

Consolidated Financial Statements of

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

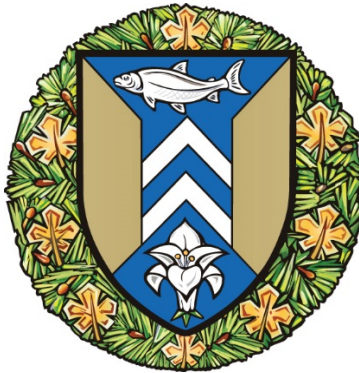
Year ended December 31, 2018

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2018

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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


Chief Financial Officer / City 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

Opinion

We have audited the 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, 2018
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018 and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***" section of our auditors' report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures



are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the City to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that serves as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

June 17, 2019

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial assets		
Cash and cash equivalents	\$ 85,822,804	\$ 59,247,123
Taxes receivable	4,692,539	25,512,939
Accounts receivable	15,420,247	14,838,449
Other current assets	132,202	98,868
Investment in government business enterprises (note 6)	73,898,660	72,271,951
	<u>179,966,452</u>	<u>171,969,330</u>
Financial liabilities		
Accounts payable and accrued liabilities	19,670,692	22,202,705
Future employee benefit obligations (note 12)	39,070,294	36,747,326
Deferred revenue (note 3)	874,876	2,039,483
Landfill closure and post closure liability (note 13)	24,050,475	23,723,226
Net long-term liabilities (note 4):		
The Corporation of the City of Sault Ste. Marie	4,870,508	6,307,250
Net long-term liabilities (note 5):		
Public Utilities Commission of the City of Sault Ste. Marie	5,917,394	6,652,782
	<u>94,454,239</u>	<u>97,672,772</u>
Net financial assets	85,512,213	74,296,558
Non-financial assets:		
Tangible capital assets (note 14)	469,008,319	458,258,381
Prepaid expenses	640,407	298,952
Inventories	2,528,478	2,383,042
	<u>472,177,204</u>	<u>460,940,375</u>
Contingent liabilities (note 11)		
Accumulated surplus (note 15)	\$ 557,689,417	\$ 535,236,933

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, 2018, with comparative information for 2017

	Budget (note 7)	2018	2017
Revenue:			
Property taxation	\$ 113,241,818	\$ 113,863,528	\$ 112,328,695
Taxation from other governments	4,160,860	4,366,620	4,541,861
Fees and user charges	55,362,043	54,297,466	50,713,920
Government grants (note 16)	35,016,663	34,505,629	31,755,578
Interest income	4,315,000	7,735,285	6,683,038
Other	2,122,425	2,716,683	3,913,672
Developer contributions (note 14)	-	146,070	3,912,138
Net income of government business enterprise (note 6)	-	2,846,869	3,115,833
Total revenue	214,218,809	220,478,150	216,964,735
Expenses:			
General government	14,230,894	17,115,233	17,236,317
Protection services	43,206,366	45,125,431	43,686,947
Transportation services	34,631,080	38,775,936	37,760,899
Environmental services	26,446,925	26,054,214	26,715,714
Health services	11,086,282	10,746,671	10,107,478
Social and family services	19,135,633	19,147,555	20,114,167
Planning and development	2,651,752	3,944,993	3,719,033
Recreation and cultural services	17,162,392	17,501,922	16,627,618
Amortization of tangible capital assets	19,319,744	19,432,461	19,474,260
Loss on disposal of tangible capital assets	-	181,250	246,532
Total expenses	187,871,068	198,025,666	195,688,965
Annual surplus	26,347,741	22,452,484	21,275,770
Accumulated surplus, beginning of year	535,236,933	535,236,933	513,961,163
Accumulated surplus, end of year	\$ 561,584,674	\$ 557,689,417	\$ 535,236,933

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, 2018, with comparative information for 2017

	Budget (note 7)	2018	2017
Annual surplus	\$ 26,347,741	\$ 22,452,484	\$ 21,275,770
Acquisition of tangible capital assets	(56,172,844)	(30,938,469)	(20,254,354)
Amortization of tangible capital assets	19,319,744	19,432,461	19,474,260
Gain on sale of tangible capital assets	-	181,250	246,532
Proceeds on sale of tangible capital assets	-	574,820	174,691
	(10,505,359)	11,702,546	20,916,899
Change in prepaid expenses	-	(341,455)	63,052
Change in inventories	-	(145,436)	(39,072)
Change in net financial assets	(10,505,359)	11,215,655	20,940,879
Net financial assets, beginning of year	74,296,558	74,296,558	53,355,679
Net financial assets, end of year	\$ 63,791,199	\$ 85,512,213	\$ 74,296,558

