,431	138,431
Planning and development	843,842	827,733
Parking facilities	121,408	215,373
Other programs	11,539,208	13,237,465
Waste disposal site	5,923,950	5,029,421
	<u>24,631,780</u>	<u>24,334,726</u>
<b>Reserve funds set aside for specific purpose by Council:</b>		
Sewage plants	844,818	1,110,142
Cemetery development	1,208,918	1,566,903
Industrial land	41,501	39,526
Property purchases	822,056	522,979
Hospital development	15,693,266	15,169,576
Other programs	294,877	91,717
	<u>18,905,436</u>	<u>18,500,843</u>
Reserves and reserve funds, end of the year	<u>\$ 43,537,216</u>	<u>\$ 42,835,569</u>