

Consolidated Financial Statements of

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

Year ended December 31, 2013

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2013

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Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of The Corporation of The 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 Canadian public sector accounting standards. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of the consolidated 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.

Chief Administrative Officer

Commissioner of Finance & Treasurer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of The City of Sault Ste. Marie (the "City"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2013, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants, Licensed Public Accountants

July 14, 2014
Sault Ste Marie, Canada

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Financial assets:		
Cash and cash equivalents	\$ 50,329,848	\$ 46,894,825
Taxes receivable	15,391,118	8,241,522
Accounts receivable	12,929,854	14,095,005
Other current assets	159,212	168,709
Investment in government business enterprises (note 5)	69,762,661	68,949,573
	<u>148,572,693</u>	<u>138,349,634</u>
Financial liabilities:		
Accounts payable and accrued liabilities	25,740,104	23,098,853
Temporary advances from trust funds	—	336,489
Employee future benefit obligations (note 12)	36,076,467	33,062,550
Deferred revenue (note 3)	2,728,744	3,496,823
Landfill closure and post closure liability (note 13)	19,529,708	18,737,811
Net long-term liabilities (note 4)	12,466,343	14,569,473
	<u>96,541,366</u>	<u>93,301,999</u>
Net financial assets	52,031,327	45,047,635
Non-financial assets:		
Tangible capital assets (note 14)	430,268,100	426,660,444
Prepaid expenses	1,406,586	1,395,141
Inventories	2,218,079	2,103,479
	<u>433,892,765</u>	<u>430,159,064</u>
Commitments (note 10)		
Contingent liabilities (note 11)		
Accumulated surplus (note 15)	<u>\$ 485,924,092</u>	<u>\$ 475,206,699</u>

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2013, with comparative information for 2012

	Budget	2013	2012
	(note 6)		
Revenue:			
Property taxation	\$ 101,029,465	\$ 102,063,300	\$ 98,734,596
Taxation from other governments	4,317,240	4,432,020	4,665,890
Fees and user charges	61,825,998	59,128,929	56,853,461
Government grants (note 16)	22,010,740	29,286,923	28,645,313
Interest and investment income	5,423,500	6,380,892	4,988,710
Other	687,109	3,157,067	3,026,727
Gain (loss) on disposal of tangible capital assets	–	(53,379)	86,484
Government business enterprises operating results (note 5)	–	1,423,168	1,584,598
Total revenue	195,294,052	205,818,920	198,585,779
Expenses:			
General government	13,968,613	14,112,987	13,272,519
Protection services	40,419,662	40,904,960	39,655,730
Transportation services	33,661,831	39,561,250	36,851,469
Environmental services	23,877,788	25,354,052	25,579,717
Health services	7,983,975	7,591,354	8,214,847
Social and family services	26,389,315	25,783,578	25,368,024
Social housing	2,359,679	2,277,901	2,344,599
Planning and development	3,532,958	4,563,974	4,210,597
Recreation and cultural services	14,575,467	15,271,264	13,958,114
Contribution to new hospital construction	2,100,000	2,100,000	2,100,000
Amortization of tangible capital assets	–	17,580,207	17,144,443
Total expenses	168,869,288	195,101,527	188,700,059
Annual surplus	26,424,764	10,717,393	9,885,720
Accumulated surplus, beginning of year	475,206,699	475,206,699	465,320,979
Accumulated surplus, end of year (note 15)	\$ 501,631,463	\$ 485,924,092	\$ 475,206,699

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Changes in Net Financial Assets

Year ended December 31, 2013, with comparative information for 2012

	Budget (note 6)	2013	2012
Annual surplus	\$ 26,424,764	\$ 10,717,393	\$ 9,885,720
Acquisition of tangible capital assets	(21,021,645)	(21,299,459)	(26,056,720)
Amortization of tangible capital assets	–	17,580,207	17,144,443
(Gain) loss on sale of tangible capital assets	–	53,379	(86,484)
Proceeds on sale of tangible capital assets	–	58,217	290,183
	5,403,119	7,109,737	1,177,142
Change in prepaid expenses	–	(11,445)	(200,300)
Change in inventories	–	(114,600)	(58,736)
Change in net financial assets	5,403,119	6,983,692	918,106
Net financial assets, beginning of year	45,047,635	45,047,635	44,129,529
Net financial assets, end of year	\$ 50,450,754	\$ 52,031,327	\$ 45,047,635