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, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 22,452,484	\$ 21,275,770
Items not involving cash:		
Amortization of tangible capital assets	19,432,461	19,474,260
Gain on sale of tangible capital assets	181,250	246,532
Developer contributions	(146,070)	(3,912,138)
Change in future employee benefit obligations	2,322,968	(214,925)
Change in landfill closure and post-closure liability	327,249	1,597,654
Net income of government business enterprise (note 6)	(2,846,869)	(3,115,833)
	41,723,473	35,351,320
Change in non-cash assets and liabilities:		
Taxes receivable	20,820,400	(6,472,130)
Accounts receivable	(581,798)	433,709
Other current assets	(33,334)	79,180
Prepaid expenses	(341,455)	63,052
Inventories	(145,436)	(39,072)
Accounts payable and accrued liabilities	(2,532,013)	(5,494,670)
Deferred revenue	(1,164,607)	1,212,346
	57,745,230	25,133,735
Capital activities:		
Proceeds on sale of tangible capital assets	574,820	174,691
Cash used to acquire tangible capital assets	(30,792,399)	(16,342,216)
	(30,217,579)	(16,167,525)
Investing activities:		
Dividends received from PUC Inc.	1,220,160	-
Financing activities:		
Repayment of long-term liabilities	(2,172,130)	(2,117,619)
Net change in cash	26,575,681	6,848,591
Cash and cash equivalents, beginning of year	59,247,123	52,398,532
Cash and cash equivalents, end of year	\$ 85,822,804	\$ 59,247,123

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, 2018

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
Public Utilities Commission of the City of Sault Ste. Marie
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, 2018

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 Public Health
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, 2018

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, 2018

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.

(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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

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 2018. 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 \$1,820,000 (2017 - \$8,583,032). 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:

	2018	2017
Development charges act	\$ 19,072	\$ 12,922
Provincial Gas Tax	38,722	37,228
Federal Gas Tax	391,957	1,333,138
Parkland	315,704	464,470
Building permits Bill 124	109,421	191,725
	<u>\$ 874,876</u>	<u>\$ 2,039,483</u>

Continuity of deferred revenue is as follows:

	2018	2017
Balance, beginning of year:		
Development charges act	\$ 12,922	\$ 5,800
Provincial Gas Tax	37,228	35,869
Federal Gas Tax	1,333,138	-
Parkland	464,470	508,375
Building permits Bill 124	191,725	277,093
	<u>2,039,483</u>	<u>827,137</u>
Other revenue	83,817	84,813
Interest earned	125,111	74,784
Total revenue	<u>208,928</u>	<u>159,597</u>
Contributions deferred	-	1,333,352
Contributions used	(1,373,534)	(280,603)
Balance, end of year	<u>\$ 874,876</u>	<u>\$ 2,039,483</u>

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

4. Net long-term liabilities:

	2018	2017
Net long-term liabilities incurred by:		
The Corporation of the City of Sault Ste. Marie	\$ 4,870,508	\$ 6,307,250

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

2019	\$ 1,522,124
2020	1,612,297
2021	636,337
2022	23,527

The annual principal and interest payments required to service the long-term obligations of the City are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

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

The above long-term debt has various maturity dates and interest rates ranging from due on demand to 2024 and 0% to 7.74% respectively. Interest paid in the year and included in current expenses is \$287,472 (2017 - \$367,400).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

5. Net long-term liabilities:

	2018	2017
Net long-term liabilities incurred by:		
Public Utilities Commission of the City of Sault Ste. Marie	5,917,394	6,652,782

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

2019	\$	758,587
2020		782,518
2021		807,205
2022		832,670
2023		858,938

The loan is repayable \$77,660 monthly including interest at 3.11% and matures on January 12, 2026.

