

Consolidated Financial Statements of

**THE CORPORATION OF THE CITY
OF SAULT STE. MARIE**

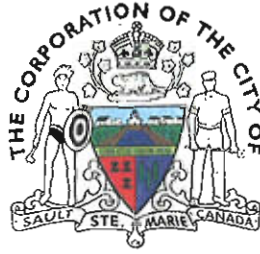
Year ended December 31, 2009

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2009

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Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of City of Sault Ste. Marie (the "City") are the responsibility of the City's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The finance committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the City. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.

Joe Fratesi
Chief Administrative Officer

William Freiburger
Commissioner of Finance & Treasurer



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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 (the "City") as at December 31, 2009 and the consolidated statements of operations and accumulated surplus, change in net financial assets, and cash flows 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 consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2009 and the results of its operations and changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
June 15, 2010

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

Year ended December 31, 2009 with comparative figures for 2008

	2009	2008
		(Restated - note 2)
Financial assets:		
Cash and cash equivalents	\$ 48,610,495	\$ 57,943,981
Taxes receivable	8,385,288	6,665,168
Accounts receivable	21,278,661	15,451,406
Other current assets	1,218,872	2,018,229
Investment in PUC Inc. (note 6)	62,990,855	61,649,996
	<u>142,484,171</u>	<u>143,728,780</u>
Financial liabilities:		
Accounts payable and accrued liabilities	21,396,725	17,908,348
Temporary advances from trust funds	228,081	87,213
Future employee benefit obligations (Note 12)	26,797,791	24,631,425
Deferred revenue (Note 4)	2,769,120	2,920,433
Landfill closure and post closure liability (Note 13)	14,168,422	13,819,210
Net long-term liabilities (Note 5)	20,440,876	23,376,288
	<u>85,801,015</u>	<u>82,742,917</u>
Net financial assets	56,683,156	60,985,863
Non-financial assets:		
Tangible capital assets (Note 14)	386,821,460	360,122,486
Prepaid expenses	24,364	27,189
Inventories	1,976,467	2,062,532
	<u>388,822,291</u>	<u>362,212,207</u>
Commitments (Note 10)		
Contingent liabilities (note 11)		
Accumulated surplus (Note 15)	<u>\$ 445,505,447</u>	<u>\$ 423,198,070</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2009, with comparative figures for 2008

	Budget	2009	2008
	(unaudited)		(Restated - note 2)
Revenue:			
Property taxation	\$ 86,403,615	\$ 86,609,429	\$ 83,249,983
Taxation from other governments	4,386,395	4,439,667	4,337,053
Fees and user charges	49,102,678	47,753,069	48,539,391
Government grants	33,109,690	47,369,946	50,935,756
Investment income	5,670,000	5,448,728	5,551,480
Other	1,186,742	1,849,071	3,814,410
Transfers from obligatory reserve funds	-	39,340	-
Obligatory reserve fund revenue recognized	-	75,849	148,917
Deferred user charges recognized	-	76,260	208,435
Gain (loss) on disposal of tangible capital assets	-	152,013	(411,684)
PUC Inc. operating results	-	1,950,938	1,858,004
Total revenue	179,859,120	195,764,310	198,231,745
Expenses:			
General government	12,535,064	12,542,956	14,025,183
Protection services	34,488,625	35,709,635	29,283,821
Transportation services	29,664,574	31,945,742	29,808,739
Environmental services	18,513,027	18,505,034	18,566,029
Health services	6,548,570	6,839,774	6,480,865
Social and family services	30,987,193	30,348,857	28,910,791
Social housing	2,031,805	2,202,880	1,978,329
Planning and development	3,687,141	5,911,906	4,145,404
Recreation and cultural services	14,164,445	15,004,100	13,383,979
Contribution to new hospital construction	-	-	85,350
Amortization	-	14,446,049	13,901,859
Total expenses	152,620,444	173,456,933	160,570,349
Annual surplus	27,238,676	22,307,377	37,661,396
Accumulated surplus, beginning of year	423,198,070	423,198,070	385,536,674
Accumulated surplus, end of year	\$ 450,436,746	\$ 445,505,447	\$ 423,198,070

