

Consolidated Financial Statements

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

For the year ended December 31, 2008

# The Corporation of the City of Sault Ste. Marie

Consolidated Financial Statements  
For the year ended December 31, 2008

---

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

Auditors' Report	
Consolidated Statement of Financial Position	1
Consolidated Statement of Financial Activities and Changes in Fund Balances	2
Consolidated Statement of Changes in Financial Position	3
Notes to Consolidated Financial Statements	4 - 19
Consolidated Schedule of Current Fund Operations	20
Consolidated Schedule of Capital Fund Operations	21
Consolidated Schedule of Reserves and Reserve Funds	22

## Trust Funds

Auditors' Report	23
Statement of Financial Position	24
Statement of Continuity	25
Notes to Financial Statements	26



KPMG LLP  
Chartered Accountants  
111 Elgin Street at Queen  
Suite 200  
PO Box 578  
Sault Ste Marie ON P6A 5M6

Telephone (705) 949-5811  
Fax (705) 949-0911  
Internet www.kpmg.ca

## 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, 2008 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, 2008 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 19, 2009

# The Corporation of the City of Sault Ste. Marie

## Consolidated Statement of Financial Position

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
<b>Assets</b>		
Financial assets		
Cash and temporary investments	\$ 57,943,981	\$ 41,295,078
Taxes receivable	6,665,168	5,319,289
Accounts receivable	15,451,406	16,666,385
Other current assets	2,045,131	1,558,961
	<u>82,105,686</u>	<u>64,839,713</u>
Non-financial assets		
Investment in PUC Inc. (note 7)	61,649,996	59,791,992
Inventories	2,062,532	2,102,778
	<u>63,712,528</u>	<u>61,894,770</u>
	<u>\$ 145,818,214</u>	<u>\$ 126,734,483</u>
<b>Liabilities and Municipal Position</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 17,908,347	\$ 17,032,566
Temporary advances from trust funds	87,213	19,155
Future employee benefit obligations (note 6)	24,631,425	24,131,334
Deferred revenue - obligatory reserve funds (note 3)	2,920,433	2,856,163
Landfill closure and post-closure liability (note 16)	13,819,210	10,992,629
Net long-term liabilities (note 4)	23,376,288	26,586,752
	<u>82,742,916</u>	<u>81,618,599</u>
Municipal position		
Current fund (note 5)	4,502,097	4,068,223
Capital fund (note 5)	16,230,596	(570,832)
Reserves and reserve funds (note 5)	42,519,532	43,537,216
Investment in PUC Inc. (note 7)	61,649,996	59,791,992
	<u>124,902,221</u>	<u>106,826,599</u>
Amounts to be recovered (note 6)	(61,826,923)	(61,710,715)
Municipal position	<u>63,075,298</u>	<u>45,115,884</u>
Commitments (note 12)		
Contingent liabilities (note 13)		
	<u>\$ 145,818,214</u>	<u>\$ 126,734,483</u>

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

# The Corporation of the City of Sault Ste. Marie

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

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
<b>Revenues:</b>		
Property taxation	\$ 83,249,983	\$ 81,131,423
Taxation from other governments	4,337,053	4,368,265
Fees and user charges	48,539,391	47,006,228
Government grants	50,935,757	40,671,981
Investment income	5,551,480	5,416,931
Other	3,130,275	2,863,161
Obligatory reserve fund revenue recognized	148,917	1,209,436
Deferred user charges recognized	208,435	17,282
	<u>196,101,291</u>	<u>182,684,707</u>
<b>Expenditures:</b>		
Current:		
General government	14,913,406	12,482,285
Protection services	33,486,538	32,384,235
Transportation services	29,869,573	25,737,330
Environmental services	16,500,382	18,157,299
Health services	6,402,827	6,302,816
Social and family services	28,910,791	31,694,311
Social housing	1,978,329	1,933,317
Recreation and cultural services	14,592,735	13,137,649
Planning and development	4,141,804	4,256,425
Contribution to new hospital construction	85,350	2,216,249
	<u>150,881,735</u>	<u>148,301,916</u>
Capital:		
General government	846,565	1,216,206
Protection services	176,771	3,923,685
Transportation services	18,259,169	13,881,312
Environmental services	7,942,180	7,085,885
Health services	146,811	649,141
Social and family services	-	12,150
Recreational and cultural services	1,742,762	2,164,571
Planning and development	3,600	-
	<u>29,117,858</u>	<u>28,932,950</u>
Total expenditures	<u>179,999,593</u>	<u>177,234,866</u>
Excess of revenue over expenditures before government business enterprise	16,101,698	5,449,841
PUC Inc. operating results	1,858,004	(241,675)
Net revenues for the year	<u>17,959,700</u>	<u>5,208,166</u>
Change in amounts to be recovered:		
New debt issued	-	11,130,240
Debt principal repayments	(3,210,751)	(2,962,541)
Change in liabilities for post employment benefits and landfill closure and post-closure	3,326,671	2,042,952
	<u>115,920</u>	<u>10,210,651</u>
Change in fund balances for the year	18,075,622	15,418,817
Fund balances, beginning of year	106,826,599	91,407,782
<b>Fund balances, end of year</b>	<b>\$ 124,902,221</b>	<b>\$ 106,826,599</b>

