

Consolidated Financial Statements of

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

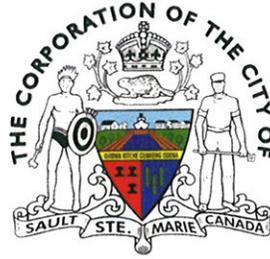
Year ended December 31, 2014

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2014

	Page
Management's Responsibility for the Consolidated Financial Statements	1
Independent Auditors' Report.....	2
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Operations and Accumulated Surplus.....	4
Consolidated Statement of Changes in Net Financial Assets.....	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 25



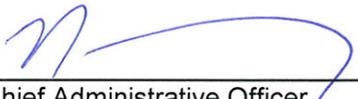
Management's Responsibility for the Consolidated Financial Statements

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 Independent 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



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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, 2014, 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, 2014, 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

August 10, 2015
Sault Ste Marie, Canada

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Financial assets:		
Cash and cash equivalents	\$ 50,176,514	\$ 50,329,848
Taxes receivable	14,156,702	15,391,118
Accounts receivable	12,509,012	12,929,854
Other current assets	268,288	159,212
Investment in PUC Inc. (note 5)	70,227,689	69,762,661
	<u>147,338,205</u>	<u>148,572,693</u>
Financial liabilities:		
Accounts payable and accrued liabilities	23,834,586	25,740,104
Future employee benefit obligations (note 11)	37,349,134	36,076,467
Deferred revenue (note 3)	1,615,812	2,728,744
Landfill closure and post closure liability (note 12)	20,868,067	19,529,708
Net long-term liabilities (note 4)	10,205,145	12,466,343
	<u>93,872,744</u>	<u>96,541,366</u>
Net financial assets	53,465,461	52,031,327
Non-financial assets:		
Tangible capital assets (note 13)	443,338,484	430,268,100
Prepaid expenses	618,835	1,406,586
Inventories	2,392,461	2,218,079
	<u>446,349,780</u>	<u>433,892,765</u>
Contingent liabilities (note 10)		
Accumulated surplus (note 14)	<u>\$ 499,815,241</u>	<u>\$ 485,924,092</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, 2014, with comparative information for 2013

	Budget (note 6)	2014	2013
Revenue:			
Property taxation	\$ 102,381,325	\$ 102,652,836	\$ 102,063,300
Taxation from other governments	4,430,690	4,345,786	4,432,020
Fees and user charges	64,087,828	60,784,919	59,128,929
Government grants (note 15)	21,012,455	30,732,052	29,286,923
Investment and interest income	5,660,000	7,086,760	6,380,892
Other	525,835	6,489,143	3,157,067
Gain on disposal of tangible capital assets	-	262,134	(53,379)
PUC Inc. operating results	-	1,075,108	1,423,168
Total revenue	198,098,133	213,428,738	205,818,920
Expenses:			
General government	14,472,905	14,388,249	14,112,987
Protection services	41,314,054	41,730,854	40,904,960
Transportation services	34,209,270	41,582,255	39,561,250
Environmental services	25,429,889	28,758,855	25,354,052
Health services	7,893,830	7,549,439	7,591,354
Social and family services	25,967,041	25,210,215	25,783,578
Social housing	2,022,670	2,151,208	2,277,901
Planning and development	3,333,100	3,974,978	4,563,974
Recreation and cultural services	15,246,724	15,285,482	15,271,264
Contribution to new hospital construction	693,000	693,000	2,100,000
Amortization of tangible capital assets	18,213,054	18,213,054	17,580,207
Total expenses	188,795,537	199,537,589	195,101,527
Annual surplus	9,302,596	13,891,149	10,717,393
Accumulated surplus, beginning of year	485,924,092	485,924,092	475,206,699
Accumulated surplus, end of year	\$ 495,226,688	\$ 499,815,241	\$ 485,924,092

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2014, with comparative information for 2013

	Budget (note 6)	2014	2013
Annual surplus	\$ 9,302,596	\$ 13,891,149	\$ 10,717,393
Acquisition of tangible capital assets	(20,002,338)	(31,628,778)	(21,299,459)
Amortization of tangible capital assets	18,213,054	18,213,054	17,580,207
Loss (gain) on sale of tangible capital assets	-	(262,134)	53,379
Proceeds on sale of tangible capital assets	-	607,474	58,217
	7,513,312	820,765	7,109,737
Change in prepaid supplies	-	787,751	(11,445)
Change in inventories of supplies	-	(174,382)	(114,600)
Change in net financial assets	7,513,312	1,434,134	6,983,692
Net financial assets, beginning of year	52,031,327	52,031,327	45,047,635
Net financial assets, end of year	\$ 59,544,639	\$ 53,465,461	\$ 52,031,327