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

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating Activities:		
Annual surplus	\$ 10,717,393	\$ 9,885,720
Items not involving cash:		
Amortization of tangible capital assets	17,580,207	17,144,443
(Gain) loss on sale of tangible capital assets	53,379	(86,484)
Developer contributions of tangible capital assets	(916,706)	(2,354,392)
Change in future employee benefit obligations	3,013,918	1,412,049
Change in landfill closure and post-closure liability	791,897	2,106,259
Government business enterprises operating results	(1,423,168)	(1,584,598)
Change in non-cash assets and liabilities:		
Taxes receivable	(7,149,596)	(3,542,180)
Accounts receivable	1,428,111	4,788,748
Prepaid expenses	(13,492)	(200,300)
Other current assets	11,543	180,000
Inventories	(114,600)	(58,736)
Accounts payable and accrued liabilities	2,378,291	64,744
Deferred revenue	(768,079)	1,119,216
Temporary advances from trust funds	(336,488)	(644,933)
	25,252,610	28,229,556
Capital Activities:		
Proceeds on sale of tangible capital assets	58,217	290,183
Cash used to acquire tangible capital assets	(20,382,753)	(23,702,328)
	(20,324,536)	(23,412,145)
Investing Activities:		
Dividends received from government business enterprises	610,080	610,080
Financing Activities:		
Repayment of long-term liabilities	(2,103,131)	(2,148,939)
Net change in cash and cash equivalents	3,435,023	3,278,552
Cash and cash equivalents, beginning of year	46,894,825	43,616,273
Cash and cash equivalents, end of year	\$ 50,329,848	\$ 46,894,825

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, 2013

The City of Sault Ste. Marie (the "City") is a municipality that was created on April 16, 1912 pursuant to the Municipal Act. The City provides municipal services such as police, fire, public works, planning, parks and recreation, library and other general government operations.

1. Significant accounting policies:

The consolidated financial statements of 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 Chartered Professional Accountants of Canada. 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 Commission
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. and PUC Services Inc. is accounted for on a modified equity basis, consistent with Canadian generally accounting principles as recommended by PSAB for investments in government business enterprises. On December 31, 2010 PUC Inc. was restructured creating two separate companies: PUC Inc and PUC Services Inc. Previous to the restructuring, PUC Services Inc. was owned by PUC Inc. and thus included in the consolidated financial statements of PUC Inc. Under the modified equity basis, PUC Inc.'s and PUC Services 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. and PUC Services 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. and PUC Services 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, 2013

1. Summary of significant accounting policies (continued):

(iii) Related entities:

The consolidated financial statements do not reflect the assets, liabilities, sources of financing, expenses 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) Revenue recognition:

The City prepared tax billings based on assessment rolls issued by the Municipal Property Assessment Corporation, in accordance with rates established and approved annually by Council and the Province of Ontario. Taxation revenue is recognized in the period in which the taxes are levied.

Government transfers are recognized in the period in which the events giving rise to the transfer occurred, provided that the transfer is authorized and the amount can be reasonably estimated. Government grants are recognized when approved to the extent the related expenditures have been incurred and collection can be reasonably assured.

User fees and other revenues are recognized when the services are performed or goods are delivered, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and fees are fixed or determinable. Amounts received for future services are deferred until the service is provided.

(d) Temporary investments:

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

1. Significant accounting policies (continued):

(e) Inventories:

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

(f) 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, 2013

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards 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, 2013

1. Significant accounting policies (continued):

(j) 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. 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 2013. However, the property tax revenue and tax receivables of the City are subject to measurement uncertainty as a number of significant appeals submitted by ratepayers have yet to be heard.