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

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

### Consolidated Statement of Changes in Financial Position

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash flows from operating activities:		
Net revenues for the year	\$ 17,959,702	\$ 5,208,166
Items not involving cash:		
PUC Inc. operating results	(1,858,004)	241,675
Future employee benefit obligations	500,091	1,166,006
Landfill closure and post-closure liability	2,826,581	876,945
	<u>19,428,370</u>	<u>7,492,792</u>
Changes in non-cash working capital balances:		
Decrease (increase) in taxes receivable	(1,345,879)	320,409
Decrease in accounts receivable	1,214,979	3,355,058
Decrease (increase) in other current assets	(486,170)	436,285
Decrease in inventories	40,246	74,688
Increase (decrease) in accounts payable and accrued liabilities	875,780	(7,394,938)
Increase in deferred revenue - obligatory reserve funds	64,270	702,904
Decrease in temporary advances from trust funds	68,058	61,020
	<u>431,284</u>	<u>(2,444,574)</u>
	<u>19,859,654</u>	<u>5,048,218</u>
Cash flows from financing activities:		
Additions to long-term liabilities	-	11,130,240
Repayment of long-term liabilities	(3,210,751)	(2,962,541)
	<u>(3,210,751)</u>	<u>8,167,699</u>
Net increase in cash and temporary investments	16,648,903	13,215,917
Cash and temporary investments, beginning of year	41,295,078	28,079,161
Cash and temporary investments, end of year	<u>\$ 57,943,981</u>	<u>\$ 41,295,078</u>

The accompany 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, 2008

---

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 Public Utilities Commission of the City of Sault Ste. Marie. 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

Year ended December 31, 2008

---

## 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.



# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

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

(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.

(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. Significant items subject to such estimates and assumptions include valuation allowances for taxes receivable, accounts receivable, solid waste landfill closure and post-closure liabilities and post-employment benefits. Actual results could differ from those. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

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

### (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.

### (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.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

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

### (m) Taxation and related revenues (continued):

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 (2007 - \$252,986). 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:

	2008	2007
Obligatory reserve funds:		
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>

# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

### 4. Long-term liabilities:

	2008	2007
Total long-term liabilities incurred by the City	\$23,376,288	\$ 26,586,752

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	2008 Total	2007 Total
From general municipal revenues	\$12,026,184	\$7,032,762	\$4,317,342	\$23,376,288	\$26,586,752

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 have 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 \$1,317,101 (2007 - \$882,327).

# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

### 5. Municipal fund balances:

	2008	2007
Current fund for the reduction of taxation or user charges:		
City of Sault Ste. Marie	\$ 774,723	\$ 564,154
Library	62,255	74,660
Public Utilities Commission	3,665,119	3,429,409
	<u>4,502,097</u>	<u>4,068,223</u>
Unexpended (unfinanced) capital expenditures	16,230,596	(570,832)
Reserves	21,594,297	24,631,780
Reserve funds	20,925,235	18,905,436
Net investment in PUC Inc.	61,649,996	59,791,992
	<u>120,400,124</u>	<u>102,758,376</u>
	<u>\$ 124,902,221</u>	<u>\$ 106,826,599</u>

The balance available for the general reduction of taxation for the fiscal year ending December 31, 2008 has been reduced by an amount of \$337,860 (2007 - \$1,747,815) transferred to reserves as authorized by a resolution of Council on May 13, 2009 (2007 - April 30, 2008). Had this reduction not been made, the amount available for general reduction of taxation would have been \$1,112,583 (2007 - \$2,311,970).