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, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 13,891,149	\$ 10,717,393
Items not involving cash:		
Amortization of tangible capital assets	18,213,054	17,580,207
Loss (gain) on sale of tangible capital assets	(262,134)	53,379
Developers contributions of tangible capital assets	(2,798,682)	(916,706)
Change in future employee benefit obligations	1,272,667	3,013,918
Change in landfill closure and post-closure liability	1,338,359	791,897
PUC Inc. operating results	(1,075,108)	(1,423,168)
Change in non-cash assets and liabilities:		
Taxes receivable	1,234,416	(7,149,596)
Accounts receivable	153,104	1,428,111
Other current assets	(116,631)	11,543
Prepaid expenses	795,307	(13,492)
Inventories	(174,382)	(114,600)
Accounts payable and accrued liabilities	(1,637,785)	2,378,291
Deferred revenue	(1,112,931)	(768,079)
Temporary advances from trust funds	-	(336,488)
	29,720,404	25,252,610
Capital activities:		
Proceeds on sale of tangible capital assets	607,475	58,217
Cash used to acquire tangible capital assets	(28,830,096)	(20,382,753)
	(28,222,621)	(20,324,536)
Investing activities:		
Dividends received from PUC Inc.	610,080	610,080
Financing activities:		
Repayment of long-term liabilities	(2,261,197)	(2,103,131)
Net change in cash	(153,334)	3,435,023
Cash and cash equivalents, beginning of year	50,329,848	46,894,825
Cash and cash equivalents, end of year	\$ 50,176,514	\$ 50,329,848

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, 2014

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, 2014

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
Sault Ste. Marie Public Region Conservation Authority

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in the 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, 2014

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, 2014

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 expenses 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, 2014

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 2014. 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 an allowance for tax appeals and other items in the amount of \$2,228,000 (2013 - \$2,343,012). 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:

	2014	2013
Development charges act	\$ 371,923	\$ 364,534
Provincial Gas Tax	52,613	112,943
Federal Gas Tax	—	572,990
Parkland	512,029	504,038
Building permits Bill 124	679,247	1,174,239
	<u>\$ 1,615,812</u>	<u>\$ 2,728,744</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

3. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2014	2013
Balance, beginning of year:		
Development charges act	\$ 364,534	\$ 357,703
Provincial Gas Tax	112,943	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
	2,728,744	3,496,823
Other revenue	69,755	75,194
Interest earned	45,623	39,284
Total revenue	115,378	144,478
Contributions deferred	—	44,450
Contributions used	(1,228,310)	(927,007)
Balance, end of year	\$ 1,615,812	\$ 2,728,744

4. Net long-term liabilities:

	2014	2013
Total long-term liabilities incurred by the City	\$ 10,205,145	\$ 12,466,343

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

2015	\$ 1,211,136
2016	1,282,036
2017	1,357,307
2018	1,437,236
2019	1,522,124

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, 2014

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 \$607,453 (2013 - \$721,156).

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

	2014	2013
Financial Position:		
Current assets	\$ 46,300,368	\$ 41,663,817
Notes receivable	8,315,331	8,310,000
Future income tax assets	2,255,460	2,692,000
Capital assets	90,401,561	88,084,450
Regulatory assets	1,510,636	822,635
Total assets	\$ 148,783,356	\$ 141,572,902
Current liabilities	\$ 24,360,534	\$ 28,070,418
Employee future benefit obligations	1,564,885	1,663,996
Notes payable	81,675,380	67,465,345
Regulatory liabilities	2,674,868	6,330,482
Total liabilities	110,275,667	103,530,241
Shareholder's equity	38,507,689	38,042,661
Total liabilities and equity	\$ 148,783,356	\$ 141,572,902

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 CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

5. Investment in government business enterprises (continued):

	2014	2013
Results of operations:		
Revenues	\$ 108,079,295	\$ 108,385,718
Expenses	(107,287,750)	(106,986,275)
Loss on sale of assets	–	(110,632)
Provision for payment in lieu of taxes	283,563	134,357
Net income for the year	\$ 1,075,108	\$ 1,423,168
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	7,326,141	6,861,113
Equity, end of year	38,507,689	38,042,661
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 70,227,689	\$ 69,762,661

6. Budget figures:

The Budget By-law adopted by Council for the 2014 year was not prepared on a basis consistent with that used to report actual results (Public Sector 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 accumulated surplus and change in net financial assets represent the financial plan adopted by Council with adjustments as follows:

	2014
Adopted budget by-law for the year	\$ –
Adjustments to adopted budget:	
Debt principal repayments	2,922,442
Investment in tangible capital assets	20,002,338
Amortization of tangible capital assets	(18,213,054)
Net transfer to/from reserves and other	4,590,870
Budget surplus per consolidated statement of operations and accumulated surplus	\$ 9,302,596

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

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 2014 was \$6,741,020 (2013 - \$6,573,976) is included as an expense on the consolidated statement of operations and accumulated surplus.