The City has established a contingency reserve for tax appeals and other items in the amount of \$2,343,012 (2012 - \$1,542,310). 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:

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

	2013	2012
Development charges act	\$ 364,534	\$ 357,703
Provincial Gas Tax	112,942	61,183
Federal Gas Tax	572,990	1,436,590
Parkland	504,038	429,617
Building permits Bill 124	1,174,239	1,211,730
	<u>\$ 2,728,744</u>	<u>\$ 3,496,823</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

3. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2013	2012
Balance, beginning of year:		
Development charges act	\$ 357,703	\$ 350,905
Provincial Gas Tax	61,183	22,763
Federal Gas Tax	1,436,590	–
Parkland	429,617	316,919
Building permits Bill 124	1,211,730	1,687,020
	3,496,823	2,377,607
Other revenue	75,194	106,254
Interest earned	39,284	39,284
Total revenue	144,478	144,368
Contributions deferred	44,450	1,419,014
Contributions used	(927,007)	(444,166)
Balance, end of year	\$ 2,728,744	\$ 3,496,823

4. Net long-term liabilities:

	2013	2012
Total long-term liabilities incurred by the City	\$ 12,466,343	\$ 14,569,473

Principal repayments recoverable over the next five years are as follows:

2014	\$ 2,265,865
2015	1,211,290
2016	1,282,195
2017	1,357,471
2018	1,437,405

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 CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

4. Net long-term liabilities (continued):

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

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

Interest paid in the year and included in current expenses is \$721,156 (2012 - \$837,291).

5. Investment in government business enterprises:

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. PUC Services Inc. is incorporated under the laws of the Province of Ontario and provides management, operations and maintenance services related to water, wastewater and electrical services to its related entities and other organizations. The City owns 100% of the outstanding shares of PUC Services Inc. The note payable to the City of \$6,720,000 is unsecured, bears interest at 6.1% per annum, and is payable one year after demand. The note payable to the City of \$25,000,000 is unsecured, bears interest at rates negotiated periodically, currently 6.1%, and is payable one year after demand.

The following schedule reflects the combined financial information of PUC Inc. and PUC Services Inc. as at December 31:

	2013	2012
Financial Position:		
Current assets	\$ 41,663,817	\$ 42,570,078
Notes receivable	8,310,000	8,310,000
Future income tax assets	2,692,000	2,834,800
Capital assets	88,084,450	84,049,482
Regulatory assets	822,635	—
Total assets	\$ 141,572,902	\$ 137,764,360
Current liabilities	\$ 28,070,418	\$ 28,605,071
Employee future benefit obligations	1,663,996	1,645,644
Notes payable	67,465,345	62,500,930
Regulatory liabilities	6,330,482	7,783,142
Total liabilities	103,530,241	100,534,787
Shareholder's equity	38,042,661	37,229,573
Total liabilities and equity	\$ 141,572,902	\$ 137,764,360

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

5. Investment in government business enterprises (continued):

	2013	2012
Results of Operations:		
Revenues	\$ 108,385,718	\$ 93,990,864
Expenses	(106,986,275)	(91,987,191)
Gain (loss) on sale of assets	(110,632)	22,253
Provision for payment in lieu of taxes	134,357	(441,328)
Net income for the year	\$ 1,423,168	\$ 1,584,598
The City's investment in government business enterprises is comprised of:		
Common shares	\$ 15,668,248	\$ 15,668,248
Special shares	15,513,300	15,513,300
Retained earnings	6,861,113	6,048,025
Equity, end of year	38,042,661	37,229,573
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 69,762,661	\$ 68,949,573

6. Budget figures:

The Budget By-law adopted by Council for the 2013 year was not prepared on a basis consistent with that used to report actual results (Public Section Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The budget figures anticipated use surpluses accumulated in previous years to reduce current year expenses in excess of current year revenues to \$Nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. As a result, the budget figures presented in the consolidated statements of operations and change in net financial assets represent the financial plan adopted by Council with adjustments as follows:

	2013	2012
Budget By-law for the year	\$ -	\$ -
Add: Debt principal repayments	3,532,905	3,531,435
Investment in tangible capital assets	21,021,645	26,740,828
Less: Net transfer to/from reserves and other	1,870,214	(5,130,228)
Budget surplus per statement of operations	\$ 26,424,764	\$ 25,142,035

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

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 2013 was \$6,573,976 (2012 - \$5,941,977) is included as an expense on the consolidated statement of financial activities.