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2009

	Budget (unaudited)	2009	2008
Annual surplus	\$ 27,238,676	\$ 22,307,377	\$ 37,661,396
Acquisition of tangible capital assets	(37,084,397)	(41,282,582)	(34,015,237)
Amortization of tangible capital assets	-	14,446,049	13,901,859
Loss (gain) on sale of tangible capital assets	-	(152,013)	411,684
Proceeds on sale of tangible capital assets	-	289,572	-
	(9,845,721)	(4,391,597)	7,959,702
Change in prepaid supplies	-	2,825	2,853
Change in inventories of supplies	-	86,065	40,245
	(9,845,721)	(4,302,707)	18,002,800
Change in net financial assets	(9,845,721)	(4,302,707)	18,002,800
Net financial assets, beginning of year	60,985,863	60,985,863	42,983,063
Net financial assets, end of year	\$ 51,140,142	\$ 56,683,156	\$ 60,985,863

The accompanying notes are an integral part of these consolidated financial statements

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Cash Flows

December 31, 2009 with comparative figures for 2008

	2009	2008
		(Restated - note 2)
Cash provided by (used in):		
Operating Activities:		
Annual surplus	\$ 22,307,377	\$ 37,661,396
Items not involving cash:		
Amortization	14,446,049	13,901,859
Loss (gain) on sale of tangible capital assets	(152,013)	411,684
Developer contributions of tangible capital assets	(141,004)	(684,134)
Change in future employee benefit obligations	2,166,366	500,091
Change in landfill closure and post-closure liability	349,212	2,826,581
PUC Inc. operating results	(1,950,938)	(1,858,004)
Change in non-cash assets and liabilities:		
Taxes receivable	(1,720,120)	(1,345,879)
Accounts receivable	(8,266,768)	1,251,785
Prepaid expenses	2,825	2,853
Other current assets	799,357	(562,071)
Inventories	86,065	40,245
Accounts payable and accrued liabilities	1,083,253	487,451
Deferred revenue	(151,313)	64,270
Temporary advances from trust funds	140,868	68,058
Net change in cash from operating activities	28,999,216	52,766,185
Capital Activities:		
Proceeds on sale of tangible capital assets	289,572	-
Cash used to acquire tangible capital assets	(41,141,579)	(33,331,102)
Net change in cash from capital activities	(40,852,007)	(33,331,102)
Investing Activities:		
PUC Inc. dividends received	610,080	-
Financing Activities:		
Proceeds from long-term liabilities	4,844,637	424,571
Repayment of long-term liabilities	(2,935,412)	(3,210,751)
Net change in cash from financing activities	1,909,225	(2,786,180)
Net change in cash	(9,333,486)	16,648,903
Cash and cash equivalents, beginning of year	57,943,981	41,295,078
Cash and cash equivalents, end of year	\$ 48,610,495	\$ 57,943,981

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

The City of Sault Ste. Marie (the "City") is a municipality that was created on January 1, 1950 pursuant to the City Act. The City provides municipal services such as police, fire, ambulance, public works, planning, parks and recreation, library and other general government operations.

1. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City except for the City's government business enterprises which are accounted for on the modified equity basis of accounting.

These entities and organizations include:

Sault Ste. Marie Police Services Board
City of Sault Ste. Marie Public Utilities Commissions
Sault Ste. Marie Public Library

Interdepartmental and inter-organizational transactions and balances between these entities and organizations have been eliminated.

(ii) Investment in Government Business Enterprises

The City's investment in PUC Inc. is accounted for on a modified equity basis, consistent with Canadian generally accounting principles as recommended by PSAB for investments in PUC Inc. Under the modified equity basis, PUC Inc.'s accounting policies are not adjusted to conform with those of the municipality and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of PUC Inc. in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends that the City may receive from PUC Inc. will be reflected as reductions in the investment asset account.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

1. Summary of significant accounting policies (continued):

(iii) 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 Public Region Conservation Authority

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in their consolidated financial statements.