The Corporation of the City of Sault Ste. Marie (the "Guarantor") guarantees payment to the Bank of all present and future debts and liabilities, including interest due at any time by the Commission to the Bank. The Guarantor shall be limited to the sum of \$8,000,000 together with interest from the date of demand for repayment.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

6. 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:

	2018	2017
Financial Position:		
Current assets	\$ 37,413,970	\$ 43,979,054
Notes receivable	8,315,331	8,315,331
Future income tax assets	780,000	965,000
Capital assets	112,424,721	109,768,325
Regulatory assets	50,380	120,529
Total assets	\$ 159,439,402	\$ 163,148,239
Current liabilities	\$ 20,986,017	\$ 23,018,917
Employee future benefit obligations	1,796,238	2,240,410
Notes payable	77,101,493	78,447,993
Deferred revenue	10,887,407	10,732,985
Regulatory liabilities	6,739,588	8,155,983
Total liabilities	117,510,743	122,596,288
Shareholder's equity	41,928,659	40,551,951
Total liabilities and equity	\$ 159,439,402	\$ 163,148,239

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, 2018

6. Investment in government business enterprises (continued):

	2018	2017
Results of operations:		
Revenues	\$ 106,618,157	\$ 113,147,898
Expenses	(104,105,613)	(109,895,043)
Provision for payment in lieu of taxes	(74,907)	(43,182)
Other comprehensive income (loss)	409,232	(93,840)
Net income for the year	\$ 2,846,869	\$ 3,115,833
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 (loss)	653,228	(6,005)
Retained earnings	10,343,884	9,376,408
Equity, end of year	42,178,660	40,551,951
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 73,898,660	\$ 72,271,951

7. Budget figures:

The Budget By-law adopted by Council for the 2018 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 reserves 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:

	2018	2017
Adopted budget by-law for the year	\$ -	\$ -
Adjustments to adopted budget:		
Debt principal repayments	3,691,789	3,597,987
Investment in tangible capital assets	56,172,844	46,452,897
Amortization of tangible capital assets	(19,319,744)	(19,421,617)
Proceeds from long-term debt	-	(5,000,000)
Net transfer to/from reserves and other	(14,197,148)	274,409
Budget surplus per consolidated statement of operations and accumulated surplus	\$ 26,347,741	\$ 25,903,676

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

8. Pension agreements:

The City makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2018 was \$6,388,210 (2017 - \$6,400,394) is included as an expense on the consolidated statement of operations and accumulated surplus.

9. Operations of school boards:

During 2018, the City collected and transferred property taxes totaling \$20,045,813 (2017 - \$20,031,699) on behalf of area school boards.

10. Trust funds:

The trust funds administered by the City amounting to \$8,205,182 (2017 - \$7,934,414) 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, 2018, the trust fund balances are comprised of:

	2018	2017
Cemetery Care and Maintenance funds	\$ 5,703,229	\$ 5,530,632
Pre-need assurance	2,295,658	2,222,474
Transit employees' pension	77,954	76,426
Historic Sites	82,261	55,376
Heritage Sault Ste. Marie	28,901	28,094
Ontario Home Renewal Program	3,565	8,031
Cultural Endowment	13,614	13,381
	<u>\$ 8,205,182</u>	<u>\$ 7,934,414</u>

11. Contingent liabilities:

The City has been named in litigation matters, the outcome of which is not determinable and accordingly, no provision has been made for them in these consolidated financial statements. Should any loss result from these claims, such loss would be charged to operations in the year of resolution.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

12. Employee future benefit obligations:

Employee future benefits are liabilities of the City to its employees and early retirees for the following benefits earned but not taken as at December 31 are as follows:

	2018	2017
Future payments required to W.S.I.B.	\$ 13,402,821	\$ 12,212,609
Post-employment and post-retirement benefits	16,026,042	15,375,038
Vacation pay	7,487,585	7,272,443
Non-vesting sick leave benefits	2,153,846	1,887,236
Employee future benefit obligations	\$ 39,070,294	\$ 36,747,326

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, 2018.

The benefit liability continuity is as follows:

	2018	2017
Accrued benefit liability, January 1	\$ 15,375,038	\$ 14,802,487
Expense	1,513,974	1,451,040
Payments	(862,970)	(878,489)
Accrued benefit liability, December 31	\$ 16,026,042	\$ 15,375,038

Significant assumptions

Discount rate	3.75%
Health cost increase	5.0% - 6.25%

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, 2018

12. Employee future benefit obligations (continued):

Accrued vacation pay

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2018.

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

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

13. Landfill closure and post-closure liability:

The Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post-closure care of solid waste landfill sites. This requirement is to be provided for over the estimated life of the landfill site based on usage.

Landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a sixty year period using the best information available to management. Future events may result in significant changes to the estimated total expenditures capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The City operates one primary landfill site, the 5th Line Landfill. The site has capacity of approximately 3,000,000 metric tons with approximately 438,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 7.3 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$28,162,149 (2017 - \$26,897,081). At December 31, 2018, an amount of \$24,050,475 (2017 - \$23,723,226) 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 \$12,183,147 (2017 - \$12,170,315).