8. Operations of school boards:

During 2013, the City collected and transferred property taxes totaling \$19,827,688 (2012 - \$19,422,120) on behalf of area school boards.

9. Trust funds:

The trust funds administered by the City amounting to \$7,341,597 (2012 - \$7,243,872) 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, 2013, the trust fund balances are comprised of:

	2013	2012
Cemetery Care and Maintenance funds	\$ 4,972,901	\$ 4,828,056
Pre-need assurance	2,202,200	2,142,592
Transit employees pension	73,376	72,575
Historic Sites	9,229	111,445
Heritage Sault Ste. Marie	25,056	58,270
Ontario Home Renewal Program	19,174	20,934
Cultural Endowment	12,661	10,000
	<u>\$ 7,314,597</u>	<u>\$ 7,243,872</u>

10. Commitments:

The City has committed to providing funding of \$29,502,101 for the new hospital under construction in Sault Ste. Marie of which \$28,809,101 (2012 - \$26,709,101) has been contributed to date. The final payment of \$693,000 will be made in 2014, ending the City's commitment to the new hospital.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

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.

12. Employee future 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 are as follows:

	2013	2012
Future payments required to W.S.I.B.	\$ 13,777,315	\$ 13,652,371
Post employment and post retirement benefits	13,372,659	10,729,724
Vacation pay	7,855,257	7,876,999
Non-vesting sick leave benefits	1,071,236	803,456
Employee future benefit obligations	\$ 36,076,467	\$ 33,062,550

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, 2013.

The benefit liability continuity is as follows:

	2013	2012
Accrued benefit liability, January 1	\$ 10,729,724	\$ 10,346,815
Expense	3,091,135	834,433
Payments	(448,200)	(451,524)
Accrued benefit liability, December 31	\$ 13,372,659	\$ 10,729,724

Significant assumptions

Discount rate	4.50%
Health cost increase	5.00% - 8.50%

Non-vesting 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, 2013

12. Employee future benefit obligation (continued):

Accrued vacation pay

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2013.

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 450,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 7.5 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$22,975,000 (2012 - \$22,307,000). At December 31, 2013, an amount of \$19,529,708 (2012 - \$18,737,811) with respect to landfill closure and post-closure liability has been accrued and will be funded from future taxation revenues. The City has established a reserve to contribute to the cost of closing and maintaining the landfill site of \$11,728,238 (2012 - \$10,976,964).

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, 2013

14. Tangible capital assets:

	2013							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of year	\$ 24,842,250	\$ 11,679,071	\$ 90,890,149	\$ 482,471,472	\$ 23,949,493	\$ 28,889,106	\$ 8,208,074	\$ 670,929,615
Additions	546	14,094	825,576	14,093,007	1,159,015	2,054,436	8,741,715	26,888,389
Disposals	(15,597)	-	-	(794,516)	(1,224,293)	(2,743,917)	(5,588,931)	(10,367,254)
Balance, end of year	24,827,199	11,693,167	91,715,725	495,769,963	23,884,214	28,199,625	11,360,858	687,450,751
Accumulated Amortization								
Balance, beginning of year	-	(5,277,327)	(28,668,897)	(182,279,882)	(12,183,071)	(15,859,994)	-	(244,269,171)
Disposals	-	-	-	794,517	1,176,017	2,696,194	-	4,666,728
Amortization Expense	-	(642,208)	(2,048,733)	(11,143,196)	(1,824,658)	(1,921,413)	-	(17,580,208)
Balance, end of year	-	(5,919,535)	(30,717,630)	(192,628,562)	(12,831,712)	(15,085,212)	-	(257,182,651)
Net Book Value, end of year	\$ 24,827,199	\$ 5,773,632	\$ 60,998,095	\$ 303,141,401	\$ 11,052,502	\$ 13,114,412	\$ 11,360,858	\$ 430,268,100
Net Book value, beginning of year	\$ 24,842,250	\$ 6,401,744	\$ 62,221,252	\$ 300,191,590	\$ 11,766,422	\$ 13,029,112	\$ 8,208,074	\$ 426,660,444

