

Consolidated Financial Statements of

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

Year ended December 31, 2015

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2015

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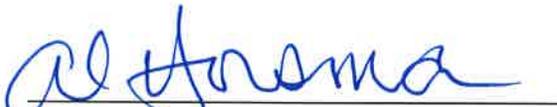
Management's Responsibility for the Consolidated Financial Statements

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 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 and Treasurer



KPMG LLP
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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, 2015, 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, 2015, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 27, 2016

Sault Ste. Marie, Canada

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash and cash equivalents	\$ 58,315,087	\$ 50,176,514
Taxes receivable	13,578,699	14,156,702
Accounts receivable	15,040,553	12,509,012
Other current assets	218,785	268,288
Investment in PUC Inc. (note 5)	70,489,793	69,767,013
	<u>157,642,917</u>	<u>146,877,529</u>
Financial liabilities:		
Accounts payable and accrued liabilities	27,621,824	23,834,587
Future employee benefit obligations (note 11)	38,764,890	37,349,134
Deferred revenue (note 3)	1,486,053	1,615,812
Landfill closure and post closure liability (note 12)	21,158,423	20,868,067
Net long-term liabilities (note 4)	8,994,008	10,205,145
	<u>98,025,198</u>	<u>93,872,745</u>
Net financial assets	59,617,719	53,004,784
Non-financial assets:		
Tangible capital assets (note 13)	447,901,861	443,338,484
Prepaid expenses	384,393	618,835
Inventories	2,701,443	2,392,461
	<u>450,987,697</u>	<u>446,349,780</u>
Contingent liabilities (note 10)		
Accumulated surplus (note 14)	\$ 510,605,416	\$ 499,354,564

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, 2015, with comparative information for 2014

	Budget (note 6)	2015	2014
Revenue:			
Property taxation	\$ 104,478,366	\$ 104,989,252	\$ 102,652,836
Taxation from other governments	4,325,515	4,363,764	4,345,786
Fees and user charges	67,037,529	62,304,702	60,784,919
Government grants (note 15)	20,412,971	32,593,849	30,732,052
Investment and interest income	5,610,000	7,112,405	7,086,760
Other	994,035	3,462,341	6,489,143
Gain on disposal of tangible capital assets	-	69,229	262,134
PUC Inc. operating results	-	722,780	706,533
Total revenue	202,858,416	215,618,322	213,060,163
Expenses:			
General government	14,378,885	19,208,972	14,388,249
Protection services	41,261,032	41,133,464	41,730,854
Transportation services	34,428,810	43,560,011	41,582,255
Environmental services	26,755,082	26,220,615	28,758,855
Health services	8,080,133	8,147,629	7,549,439
Social and family services	25,133,314	25,088,667	25,210,215
Social housing	2,017,790	2,204,265	2,151,208
Planning and development	3,134,030	3,744,968	3,974,978
Recreation and cultural services	16,034,942	16,339,221	15,285,482
Contribution to new hospital construction	-	-	693,000
Amortization of tangible capital assets	18,719,658	18,719,658	18,213,054
Total expenses	189,943,676	204,367,470	199,537,589
Annual surplus	12,914,740	11,250,852	13,522,574
Accumulated surplus, beginning of year	499,354,564	499,354,564	485,831,990
Accumulated surplus, end of year	\$ 512,269,304	\$ 510,605,416	\$ 499,354,564

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, 2015, with comparative information for 2014

	Budget (note 6)	2015	2014
Annual surplus	\$ 12,914,740	\$ 11,250,852	\$ 13,522,574
Acquisition of tangible capital assets	(27,300,988)	(23,286,107)	(31,628,778)
Amortization of tangible capital assets	18,719,658	18,719,658	18,213,054
Gain on sale of tangible capital assets	-	(69,228)	(262,134)
Proceeds on sale of tangible capital assets	-	72,300	607,474
	4,333,410	6,687,475	452,190
Change in prepaid supplies	-	234,442	787,751
Change in inventories of supplies	-	(308,982)	(174,382)
Change in net financial assets	4,333,410	6,612,935	1,065,559
Net financial assets, beginning of year	53,004,784	53,004,784	51,939,225
Net financial assets, end of year	\$ 57,338,194	\$ 59,617,719	\$ 53,004,784