(b) Basis of accounting:

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers received relate to social services, child care, housing and health programs. Government transfers paid relate to social services programs. Transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

1. Significant accounting policies (continued):

(f) Deferred revenue:

Deferred revenues represent licenses, permits and other fees which have been collected, but for which the related services or inspections have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(g) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i. Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less (if applicable) residual value of the tangible capital assets excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful Life-Years
Landfill and Land Improvements	10-30 years
Buildings and Building Improvements	10-60 years
Vehicles	3-15 years
Machinery and Equipment	5-25 years
Infrastructure	15-100 years

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

ii. Contributions for tangible capital assets

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

iii. Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property, are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements 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. Significant estimates include assumptions used in estimating provisions for accrued liabilities, landfill liability and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

(i) Employee future benefits:

- i. The City provides certain benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, and life insurance, extended health and dental benefits for early retirees.

The costs of sick leave, benefits under the Workplace Safety and Insurance Board Act and life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulated over the periods of service provided by employees, such as retirement gratuities, compensated absences and health, dental and life insurance benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains and losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

- ii. The costs of multi-employer defined contribution pension plan benefits, such as the Ontario Municipal Employees Retirement System ("OMERS") pensions, are the employer's contributions due to the plan in the period.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

1. Significant accounting policies (continued):

(l) Landfill liability:

The liability for closure of operational sites and post-closure care has been recognized based on estimated future expenses, estimated inflation and the usage of the site's capacity during the year.

2. Change in accounting policies:

The City has implemented Public Sector Accounting Board ("PSAB") sections 1200 Financial Statement Presentation and 3150 Tangible Capital Assets. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition or construction.

Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The City applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, the Consumer Price Index (CPI) and Non-residential Building Construction Price Index (NRBCPI) were used as resources for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

Accumulated surplus at January 1, 2008:

Current fund balance	\$ 4,068,223
Capital fund balance	(570,832)
Reserves	24,631,779
Reserve funds	18,905,436
Investment in PUC Inc.	59,791,992
Amounts to be recovered	(61,710,715)
Accumulated surplus, as previously reported	45,115,883
Net book value of tangible capital assets recorded	340,420,791
Accumulated surplus, as restated	\$ 385,536,674

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

2. Change in accounting policies (continued):

Annual surplus for 2008:

Net revenues, as previously reported	\$ 17,959,700
Developer contribution of tangible capital assets	684,134
Assets capitalized but previously expensed	33,331,105
Amortization expense not previously recorded	(13,901,859)
Loss on disposal of assets	(411,684)
<u>Annual surplus, as restated</u>	<u>\$ 37,661,396</u>

3. 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 for 2009. 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 (2008 \$252,986). Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined.

4. Deferred revenue:

The balances in the deferred revenue of the City consist of:

	2009	2008
Development charges act	\$ 340,208	\$ 337,623
Provincial Gas Tax	135,738	132,961
Federal Gas Tax	178,107	270,520
Parkland	233,627	285,281
Building permits Bill 124	1,881,440	1,894,048
<u>Total deferred revenue</u>	<u>2,769,120</u>	<u>2,920,433</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

4. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2009	2008
Balance, beginning of year:		
Development charges act	\$ 337,623	\$ 418,257
Provincial Gas Tax	132,961	278,161
Federal Gas Tax	270,520	260,410
Parkland	285,281	357,475
Building permits Bill 124	1,894,048	1,541,860
	<u>2,920,433</u>	<u>2,856,163</u>
Other revenue	25,303	115,919
Interest earned	14,833	72,299
Total revenue	<u>40,136</u>	<u>188,218</u>
Contributions used	(191,449)	(123,948)
Balance, end of year	<u>\$ 2,769,120</u>	<u>\$ 2,920,433</u>

5. Net long-term liabilities:

	2009	2008
Total long-term liabilities incurred by the City	\$ 20,440,876	\$ 23,376,288

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

	2010 to 2014	2015 to 2019	2020 and thereafter	2009 Total	2008 Total
From general municipal revenues	\$10,669,717	\$6,959,497	\$2,811,662	\$20,440,876	\$23,376,288

The annual principal and interest payments required to service the long term obligations of the City 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 CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

5. Long term liabilities (continued):

The above long-term debt 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 \$1,173,213 (2008 - \$1,317,101).

6. 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 \$6,720,000 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.