The City is 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, 2018

14. Tangible capital assets

	2018							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of the year	\$ 25,467,797	13,075,375	97,154,296	563,476,303	27,252,340	30,756,293	15,898,576	\$ 773,080,980
Additions	498,383	508,903	-	17,130,884	2,647,539	2,043,375	11,727,117	34,556,201
Disposals	(197,348)	-	(427,453)	(2,951,005)	(737,386)	(1,170,079)	(3,954,818)	(9,438,089)
Balance, end of year	25,768,832	13,584,278	96,726,843	577,656,182	29,162,493	31,629,589	23,670,875	798,199,092
Accumulated Amortization								
Balance, beginning of the year	-	(8,539,120)	(38,399,619)	(232,788,985)	(16,846,255)	(18,248,620)	-	(314,822,599)
Disposals/transfers	-	-	247,682	2,951,005	702,658	1,162,942	-	5,064,287
Amortization expense	-	(606,524)	(2,152,538)	(12,758,477)	(1,846,130)	(2,068,792)	-	(19,432,461)
Balance, end of year	-	(9,145,644)	(40,304,475)	(242,596,457)	(17,989,727)	(19,154,470)	-	(329,190,773)
Net book value, end of year	\$ 25,768,832	4,438,634	56,422,368	335,059,725	11,172,766	12,475,119	23,670,875	\$ 469,008,319
Net book value, beginning of year	\$ 25,467,797	4,536,255	58,754,677	330,687,318	10,406,085	12,507,673	15,898,576	\$ 458,258,381

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

14. Tangible capital assets (continued)

	2017							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of the year	\$ 25,473,046	12,417,140	96,334,920	556,708,826	27,938,515	30,241,222	9,005,115	\$ 758,118,784
Additions	224	658,235	819,376	9,730,294	1,135,038	1,017,726	7,707,615	21,068,508
Disposals	(5,473)	-	-	(2,962,817)	(1,821,213)	(502,655)	(814,154)	(6,106,312)
Balance, end of year	25,467,797	13,075,375	97,154,296	563,476,303	27,252,340	30,756,293	15,898,576	773,080,980
Accumulated Amortization								
Balance, beginning of the year	-	(7,868,484)	(36,227,007)	(223,174,455)	(16,366,929)	(16,582,399)	-	(300,219,274)
Disposals/transfers	-	-	-	2,962,817	1,466,945	441,173	-	4,870,935
Amortization expense	-	(670,636)	(2,172,612)	(12,577,347)	(1,946,271)	(2,107,394)	-	(19,474,260)
Balance, end of year	-	(8,539,120)	(38,399,619)	(232,788,985)	(16,846,255)	(18,248,620)	-	(314,822,599)
Net book value, end of year	\$ 25,467,797	4,536,255	58,754,677	330,687,318	10,406,085	12,507,673	15,898,576	\$ 458,258,381
Net book value, beginning of year	\$ 25,473,046	4,548,656	60,107,913	333,534,371	11,571,586	13,658,823	9,005,115	\$ 457,899,510

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

14. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$23,670,875 (2017 - \$15,898,576) have not been amortized. Amortization of these assets will commence when the asset is put into service.

b) Developer contributions:

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 \$146,070 (2017 - \$3,912,138) 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, 2018

15. Accumulated surplus:

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

	2018	2017
Surplus:		
Invested in tangible capital assets	\$ 469,008,319	\$ 458,258,381
Invested in government business enterprises	73,898,660	72,271,951
Sanitary sewer	37,816,365	34,490,311
Operating fund	11,585,502	7,289,482
Unfunded		
Net long-term liabilities	(10,787,902)	(12,960,032)
Landfill closure costs	(24,050,475)	(23,723,226)
Employee benefits	(39,070,294)	(36,747,326)
Total surplus	518,400,175	498,879,541
Reserves set aside for specific purpose by Council:		
Acquisition of tangible capital assets	2,652,398	3,571,870
Planning and development	547,601	517,601
Other programs	20,191,225	17,871,960
Waste disposal site	12,183,147	12,170,315
Total reserves	35,574,371	34,131,746
Reserve funds set aside for specific purpose by Council:		
Cemetery development	1,044,640	658,602
Industrial land	571,425	554,676
Property purchases	1,299,720	738,523
Hospital development	210,625	273,845
Other programs	588,461	–
Total reserve funds	3,714,871	2,225,646
	\$ 557,689,417	\$ 535,236,933

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

16. Government grants:

The City recognizes the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The transfers reported on the consolidated statement of operations and accumulated surplus are:

	2018	2017
Revenue:		
Provincial grants	\$ 25,966,092	\$ 24,286,194
Federal grants	8,539,537	7,469,383
Total revenues	\$ 34,505,629	\$ 31,755,577

17. Comparative amounts:

Certain 2017 comparative amounts have been reclassified to conform to the financial statement presentation of 2018.