### 6. Amounts to be recovered:

	2008	2007
Net long-term liabilities	\$ 23,376,288	\$ 26,586,752
Future employee benefits obligations	24,631,425	24,131,334
Landfill closure and post closure liability	13,819,210	10,992,629
	<u>\$ 61,826,923</u>	<u>\$ 61,710,715</u>

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

## 7. 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.

	2008	2007
Financial position:		
Current assets	\$ 30,845,012	\$ 29,029,832
Future income tax assets	853,600	486,010
Capital assets	46,423,798	44,260,976
Regulatory assets	528,375	1,522,634
	<u>\$ 78,650,785</u>	<u>\$ 75,299,452</u>
Current liabilities	13,780,708	12,596,250
Employee future benefit obligations	1,146,905	1,082,003
Notes payable	40,240,000	40,240,000
Regulatory liabilities	2,073,175	1,829,207
Total liabilities	57,240,788	55,747,460
Shareholder's equity	21,409,997	19,551,992
Total liabilities and equity	<u>\$ 78,650,785</u>	<u>\$ 75,299,452</u>
Results of operations:		
Revenues	\$ 72,212,972	\$ 67,292,879
Expenditures	69,431,858	66,876,857
Provision for payment in lieu of taxes	(923,110)	(657,697)
Net income (loss) for the year	<u>\$ 1,858,004</u>	<u>\$ (241,675)</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)	691,748	(1,166,256)
Equity, end of year	21,409,996	19,551,992
Notes receivable	40,240,000	40,240,000
Net investment in PUC Inc.	<u>\$ 61,649,996</u>	<u>\$ 59,791,992</u>



# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

### 8. 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 2008 was \$4,050,097 (2007 - \$3,925,839).

### 9. 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 2008 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 2008, Council approved net transfers totaling \$9,737,219 (2007 - \$6,512,154) 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 Current Fund Operations.

### 10. Operations of school boards:

During 2008, the City collected and transferred property taxes totaling \$23,450,960 (2007 - \$23,766,331) on behalf of area school boards.

# The Corporation of the City of Sault Ste. Marie

## Notes to Consolidated Financial Statements

Year ended December 31, 2008

### 11. Trust funds:

The trust funds administered by the City amounting to \$5,963,882 (2007 - \$6,203,417) 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, 2008, the trust fund balances are comprised of:

	2008	2007
Cemetery Care and Maintenance funds	\$ 4,154,312	\$ 4,045,905
Pre-need assurance	1,571,559	1,453,635
Transit employees pension	87,977	575,145
Historic Sites	27,344	10,556
Heritage Sault Ste. Marie	57,148	55,413
Ontario Home Renewal Program	49,488	56,849
Ontario Home Renewal Plan (Rental)	6,054	5,914
Cultural Endowment	10,000	-
	<u>\$ 5,963,882</u>	<u>\$ 6,203,417</u>

### 12. 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 \$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 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.

### 13. 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, 2008

## 14. 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, 2008:

	2008	2007
Future payments required to WSIB	\$ 9,519,586	\$ 9,725,249
Post-employment and post-retirement benefits	8,671,036	8,114,394
Vacation pay	6,369,131	6,013,546
Sick leave benefits	71,672	278,145
	<u>\$ 24,631,425</u>	<u>\$ 24,131,334</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:

	2008	2007
Accrued benefit liability, beginning of year	\$ 8,114,394	\$ 6,959,254
Expense	852,899	1,473,493
Payments	296,257	(318,353)
Accrued benefit liability, end of year	<u>\$ 8,671,036</u>	<u>\$ 8,114,394</u>

### (ii) Significant assumptions:

Discount rate	5.25% (previously 5.5%)
Health cost increase	5%-8%

It is estimated that a 1% increase in assumed trend rates would increase this liability by approximately \$911,639, while a 1% decrease would reduce the liability by \$788,970.

### (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.

# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

## 14. Future employee benefit obligation (continued):

### (iv) Accrued vacation pay:

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2008.