	2009	2008
Financial Position:		
Current assets	\$ 31,834,693	\$ 30,845,012
Future income tax assets	3,497,400	853,600
Capital assets	49,000,149	46,423,798
Regulatory assets	3,454,816	528,375
Total assets	\$ 87,787,058	\$ 78,650,785
Current liabilities	\$ 14,306,578	\$ 13,780,708
Employee future benefit obligations	1,194,188	1,146,905
Notes payable	35,220,000	40,240,000
Regulatory liabilities	5,795,437	2,073,175
Total liabilities	56,516,203	57,240,788
Shareholder's equity	31,270,855	21,409,997
Total liabilities and equity	87,787,058	78,650,785
Results of Operations:		
Revenues	\$ 76,004,695	\$ 72,212,972
Expenditures	(72,640,957)	(69,431,858)
Provision for payment in lieu of taxes	(1,412,800)	(923,110)
Net income for the year	1,950,938	1,858,004

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

6. Investment in PUC Inc. (continued):

	2009	2008
The City's investment in PUC Inc. is comprised of:		
Common shares	\$ 14,618,249	\$ 6,098,248
Special shares	14,620,000	14,620,000
Retained earnings	2,032,606	691,748
Equity, end of year	31,270,855	21,409,996
Notes receivable	31,720,000	40,240,000
Net investment in PUC Inc.	62,990,855	61,649,996

7. 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 2009 was \$4,400,712 (2008 - \$4,153,657) is included as an expense on the consolidated statement of financial activities.

8. Operations of school boards:

During 2009, the City collected and transferred property taxes totaling \$22,674,931 (2008 - \$23,450,960) on behalf of area school boards.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009
(In thousands of dollars)

9. Trust funds:

The trust funds administered by the City amounting to \$6,200,930 (2008 - \$5,963,882) 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, 2009, the trust fund balances are comprised of:

	2009	2008
Cemetery Care and Maintenance funds	\$ 4,305,092	\$ 4,154,312
Pre-need assurance	1,659,231	1,571,559
Transit employees pension	82,603	87,977
Historic Sites	46,146	27,344
Heritage Sault Ste. Marie	57,394	57,148
Ontario Home Renewal Program	37,551	49,488
Ontario Home Renewal Plan (Rental)	2,913	6,054
Cultural Endowment	10,000	10,000
	<u>\$ 6,200,930</u>	<u>\$ 5,963,882</u>

10. Commitments:

The City has committed to providing funding of \$29,500,000 for the new hospital under construction in Sault Ste. Marie of which \$3,043,678 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 2011.

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.

11. 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

Year ended December 31, 2009

12. 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, 2009:

	2009	2008
Future payments required to W.S.I.B.	\$ 10,410,885	\$ 9,519,586
Post employment and post retirement benefits	9,296,601	8,671,036
Vacation pay	6,773,189	6,369,131
Sick leave benefits	317,116	71,672
	<u>26,797,791</u>	<u>24,631,425</u>

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, 2009.

The benefit liability continuity is as follows:

	2009	2008
Accrued benefit obligation, January 1	\$ 8,671,036	\$ 8,114,394
Expense	916,439	852,899
Payments	290,874	296,257
Accrued benefit liability, December 31	<u>9,296,601</u>	<u>8,671,036</u>

Significant assumptions

Discount rate	5.25%
Health cost increase	5%-8%

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.

Accrued vacation pay

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2009.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

12. Future employee benefit obligation (continued):

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.

13. 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 9.8 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$17,580,000 (2008 - \$17,070,000). The City has established a reserve to contribute to the cost of closing and maintaining the landfill site. At December 31, 2009, an amount of \$14,168,422 (2008 - \$13,819,210) 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