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, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 11,250,852	\$ 13,891,149
Items not involving cash:		
Amortization of tangible capital assets	18,719,658	18,213,054
Gain on sale of tangible capital assets	(69,229)	(262,134)
Developers contributions of tangible capital assets	(662,991)	(2,798,682)
Change in future employee benefit obligations	1,415,756	1,272,667
Change in landfill closure and post-closure liability	290,356	1,338,359
PUC Inc. operating results	(722,780)	(1,075,108)
	<u>30,221,622</u>	<u>30,579,305</u>
Change in non-cash assets and liabilities:		
Taxes receivable	578,003	1,234,416
Accounts receivable	(3,033,159)	153,104
Other current assets	49,502	(116,631)
Prepaid expenses	234,442	795,307
Inventories	(308,982)	(174,382)
Accounts payable and accrued liabilities	4,288,857	(1,637,783)
Deferred revenue	(129,759)	(1,112,931)
	<u>31,900,526</u>	<u>29,720,405</u>
Capital activities:		
Proceeds on sale of tangible capital assets	72,300	607,474
Cash used to acquire tangible capital assets	(22,623,116)	(28,830,096)
	<u>(22,550,816)</u>	<u>(28,222,622)</u>
Investing activities:		
Dividends received from PUC Inc.	-	610,080
Financing activities:		
Repayment of long-term liabilities	(1,211,137)	(2,261,197)
Net change in cash	8,138,573	(153,334)
Cash and cash equivalents, beginning of year	50,176,514	50,329,848
Cash and cash equivalents, end of year	<u>\$ 58,315,087</u>	<u>\$ 50,176,514</u>

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, 2015

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, 2015

1. 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, 2015

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, 2015

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, 2015

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 2015. 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 \$6,736,670 (2014 - \$2,228,000). 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:

	2015	2014
Development charges act	\$ 378,236	\$ 371,923
Provincial Gas Tax	20,508	52,613
Parkland	644,181	512,029
Building permits Bill 124	443,128	679,247
	<u>\$ 1,486,053</u>	<u>\$ 1,615,812</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

3. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2015	2014
Balance, beginning of year:		
Development charges act	\$ 371,923	\$ 364,534
Provincial Gas Tax	52,612	112,943
Federal Gas Tax	–	572,990
Parkland	512,029	504,038
Building permits Bill 124	679,248	1,174,239
	1,615,812	2,728,744
Other revenue	178,779	69,755
Interest earned	39,966	45,623
Total revenue	218,745	115,378
Contributions used	(348,504)	(1,228,310)
Balance, end of year	\$ 1,486,053	\$ 1,615,812

4. Net long-term liabilities:

	2015	2014
Total long-term liabilities incurred by the City	\$ 8,994,008	\$ 10,205,145

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

2016	\$ 1,282,036
2017	1,357,307
2018	1,437,236
2019	1,522,124
2020	1,612,297

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, 2015

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 \$513,570 (2014 - \$607,453).

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:

	2015	2014
Financial Position:		
Current assets	\$ 47,898,065	\$ 46,300,368
Notes receivable	8,315,331	8,315,331
Future income tax assets	2,018,000	2,815,460
Capital assets	98,440,803	93,589,289
Regulatory assets	49,643	1,510,636
Total assets	\$ 156,721,842	\$ 152,531,084
Current liabilities	\$ 22,547,136	\$ 24,360,534
Employee future benefit obligations	1,846,728	1,804,376
Notes payable	80,837,675	81,675,379
Deferred revenue	4,894,229	2,453,325
Regulatory liabilities	7,826,281	4,190,456
Total liabilities	117,952,049	114,484,070
Shareholder's equity	38,769,793	38,047,013
Total liabilities and equity	\$ 156,721,842	\$ 152,531,083

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, 2015

5. Investment in government business enterprises (continued):

	2015	2014
Results of operations:		
Revenues	\$ 110,465,278	\$ 114,005,862
Expenses	(109,589,529)	(113,520,401)
Provision for (payment) recovery in lieu of taxes	(197,381)	328,008
Other comprehensive income	44,412	(106,936)
Net income for the year	\$ 722,780	\$ 706,533
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
Accumulated other comprehensive income	118,929	74,517
Retained earnings	7,469,316	6,790,948
Equity, end of year	38,769,793	38,047,013
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 70,489,793	\$ 69,767,013

The investment in government business enterprises has been restated for a transition to International Financial Reporting Standards ("IFRS") by PUC Inc. as of January 1, 2014. The following tables provide a reconciliation of the balances as previously reported:

Investment in government business enterprises		
As previously reported December 31, 2014		\$ 70,227,689
IFRS transitional adjustments		(460,676)
Investment in government business enterprises - restated		\$ 69,767,013