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

14. Tangible capital assets (continued):

	2012							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of year	\$ 24,988,579	\$ 11,098,030	\$ 79,805,883	\$ 465,086,348	\$ 22,948,725	\$ 28,611,719	\$ 15,604,460	\$ 648,143,744
Additions	17,544	581,041	11,084,266	18,439,132	1,596,335	1,734,786	4,682,769	38,135,873
Disposals	(163,873)	-	-	(1,054,008)	(595,567)	(1,457,399)	(12,079,155)	(15,350,002)
Balance, end of year	24,842,250	11,679,071	90,890,149	482,471,472	23,949,493	28,889,106	8,208,074	670,929,615
Accumulated Amortization								
Balance, beginning of year	-	(4,646,975)	(26,760,134)	(172,486,125)	(10,936,939)	(15,361,705)	-	(230,191,878)
Disposals	-	-	-	1,072,296	618,996	1,375,858	-	3,067,150
Amortization Expense	-	(630,352)	(1,908,763)	(10,866,053)	(1,865,128)	(1,874,147)	-	(17,144,443)
Balance, end of year	-	(5,277,327)	(28,668,897)	(182,279,882)	(12,183,071)	(15,859,994)	-	(244,269,171)
Net Book Value, end of year	\$ 24,842,250	\$ 6,401,744	\$ 62,221,252	\$ 300,191,590	\$ 11,766,422	\$ 13,029,112	\$ 8,208,074	\$ 426,660,444
Net Book value, beginning of year	\$ 24,988,579	\$ 6,451,055	\$ 53,045,749	\$ 292,600,223	\$ 12,011,786	\$ 13,250,014	\$ 15,604,460	\$ 417,951,866

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

14. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$11,360,858 (2012 - \$8,208,074) 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 \$916,706 (2012 - \$2,354,392) comprised of water infrastructure, land and roads 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 (2012 - \$Nil).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

15. Accumulated surplus:

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

	2013	2012
Surplus:		
Invested in tangible capital assets	\$ 430,268,100	\$ 426,660,444
Invested in government business enterprises	69,762,661	68,949,573
Other	24,080,286	18,070,015
Unfunded		
Net long-term liabilities	(12,466,343)	(14,569,473)
Landfill closure costs	(19,529,708)	(18,737,811)
Employee benefits	(36,076,467)	(33,062,550)
Total surplus	456,038,529	447,310,198
Reserves set aside for specific purpose by Council:		
Working capital	1,081,007	1,081,007
Acquisition of tangible capital assets	4,708,648	3,867,325
Planning and development	872,191	797,575
Parking facilities	3,614	3,614
Other programs	7,739,114	7,127,813
Waste disposal site	11,728,238	10,976,964
Total reserves	26,132,812	23,854,298
Reserve funds set aside for specific purpose by Council:		
Sewage plants	497,484	483,821
Cemetery development	1,269,445	939,532
Industrial land	45,238	44,748
Property purchases	1,243,115	1,268,378
Hospital development	544,376	1,126,905
Other programs	153,094	178,819
Total reserve funds	3,752,752	4,042,203
	\$ 485,924,092	\$ 475,206,699

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

16. Government grants:

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:

	2013	2012
Revenue:		
Provincial grants	\$ 23,079,164	\$ 23,684,351
Federal grants	6,207,759	4,960,962
Total revenues	\$ 29,286,923	\$ 28,645,313

17. Segmented information:

The City 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 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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

17. Segmented information (continued):

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.

Engineering and Planning

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

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.

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.

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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