8. Operations of school boards:

During 2014, the City collected and transferred property taxes totaling \$19,989,744 (2013 - \$19,827,688) on behalf of area school boards.

9. Trust funds:

The trust funds administered by the City amounting to \$7,436,235 (2013 - \$7,314,597) 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, 2014, the trust fund balances are comprised of:

	2014	2013
Cemetery Care and Maintenance funds	\$ 5,106,285	\$ 4,972,901
Pre-need assurance	2,180,443	2,202,200
Transit employees' pension	74,173	73,376
Historic Sites	20,832	9,229
Heritage Sault Ste. Marie	25,760	25,056
Ontario Home Renewal Program	15,814	19,174
Cultural Endowment	12,928	12,661
	<u>\$ 7,436,235</u>	<u>\$ 7,314,597</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

10. 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 consolidated financial statements. Should any loss result from these claims, such loss would be charged to operations in the year of resolution.

11. 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:

	2014	2013
Future payments required to W.S.I.B.	\$ 13,915,142	\$ 13,777,315
Post-employment and post-retirement benefits	14,162,693	13,372,659
Vacation pay	7,865,209	7,855,257
Non-vesting sick leave benefits	1,406,090	1,071,236
Employee future benefit obligations	\$ 37,349,134	\$ 36,076,467

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, 2014.

The benefit liability continuity is as follows:

	2014	2013
Accrued benefit liability, January 1	\$ 13,372,659	\$ 10,729,724
Expense	1,349,974	3,091,135
Payments	(559,940)	(448,200)
Accrued benefit liability, December 31	\$ 14,162,693	\$ 13,372,659

Significant assumptions

Discount rate	3.50%
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, 2014

11. 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, 2014.

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.

12. 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 405,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 6.75 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$24,125,000 (2013 - \$22,975,000). At December 31, 2014, an amount of \$20,868,067 (2013 - \$19,529,708) 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 \$12,175,874 (2013 - \$11,728,238).

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, 2014

13. Tangible capital assets

									2014
		Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost									
Balance, beginning of the 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
Additions		5,442	167,000	4,593,944	24,808,414	2,949,460	2,906,654	7,386,382	42,817,296
Disposals		(38,964)	-	-	(1,566,507)	(977,222)	(3,223,765)	(11,155,627)	(16,962,085)
Balance, end of year		24,793,677	11,860,167	96,309,669	519,011,870	25,856,452	27,882,514	7,591,613	713,305,962
Accumulated Amortization									
Balance, beginning of the year		-	(5,919,535)	(30,717,630)	(192,628,562)	(12,831,712)	(15,085,212)	-	(257,182,651)
Disposals/transfers		-	-	-	1,566,508	968,512	2,893,207	-	5,428,227
Amortization expense		-	(645,783)	(2,149,761)	(11,531,611)	(1,870,068)	(2,015,831)	-	(18,213,054)
Balance, end of year		-	(6,565,318)	(32,867,391)	(202,593,665)	(13,733,268)	(14,207,836)	-	(269,967,478)
Net book value, end of year	\$	24,793,677	5,294,849	63,442,278	316,418,205	12,123,184	13,674,678	7,591,613	\$ 443,338,484
Net book value, beginning of year	\$	24,827,199	5,773,631	60,998,095	303,141,402	11,052,503	13,114,412	11,360,858	\$ 430,268,100

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

13. Tangible capital assets (continued)

									2013
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total	
Cost									
Balance, beginning of the year	\$ 24,842,250	11,679,072	90,890,149	482,471,472	23,949,493	28,889,106	8,208,074	\$ 670,929,616	
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	11,693,166	91,715,725	495,769,963	23,884,215	28,199,625	11,360,858	687,450,751	
Accumulated Amortization									
Balance, beginning of the year	-	(5,277,327)	(28,668,897)	(182,279,882)	(12,183,071)	(15,859,994)	-	(244,269,171)	
Disposals/transfers	-	-	-	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)	(192,628,561)	(12,831,712)	(15,085,213)	-	(257,182,651)	
Net book value, end of year	\$ 24,827,199	5,773,631	60,998,095	303,141,402	11,052,503	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, 2014

13. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$7,591,613 (2013 - \$11,360,858) 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 \$2,798,682 (2013 - \$916,706) 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 (2013 - \$Nil).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

14. Accumulated surplus:

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

	2014	2013
Surplus:		
Invested in tangible capital assets	\$ 443,338,484	\$ 430,268,100
Invested in government business enterprises	70,227,688	69,762,660
Other	23,962,364	24,080,286
Unfunded		
Net long-term liabilities	(10,205,145)	(12,466,343)
Landfill closure costs	(20,868,067)	(19,529,708)
Employee benefits	(37,349,134)	(36,076,467)
Total surplus	469,106,190	456,038,528
Reserves set aside for specific purpose by Council:		
Working capital	1,081,007	1,081,007
Acquisition of tangible capital assets	3,680,142	4,708,648
Planning and development	922,579	872,191
Parking facilities	3,614	3,614
Other programs	8,858,072	7,739,114
Waste disposal site	12,175,874	11,728,238
Total reserves	26,721,288	26,132,812
Reserve funds set aside for specific purpose by Council:		
Sewage plants	510,982	497,484
Cemetery development	1,338,631	1,269,445
Industrial land	45,722	45,238
Property purchases	1,389,906	1,243,115
Hospital development	466,845	544,376
Other programs	235,677	153,094
Total reserve funds	3,987,763	3,752,752
	\$ 499,815,241	\$ 485,924,092

15. 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 consolidated statement of operations and accumulated surplus are:

	2014	2013
Revenue:		
Provincial grants	\$ 24,979,332	\$ 23,079,164
Federal grants	5,752,720	6,207,759
Total revenues	\$ 30,732,052	\$ 29,286,923

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

16. 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.

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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

16. Segmented information (continued):

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.

For each reported segment, revenues and expenses include both amounts that are directly attributable to the segment and amounts that are allocation on a reasonable basis. Therefore certain allocation methodologies are employed in the preparation of segmented financial information.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

16. Segmented disclosure (continued):

	2014								
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenue:									
Taxation	\$ 11,824,741	11,329,452	22,315,521	8,887,616	29,215,658	9,587,271	13,838,363	-	\$ 106,998,622
Fees and user charges	2,553,838	4,576,241	471,420	32,041,249	7,006,235	5,629,985	8,405,808	-	60,684,776
Government grants	2,505,149	1,677,069	3,798,529	10,640,265	5,807,777	3,515,544	2,787,719	-	30,732,052
Investment income	6,926,050	110	-	43,497	33,729	83,374	-	-	7,086,760
Other	1,363,154	447	94,050	4,721,634	-	407,726	2,275	-	6,589,286
Gain (loss) on disposal of capital assets	228,405	(85,517)	-	(185)	119,431	-	-	-	262,134
PUC Inc. operating results	-	-	-	-	-	-	-	1,075,108	1,075,108
	25,401,337	17,497,802	26,679,520	56,334,076	42,182,830	19,223,900	25,034,165	1,075,108	213,428,738
Expenses:									
Salaries, wages and employee benefits	7,596,280	16,283,218	22,503,271	8,800,239	25,184,811	9,082,234	7,466,573	-	96,916,626
Materials	2,614,658	779,775	2,204,359	20,423,349	11,645,099	3,042,232	372,546	-	41,082,018
Contracted services	-	399,439	1,022,404	8,385,601	3,757,596	2,171,135	126,069	-	15,862,244
Rents and financial	2,742,666	4,715	83,340	99,951	8,783	768,911	238,151	-	3,946,517
Grants to others	26,428	-	-	3,247,313	-	2,700,008	16,850,381	-	22,824,130
Contribution to new hospital	693,000	-	-	-	-	-	-	-	693,000
Amortization of tangible capital assets	430,506	373,910	648,163	12,291,751	2,376,796	1,977,770	114,158	-	18,213,054
	14,103,538	17,841,057	26,461,537	53,248,204	42,973,085	19,742,290	25,167,878	-	199,537,589
Annual surplus (deficit)	\$ 11,297,799	(343,255)	217,983	3,085,872	(790,255)	(518,390)	(133,713)	1,075,108	\$ 13,891,149

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2014

16. Segmented disclosure (continued):

	2013								
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenue:									
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)
PUC Inc. operating results	-	-	-	-	-	-	-	1,423,168	1,423,168
	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 of tangible capital assets	474,857	381,071	543,314	11,901,995	2,274,254	1,890,875	113,841	-	17,580,207
	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