### (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.

## 15. 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 571,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 9.9 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$17,070,000 (2007 - \$13,630,000). At December 31, 2008, an amount of \$13,819,210 (2007 - \$10,992,629) 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, 2008

---

## 16. 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 2008, the City has worked towards compliance with the new standards. As at December 31, 2008, the municipality has began 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.

## 17. Comparative figures:

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

## 18. 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 Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

## 18. Segmented information (continued):

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 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.



# The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

Year ended December 31, 2008

---

## 18. Segmented information (continued):

### 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 Department

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.

### Engineering Department

The Engineering 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

Note 18 - Segmented information (continued)

Year ended December 31, 2008

	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprise	Total
<b>Revenues</b>									
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	3,034,182	3,534,049	366,227	20,757,999	8,193,649	5,340,872	7,664,600	-	48,891,578
Government grants	15,686,899	2,596,253	4,441,990	10,265,669	8,815,292	3,567,402	5,091,283	-	50,464,788
Investment income	5,337,462	-	413	148,440	65,165	-	-	-	5,551,480
Transfers from other funds	4,790,600	783,838	323,972	23,522,296	8,418,806	1,818,094	66,453	-	39,724,059
Other income	531,754	515,124	447,667	4,079,930	303,907	397,517	2,878	1,858,004	8,136,781
	42,727,862	15,605,158	20,967,616	58,774,334	50,846,568	19,873,812	29,702,368	1,858,004	240,355,722
<b>Expenditures</b>									
Salaries, wages and benefits	6,331,808	13,157,388	17,612,409	7,224,973	21,371,390	7,810,842	6,586,496	-	80,095,306
Materials	2,394,242	879,243	2,087,816	10,135,322	11,546,913	3,380,792	524,078	-	30,948,406
Contracted services	466,662	330,514	854,451	27,556,582	6,751,066	1,986,788	148,854	-	38,094,917
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	20,647,017	-	26,614,300
Long-term debt	288	-	-	-	1,056,811	2,295,310	1,175,443	-	4,527,852
Transfers to other funds	18,015,514	410,918	323,972	11,733,302	7,727,063	769,327	66,450	-	39,046,546
	32,105,712	14,780,492	20,961,176	56,763,074	48,458,278	19,442,549	29,768,819	-	222,280,100
<b>Change in fund balances</b>	<b>\$ 10,622,150</b>	<b>824,666</b>	<b>6,440</b>	<b>2,011,260</b>	<b>2,388,290</b>	<b>431,263</b>	<b>(66,451)</b>	<b>1,858,004</b>	<b>18,075,622</b>
<b>Analysed as follows:</b>									
Increase in government business enterprise	\$ -	-	-	-	-	-	-	1,858,004	1,858,004
Increase (decrease) in current fund	210,569	-	-	235,710	-	(12,405)	-	-	433,874
Increase in capital fund	7,235,118	476,949	-	7,741,539	757,368	590,454	-	-	16,801,428
Increase (decrease) in reserves and reserve funds	3,176,463	347,717	6,440	(5,965,989)	1,630,922	(146,786)	(66,451)	-	(1,017,684)
<b>Change in fund balances</b>	<b>\$ 10,622,150</b>	<b>824,666</b>	<b>6,440</b>	<b>2,011,260</b>	<b>2,388,290</b>	<b>431,263</b>	<b>(66,451)</b>	<b>1,858,004</b>	<b>18,075,622</b>