17. Segmented information (continued):

									2013
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenues:									
Taxation	\$ 14,555,380	\$ 11,123,279	\$ 21,154,864	\$ 8,944,013	\$ 27,445,628	\$ 9,372,173	\$ 13,899,983	\$ -	\$ 106,495,320
Fees and user charges	2,514,377	4,665,042	447,044	29,878,347	7,369,930	5,588,424	8,665,765	-	59,128,929
Government grants	2,716,312	1,823,112	3,893,196	7,822,917	6,109,442	3,964,729	2,957,215	-	29,286,923
Investment income	6,210,502	111	-	55,732	31,817	82,730	-	-	6,380,892
Other	148,778	1,801	94,992	2,641,559	121,591	132,028	16,318	-	3,157,067
Gain (loss) on disposal of capital assets	(9,747)	-	-	(47)	(41,307)	(2,278)	-	-	(53,379)
Income of PUC Inc.	-	-	-	-	-	-	-	1,423,168	1,423,168
Total revenues	26,135,602	17,613,345	25,590,096	49,342,521	41,037,101	19,137,806	25,539,281	1,423,168	205,818,920
Expenses:									
Salaries, wages and employee benefits	7,853,177	16,540,722	22,317,600	7,763,550	25,732,219	9,264,729	7,673,335	-	97,145,332
Materials	2,414,758	900,715	1,613,323	16,167,048	10,865,959	3,077,435	416,407	-	35,455,645
Contracted services	-	332,178	1,003,830	9,109,047	3,458,222	2,058,650	108,816	-	16,070,743
Rents and financial	2,577,937	4,736	102,788	100,546	7,321	753,274	325,281	-	3,871,883
Grants to others	20,864	-	-	3,091,982	-	2,558,242	17,206,629	-	22,877,717
Contribution to new hospital	2,100,000	-	-	-	-	-	-	-	2,100,000
Amortization	474,857	381,071	543,314	11,901,995	2,274,254	1,890,875	113,841	-	17,580,207
Total expenses	15,441,593	18,159,422	25,580,855	48,134,168	42,337,975	19,603,205	25,844,309	-	195,101,527
Annual surplus (deficit)	\$ 10,694,009	\$ (546,077)	\$ 9,241	\$ 1,208,353	\$ (1,300,874)	\$ (465,399)	\$ (305,028)	\$ 1,423,168	\$ 10,717,393

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

17. Segmented information (continued):

									2012
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenues:									
Taxation	\$ 19,475,930	\$ 10,378,365	\$ 20,001,699	\$ 4,452,421	\$ 27,604,310	\$ 7,857,387	\$ 13,630,374	\$ -	\$ 103,400,486
Fees and user charges	2,359,517	4,546,483	404,030	27,882,813	7,535,235	5,507,880	8,617,504	-	56,853,462
Government grants	2,779,604	1,745,620	3,663,843	8,403,386	6,494,911	2,666,338	2,891,612	-	28,645,314
Investment income	4,780,670	111	-	63,549	31,680	112,699	-	-	4,988,709
Other	272,276	3,878	212,123	2,187,294	89,863	261,294	-	-	3,026,728
Gain (loss) on disposal of capital assets	27,305	-	(26,691)	(125)	85,994	-	-	-	86,483
Government business enterprises	-	-	-	-	-	-	-	1,584,598	1,584,598
Total revenues	29,695,302	16,674,457	24,255,004	42,989,338	41,841,993	16,405,598	25,139,490	1,584,598	198,585,780
Expenses:									
Salaries, wages and employee benefits	7,065,909	15,981,331	21,530,865	7,641,110	23,679,746	9,094,033	7,446,400	-	92,439,395
Materials	2,251,355	887,102	1,872,839	11,881,353	16,054,576	2,153,089	450,751	-	35,551,066
Contracted services	-	296,972	989,830	8,010,416	3,502,960	1,885,633	117,004	-	14,802,815
Rents and financial	2,628,741	4,141	79,857	100,557	7,417	810,186	400,154	-	4,031,053
Grants to others	75,847	-	-	3,101,046	-	2,522,951	16,931,436	-	22,631,280
Contribution to new hospital	2,100,000	-	-	-	-	-	-	-	2,100,000
Amortization	554,243	384,879	521,358	11,642,237	2,199,548	1,729,406	112,772	-	17,144,443
Total expenses	14,676,095	17,554,425	24,994,749	42,376,719	45,444,247	18,195,298	25,458,517	-	188,700,050
Annual surplus (deficit)	\$ 15,019,207	\$ (879,968)	\$ (739,745)	\$ 612,619	\$ (3,602,254)	\$ (1,789,700)	\$ (206,255)	\$ 1,584,598	\$ 9,885,730

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2013

18. Comparative information:

Certain comparative information have been reclassified to conform with the financial statement presentation adopted in the current year.