Year ended December 31, 2009

14. Tangible Capital Assets:

2009

	Land	Landfill and Land Improvements	Building and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under construction	Total
Cost								
Balance, beginning of year	\$ 23,848,803	\$ 7,874,812	\$ 78,911,891	\$ 388,950,541	\$ 18,524,117	\$ 22,542,050	\$ 11,417,538	\$ 552,069,752
Additions	421,096	351,598	15,298	24,993,637	2,975,762	950,059	22,806,929	52,514,379
Disposals	84,462	-	-	1,012,273	894,903	794,122	11,206,822	13,992,582
Balance, end of year	24,185,437	8,226,410	78,927,189	412,931,905	20,604,976	22,697,987	23,017,645	590,591,549
Accumulated Amortization								
Balance, beginning of year	-	(3,243,393)	(21,521,094)	(147,199,552)	(7,546,402)	(12,436,824)	-	(191,947,265)
Disposals	-	-	-	1,001,025	883,431	738,769	-	2,623,225
Amortization Expense	-	(325,709)	(1,724,170)	(9,182,529)	(1,669,226)	(1,544,415)	-	(14,446,049)
Balance, end of year	-	(3,569,102)	(23,245,264)	(155,381,056)	(8,332,197)	(13,242,470)	-	(203,770,089)
Net Book Value, end of year	\$ 24,185,437	\$ 4,657,308	\$ 55,681,925	\$ 257,550,849	\$ 12,272,779	\$ 9,455,517	\$ 23,017,645	\$ 386,821,460
Net Book value, beginning of year	\$ 23,848,803	\$ 4,631,419	\$ 57,390,797	\$ 241,750,989	\$ 10,977,714	\$ 10,105,226	\$ 11,417,538	\$ 360,122,486

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

14. Tangible Capital Assets (continued):

2008

Cost	2008					Total		
	Land	Landfill and Land Improvements	Building and Building Improvements	Infrastructure	Machinery and Equipment		Vehicles	Assets under construction
Balance, beginning of year	\$24,253,963	\$7,715,741	\$74,841,180	\$377,575,923	\$15,091,620	\$21,365,763	-	\$520,844,190
Additions	-	159,071	4,070,711	13,205,457	3,498,813	1,663,647	11,417,538	34,015,237
Disposals	405,160	-	-	1,830,839	66,316	487,360	-	2,789,675
Balance, end of year	23,848,803	7,874,812	78,911,891	388,950,541	18,524,117	22,542,050	11,417,538	552,069,752
Accumulated Amortization								
Balance, beginning of year	-	(2,926,122)	(17,799,030)	(142,231,223)	(6,123,363)	(11,343,661)	-	(180,423,399)
Disposals	-	-	-	1,830,839	62,658	484,495	-	2,377,992
Amortization Expense	-	(317,271)	(3,722,064)	(6,799,168)	(1,485,698)	(1,577,658)	-	(13,901,859)
Balance, end of year	-	(3,243,393)	(21,521,094)	(147,199,552)	(7,546,403)	(12,436,824)	-	(191,947,266)
Net Book Value, end of year	\$23,848,803	\$4,631,419	\$57,390,797	\$241,750,989	\$10,977,714	\$10,105,226	\$11,417,538	\$360,122,486
Net Book Value, beginning of year	\$24,253,963	\$4,789,619	\$57,042,150	\$235,344,700	\$8,968,257	\$10,022,102	-	\$340,420,791

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

14. Tangible Capital Assets (continued):

a) Assets under construction:

Assets under construction having a value of \$22,806,929 (2008 - \$11,417,538) have not been amortized. Amortization of these assets will commence when the asset is put into service.

b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year was \$141,004 (2008: \$684,134) comprised of water infrastructure.

c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

d) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

e) Write-down of tangible capital assets

The write-down of tangible capital assets during the year was \$nil (2008 \$nil).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

15. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2009	2008
		(Restated - note 2)
Surplus:		
Invested in tangible capital assets	\$ 386,821,460	\$ 360,122,486
Invested in PUC Inc.	62,990,855	61,649,996
Other	13,334,839	20,732,979
Unfunded		
Net long-term liabilities	(20,440,876)	(23,376,288)
Landfill closure costs	(14,168,422)	(13,819,210)
Employee benefits	(26,797,791)	(24,631,425)
Total surplus	401,740,065	380,678,538
Reserves set aside for specific purpose by Council:		
Working capital	2,161,007	2,161,007
Acquisition of fixed assets	2,839,587	3,150,020
Construction projects	-	138,431
Planning and development	770,138	689,989
Parking facilities	3,614	68,673
Other programs	5,965,126	6,973,278
Waste disposal site	9,105,881	8,412,899
Total reserve	20,845,353	21,594,297
Reserve funds set aside for specific purpose by Council:		
Sewage plants	448,706	443,512
Cemetery development	1,384,722	1,380,991
Industrial land	43,489	43,303
Property purchases	986,997	1,211,371
Hospital development	19,861,544	17,701,955
Other programs	194,571	144,103
Total reserve funds	22,920,029	20,925,235
	\$ 445,505,447	\$ 423,198,070