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

### Consolidated Schedule of Current Fund Operations

Year ended December 31, 2008, with comparative figures for 2007

	2008 Budget	2008 Actual	2007 Actual
<b>Revenue:</b>			
Property taxation	\$ 82,734,279	\$ 83,249,983	\$ 81,131,423
Taxation from other governments	4,378,695	4,337,053	4,368,265
Fees and user charges	47,679,853	48,539,390	47,006,228
Government grants	35,607,650	33,988,380	32,803,096
Investment income	4,106,537	4,968,272	4,593,726
Other	1,100,126	1,958,260	2,061,730
	<u>175,607,140</u>	<u>177,041,338</u>	<u>171,964,468</u>
<b>Expenditures:</b>			
General government	12,374,475	14,913,406	12,482,285
Protection services	33,195,921	33,486,538	32,384,235
Transportation services	28,776,918	29,869,573	25,737,330
Environmental services	23,056,058	16,500,382	18,157,299
Health services	6,398,100	6,402,827	6,302,816
Social and family services	29,154,223	28,910,791	31,694,311
Social housing	2,020,625	1,978,329	1,933,317
Recreation and cultural services	14,348,307	14,592,735	13,137,649
Planning and development	3,672,511	4,141,804	4,256,425
Contribution to new hospital construction	–	85,350	2,216,249
	<u>152,997,138</u>	<u>150,881,735</u>	<u>148,301,916</u>
Excess of revenues over expenditures	22,610,002	26,159,603	23,662,552
<b>Financing and transfers:</b>			
Debt principal repayments	3,210,467	3,210,751	2,962,541
Change in landfill closure liability	–	(2,826,581)	(876,945)
Change in future employee benefit obligation	–	(500,091)	(1,166,007)
Transfers to capital fund operations	15,071,698	17,735,322	15,937,568
Transfers to reserves and reserve funds	5,793,948	8,106,328	6,150,596
	<u>24,076,113</u>	<u>25,725,729</u>	<u>23,007,753</u>
Change in fund balance for the year	(1,466,111)	433,874	654,799
Current fund, beginning of the year	4,068,223	4,068,223	3,413,424
Current fund, end of the year	\$ 2,602,112	\$ 4,502,097	\$ 4,068,223

# The Corporation of the City of Sault Ste. Marie

## Consolidated Schedule of Capital Fund Operations

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
<b>Revenues:</b>		
Government grants	\$ 16,917,377	\$ 7,628,885
Obligatory reserve fund revenue recognized	148,917	1,209,436
Other	1,172,016	801,431
Deferred user charges recognized	208,435	17,282
	<u>18,446,745</u>	<u>9,657,034</u>
<b>Expenditures:</b>		
General government	846,565	1,216,206
Protection services	176,771	3,923,685
Transportation services	18,259,169	13,881,312
Environmental services	7,942,180	7,085,885
Health services	146,811	649,141
Social and family services	-	12,150
Recreation and cultural services	1,742,762	2,164,571
Planning and development	3,600	-
	<u>29,117,858</u>	<u>28,932,950</u>
Excess of expenditures over revenues	(10,671,113)	(19,275,916)
<b>Financing and transfers:</b>		
New debt issued	-	11,130,240
Transfers from current fund operations	17,735,322	15,937,568
Transfers from reserves and reserve funds	9,737,219	6,512,154
	<u>27,472,541</u>	<u>33,579,962</u>
Change in fund balance for the year	16,801,428	14,304,046
Capital fund, beginning of the year	(570,832)	(14,874,878)
Capital fund, end of the year	<u>\$ 16,230,596</u>	<u>\$ (570,832)</u>

# The Corporation of the City of Sault Ste. Marie

## Consolidated Schedule of Reserves and Reserve Funds

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenues:		
Investment income	\$ 583,207	\$ 823,205
Government grants	30,000	240,000
	<u>613,207</u>	<u>1,063,205</u>
Net transfers from (to) other funds:		
Transfer from current fund operations	8,106,328	7,692,456
Transfer to capital fund operations	(9,737,219)	(6,512,154)
Transfer to obligatory reserve funds	-	(1,541,860)
	<u>(1,630,891)</u>	<u>(361,558)</u>
Change in balance for the year	(1,017,684)	701,647
Reserves and reserve funds, beginning of the year	43,537,216	42,835,569
Reserves and reserve funds, end of the year	<u>\$ 42,519,532</u>	<u>\$ 43,537,216</u>
Analyzed as follows:		
Reserves set aside for specific purpose by Council:		
Working capital	\$ 2,161,007	\$ 2,161,008
Acquisition of fixed assets	3,150,020	3,903,933
Construction projects	138,431	138,431
Planning and development	689,989	843,842
Parking facilities	68,673	121,408
Other programs	6,973,278	11,539,208
Waste disposal site	8,412,899	5,923,950
	<u>21,594,297</u>	<u>24,631,780</u>
Reserve funds set aside for specific purpose by Council:		
Sewage plants	443,512	844,818
Cemetery development	1,380,991	1,208,918
Industrial land	43,303	41,501
Property purchases	1,211,371	822,056
Hospital development	17,701,955	15,693,266
Other programs	144,103	294,877
	<u>20,925,235</u>	<u>18,905,436</u>
Reserves and reserve funds, end of the year	<u>\$ 42,519,532</u>	<u>\$ 43,537,216</u>