Net income for the year		
As previously reported December 31, 2014		\$ 1,075,108
IFRS transitional adjustments		(368,575)
Net income for the year - restated		\$ 706,533

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

6. Budget figures:

The Budget By-law adopted by Council for the 2015 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 of 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:

	2015	2014
Adopted budget by-law for the year	\$ -	\$ -
Adjustments to adopted budget:		
Debt principal repayments	2,230,331	2,922,442
Investment in tangible capital assets	27,300,988	20,002,338
Amortization of tangible capital assets	(18,719,658)	(18,213,054)
Net transfer to/from reserves and other	2,103,079	4,590,870
Budget surplus per consolidated statement of operations and accumulated surplus	\$ 12,914,740	\$ 9,302,596

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 2015 was \$6,664,171 (2014 - \$6,741,020) is included as an expense on the consolidated statement of operations and accumulated surplus.

8. Operations of school boards:

During 2015, the City collected and transferred property taxes totaling \$20,323,603 (2014- \$19,989,744) on behalf of area school boards.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

9. Trust funds:

The trust funds administered by the City amounting to \$7,573,028 (2014 - \$7,436,235) 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, 2015, the trust fund balances are comprised of:

	2015	2014
Cemetery Care and Maintenance funds	\$ 5,222,156	\$ 5,106,285
Pre-need assurance	2,197,954	2,180,443
Transit employees' pension	74,912	74,173
Historic Sites	28,370	20,832
Heritage Sault Ste. Marie	26,862	25,760
Ontario Home Renewal Program	9,704	15,814
Cultural Endowment	13,070	12,928
	<u>\$ 7,573,028</u>	<u>\$ 7,436,235</u>

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:

	2015	2014
Future payments required to W.S.I.B.	\$ 14,099,116	\$ 13,915,142
Post-employment and post-retirement benefits	15,077,442	14,162,693
Vacation pay	7,871,218	7,865,209
Non-vesting sick leave benefits	1,717,114	1,406,090
Employee future benefit obligations	<u>\$ 38,764,890</u>	<u>\$ 37,349,134</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

11. Employee future benefit obligations (continued):

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, 2015.

The benefit liability continuity is as follows:

	2015	2014
Accrued benefit liability, January 1	\$ 14,162,693	\$ 13,372,659
Expense	1,488,594	1,349,974
Payments	(573,845)	(559,940)
Accrued benefit liability, December 31	\$ 15,077,442	\$ 14,162,693

Significant assumptions

Discount rate	3.5%
Health cost increase	5.0% - 7.0%

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.

Accrued vacation pay

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2015.

Future payments for Worker's Safety and Insurance Board (WSIB)

Under the provisions of the Workplace Safety and Insurance Board Act, the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required, to fund current disability payments. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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 375,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 6.3 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$24,181,000 (2014 - \$24,125,000). At December 31, 2015, an amount of \$21,158,423 (2014 - \$20,868,067) 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 \$12,385,541 (2014 - \$12,175,874).

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, 2015

13. Tangible capital assets

	2015							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of the year	\$ 24,793,677	11,860,167	96,309,669	518,656,429	25,856,452	27,882,514	7,947,054	\$ 713,305,962
Additions	166,156	33,151	-	19,155,916	1,609,369	1,998,356	7,867,065	30,830,013
Disposals	(2,876)	-	-	(1,403,272)	(496,584)	(836,679)	(7,331,036)	(10,070,447)
Balance, end of year	24,956,957	11,893,318	96,309,669	536,409,073	26,969,237	29,044,191	8,483,083	734,065,528
Accumulated Amortization								
Balance, beginning of the year	-	(6,565,318)	(32,867,391)	(202,593,665)	(13,733,268)	(14,207,836)	-	(269,967,478)
Disposals/transfers	-	-	-	1,403,272	283,713	836,679	-	2,523,664
Amortization expense	-	(649,392)	(2,148,116)	(11,915,666)	(1,970,094)	(2,036,585)	-	(18,719,853)
Balance, end of year	-	(7,214,710)	(35,015,507)	(213,106,059)	(15,419,649)	(15,407,742)	-	(286,163,667)
Net book value, end of year	\$ 24,956,957	4,678,608	61,294,162	323,303,014	11,549,588	13,636,449	8,483,083	\$ 447,901,861
Net book value, beginning 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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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, 2015

13. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$8,483,083 (2014 - \$7,591,613) 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 \$651,964 (2014 - \$2,798,682) 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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

14. Accumulated surplus:

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

	2015	2014
Surplus:		
Invested in tangible capital assets	\$ 447,901,861	\$ 443,338,484
Invested in government business enterprises	70,489,793	69,767,013
Other	28,352,177	23,962,363
Unfunded		
Net long-term liabilities	(8,994,008)	(10,205,145)
Landfill closure costs	(21,158,423)	(20,868,067)
Employee benefits	(38,764,890)	(37,349,134)
Total surplus	477,826,510	468,645,514
Reserves set aside for specific purpose by Council:		
Working capital	1,081,007	1,081,007
Acquisition of tangible capital assets	3,621,657	3,680,142
Planning and development	626,634	922,579
Parking facilities	-	3,614
Other programs	11,862,577	8,858,072
Waste disposal site	12,385,541	12,175,874
Total reserves	29,577,416	26,721,288
Reserve funds set aside for specific purpose by Council:		
Sewage plants	522,606	510,982
Cemetery development	825,953	1,338,631
Industrial land	46,138	45,722
Property purchases	1,211,112	1,389,906
Hospital development	414,521	466,845
Other programs	181,160	235,677
Total reserve funds	3,201,490	3,987,763
	\$ 510,605,416	\$ 499,354,565

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:

	2015	2014
Revenue:		
Provincial grants	\$ 26,027,679	\$ 24,979,332
Federal grants	6,566,170	5,752,720
Total revenues	\$ 32,593,849	\$ 30,732,052

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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, 2015

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, 2015

16. Segmented disclosure (continued):

									2015
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenue:									
Taxation	\$ 15,338,159	11,331,497	21,295,967	8,117,751	29,501,535	10,119,801	13,648,306	-	\$ 109,353,016
Fees and user charges	2,535,256	4,970,483	418,560	33,661,778	6,530,369	5,522,337	8,665,919	-	62,304,702
Government grants	2,000,399	1,632,073	3,873,324	14,497,888	5,655,456	2,308,355	2,626,354	-	32,593,849
Investment income	6,858,009	94	-	19,224	28,863	206,215	-	-	7,112,405
Other	693,452	1,118	351,674	1,625,810	154,902	634,385	1,000	-	3,462,341
Gain (loss) on disposal of capital assets	(2,577)	-	-	(152)	71,958	-	-	-	69,229
PUC Inc. operating results	-	-	-	-	-	-	-	722,780	722,780
	27,422,698	17,935,265	25,939,525	57,922,299	41,943,083	18,791,093	24,941,579	722,780	215,618,322
Expenses:									
Salaries, wages and employee benefits	7,798,169	16,591,562	22,208,345	8,998,724	25,798,607	9,341,060	7,757,741	-	98,494,208
Materials	2,592,868	906,484	2,152,169	17,454,270	10,583,144	2,917,754	423,402	-	37,030,091
Contracted services	-	406,717	898,821	11,439,396	3,756,954	2,234,882	88,027	-	18,824,797
Rents and financial	7,437,575	4,760	97,982	100,621	10,373	678,822	209,549	-	8,539,682
Grants to others	33,790	-	-	3,480,839	-	2,743,680	16,500,726	-	22,759,035
Amortization of tangible capital assets	445,601	392,219	615,971	12,673,590	2,456,363	2,031,388	104,526	-	18,719,658
	18,308,003	18,301,742	25,973,288	54,147,440	42,605,441	19,947,586	25,083,971	-	204,367,471
Annual surplus (deficit)	\$ 9,114,695	(366,477)	(33,763)	3,774,859	(662,358)	(1,156,493)	(142,392)	722,780	\$ 11,250,851

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

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	-	-	-	-	-	-	-	706,533	706,533
	25,401,337	17,497,802	26,679,520	56,334,076	42,182,830	19,223,900	25,034,165	706,533	213,060,163
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)	706,533	\$ 13,522,574

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2015

17. Change in accounting policies:

The City has implemented Public Sector Accounting Board (“PSAB”) section 3260 Liability for contaminated sites. Section 3260 requires governments to record a liability in their financial statements if they have a contaminated site that meets the requirements set out in the standard. The standard defines contamination as the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The standard generally applies to sites that are not in productive use. Sites that are in productive use are only considered contaminated if there was an unexpected event that resulted in contamination. This change has been applied retroactively without the restatement of prior periods.

The adoption of this standard did not have an impact on the City’s financial statements.