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

16. Government transfers:

The City recognizes the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The transfers reported on the Statement of Operations are:

	2009	2008
Revenue:		
Provincial grants	\$ 40,896,939	\$ 47,956,141
Federal grants	6,473,007	2,979,615
Total revenues	\$ 47,369,946	\$ 50,935,756

17. Segmented Information:

The City of Sault Ste. Marie is a diversified municipal government institution that provides a wide range of services to its citizens. City services are provided by departments and certain departments have been separately disclosed in the segmented information, along with the services they provide. These departments are:

General Government

General Government is comprised of City Council, the Chief Administrators' Office (CAO), Clerks Department, Legal Department, Human Resources Department and the Finance Department. Each of these departments provides program support to various other areas.

The Chief Administrators' Office is charged with the responsibility of coordinating the work of all municipal departments and ensuring that those departments carry out the policies and directions given by City Council.

The Clerks Departments' primary task is to function as the corporate secretary to City Council, ensuring that all Council Agendas, Minutes of proceedings, resolutions, decisions, voting, records, and accounts are recorded, documented and certified.

The Legal Department is responsible for the preparation of by-laws, deeds, leases, agreements and other legal documents, as well as property management for the City in regards to purchases, sales, leasing, easements and related agreements. Prosecutions and administration of Provincial Offences Act is also part of their responsibility.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

17. Segmented Information (continued):

The Human Resources Department is charged with negotiation and administration of all collective agreements as well as all facets of employment and employee benefits.

The Finance Department is responsible for the City's general financial management and budget preparation. The department is comprised of financial administration, accounting, tax and licensing, purchasing and information technology.

Fire Services

Fire Services is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. It is also responsible, through its Emergency Medical Services, for pre-hospital emergency paramedical care and the transport of the sick and injured.

Police Services

The mandate of the Police Services is to ensure the safety of the lives and property of citizens; preserve the peace and good order; prevent crimes from occurring; detect offenders; and enforce the law.

Public Works and Transportation

The Public Works and Transportation Department is responsible for maintenance of municipal infrastructure, such as streets, sewers, transit, parks and cemeteries. The department provides solid waste management through refuse collection, recycling programs, and sanitary landfill management. The department is also responsible for traffic control, including signage, signals and pavement markings.

Social Services

The Social Services Department provides administration support to the Sault Ste. Marie District Social Services Administration Board. This includes assisting in the development of client action plans designed to facilitate financial independence; providing employment resources to assist consumers in the transition to self-sufficiency; coordination of community child care services; administering and managing the Rent-Geared-to-Income Public Housing Portfolio and central administration and coordination for the Rent Supplement Program and the Non-Profit and Cooperative Housing Developments.

Community Services

The Community Services Department provides public services in the area of recreation and culture. In addition it is responsible for the operations of the City-run Day Nurseries and Community Centres.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009
(In thousands of dollars)

17. Segmented Information (continued):

Engineering and Planning Department

The Engineering and Planning Department provides diverse services. It manages urban development for business interests, environmental concerns, local neighborhoods and the downtown through city planning and community development. It ensures the quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-law for the protection of occupants. It facilitates economic development by providing services for the approval of all land development plans, the application of enforcement of zoning by-laws and the processing of building permit applications

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

17. Segmented Information (continued):

2009

	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	PUC Inc.	Total
Revenues:									
Taxation	\$ 9,018,363	\$ 9,207,191	\$ 16,742,830	\$ 1,502,897	\$ 25,389,110	\$ 10,107,048	\$ 19,081,657	\$ -	\$ 91,049,096
Fees and user charges	3,230,593	3,763,975	360,656	20,943,792	7,111,323	5,032,939	7,309,791	-	47,753,069
Government grants	5,195,558	2,446,566	4,768,593	18,600,350	8,186,863	3,142,053	5,029,963	-	47,369,946
Investment income	5,425,803	-	43	13,616	9,266	-	-	-	5,448,728
Other	295,503	1,100	-	1,457,913	244,271	193,746	-	-	2,192,533
Income of PUC Inc.	-	-	-	-	-	-	-	1,950,938	1,950,938
Total revenues	23,165,820	15,418,832	21,872,122	42,518,568	40,940,833	18,475,786	31,421,411	1,950,938	195,764,310
Expenses:									
Salaries, wages and employee benefits	4,523,698	13,996,820	19,063,092	7,672,692	23,328,358	8,095,181	6,964,869	-	83,644,710
Materials	2,237,555	884,402	1,992,582	7,741,543	9,072,961	1,801,792	379,502	-	24,110,337
Contracted services	105,752	206,828	855,788	7,783,999	4,395,976	3,078,200	98,395	-	16,524,938
Rents and financial	1,949,265	2,429	83,436	716	13,050	109,655	254,474	-	2,413,025
Grants to others	82,479	-	-	2,920,406	-	3,076,372	22,130,107	-	28,209,364
Long-term debt	-	-	-	-	639,510	2,295,227	1,173,773	-	4,108,510
Amortization	614,896	332,239	224,717	9,743,884	1,927,615	1,483,884	118,814	-	14,446,049
Total expenses:	9,513,645	15,422,718	22,219,615	35,863,240	39,377,470	19,940,311	31,119,934	-	173,456,933
Annual surplus (deficit)	\$ 13,652,175	\$ (3,886)	\$ (347,493)	\$ 6,655,328	\$ 1,563,363	\$ (1,464,525)	\$ 301,477	\$ 1,950,938	\$ 22,307,377

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2009

17. Segmented information (continued):

2008

	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	PUC Inc.	Total
Revenues:									
Taxation	\$ 13,346,965	\$ 8,175,894	\$ 15,387,347	\$ -	\$ 25,049,749	\$ 8,749,927	\$ 16,877,154	\$ -	\$ 87,587,036
Fees and user charges	2,681,995	3,534,049	366,227	20,757,999	8,193,649	5,340,872	7,664,600	-	48,539,391
Government grants	15,686,899	2,596,253	4,441,990	10,617,856	8,934,074	3,567,402	5,091,283	-	50,935,757
Investment income	5,337,462	-	413	148,440	65,165	-	-	-	5,551,480
Other	531,754	515,124	447,667	1,767,072	98,065	397,517	2,878	-	3,760,077
Income of PUC Inc.	-	-	-	-	-	-	-	1,858,004	1,858,004
Total revenues	37,585,075	14,821,320	20,643,644	33,291,367	42,340,702	18,055,718	29,635,915	1,858,004	198,231,745
Expenses:									
Salaries, wages and employee benefits	6,331,808	13,157,388	17,612,409	7,224,973	21,371,389	7,787,636	6,586,496	-	80,072,099
Materials	679,422	681,694	1,837,398	8,221,519	8,171,096	2,362,242	503,610	-	22,456,981
Contracted services	466,662	330,514	854,451	2,514,256	3,540,315	2,189,435	148,854	-	10,044,487
Rents and financial	2,121,686	2,429	82,528	372	5,035	120,242	620,481	-	2,952,773
Grants to others	2,775,512	-	-	112,523	-	3,079,248	20,647,015	-	26,614,298
Long-term debt	288	-	-	-	1,056,811	2,295,310	1,175,443	-	4,527,852
Amortization	530,677	290,256	189,674	9,405,881	1,884,460	1,472,561	128,351	-	13,901,859
Total expenses:	12,906,055	14,462,281	20,576,460	27,479,524	36,029,106	19,306,674	29,810,250	-	160,570,349
Annual surplus (deficit)	\$ 24,679,020	\$ 359,039	\$ 67,184	\$ 5,811,843	\$ 6,311,596	\$ (1,250,956)	\$ (174,335)	\$ 1,858,004	\$ 37,661,396