18. 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 Mayor's Office, and the Chief Administrators' Office (CAO).

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.

Corporate Services

Corporate Services is comprised of the Clerks Department, Human Resources Department and the Finance Department. Each of these departments provides program support to various other areas.

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

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

18. Segmented information (continued):

Legal Services

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.

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.

Public Works and Engineering

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

The Engineering Department is comprised of Building Services and Engineering and Construction. Building Services provides maintenance, janitorial services and security for the Civic Centre and Ontario Works. The Engineering and Construction Division provides services associated with engineering design, construction, technical services, and special project initiatives.

Community Development and Enterprise Services

Community Development & Enterprise Services includes: Building, Community Services, and Planning & Enterprise Services. The Building Department is responsible for administration and enforcement of construction codes, building standards, and by-law for the protection of occupants. The Community Services Department provides public services for Cemeteries & Crematorium, Central Administration, Community Centres, Recreation and Culture, and Transit. The Planning & Enterprise Services Department facilitates economic development by providing services for the approval of all land development plans and the application of enforcement of zoning by-laws.

Outside Agencies

These agencies are approved by Council through grant agreements or Memorandums of Agreement. This segment includes grants to the Art Gallery of Algoma, Sault Ste. Marie Museum, Canadian Bushplane Heritage Museum, Algoma University, Pee Wee Arena, Safe Communities, Economic Development Corporation (and related entities), and Sault Ste. Marie Innovation Centre. The Sault Ste. Marie Police Service and Sault Ste. Marie Public Library report to City Council through their Boards.

Levy Boards

These Boards provide the City amounts to be collected on their behalf. Levy Boards include Algoma Public Health, the Sault Ste. Marie Region Conservation Authority, and the Sault Ste. Marie District Social Services Administration Board (DSSAB).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

18. Segmented disclosure (continued):

										2018
	General Government	Corporate Services	Legal Services	Fire Services	Public Works and Engineering	Community Development & Enterprise Services	Outside Agencies	Levy Boards	Government Business Enterprises	Total
Revenue:										
Taxation	\$ 543,395	10,321,903	640,302	11,675,001	33,151,171	11,633,384	29,441,520	20,823,472	-	\$ 118,230,148
Fees and user charges	-	143,768	2,282,301	7,356,191	33,768,254	10,075,216	671,736	-	-	54,297,466
Government grants	716,595	1,694,892	371,843	2,062,572	19,282,080	4,147,262	6,230,385	-	-	34,505,629
Interest income	7,416,019	-	12,452	-	128,122	178,692	-	-	-	7,735,285
Other	901,951	178,533	-	3,689	556,969	711,961	509,650	-	-	2,862,753
Net income of government business enterprise (note 5)	-	-	-	-	-	-	-	-	2,846,869	2,846,869
	9,577,960	12,339,096	3,306,898	21,097,453	86,886,596	26,746,515	36,853,291	20,823,472	2,846,869	220,478,150
Expenses:										
Salaries, wages and employee benefits	1,379,419	6,137,388	1,241,256	19,595,215	25,230,790	15,646,940	27,510,791	-	-	96,741,799
Materials	390,202	287,835	1,620,247	1,220,351	24,296,915	6,033,531	3,319,781	-	-	37,168,862
Contracted services	21,633	1,318,489	286,288	504,217	11,211,102	2,218,374	469,319	-	-	16,029,422
Rents and financial	-	4,064,317	67,408	2,557	11,097	479,900	140,824	-	-	4,766,103
Grants to others	7,274	960	-	-	-	155,874	2,718,189	20,823,472	-	23,705,769
Amortization of tangible capital assets	2,707	359,394	1,750	441,511	15,869,273	1,814,047	943,779	-	-	19,432,461
Loss (gain) on disposal of tangible capital assets	-	-	(253,261)	23,471	286,768	120,194	4,078	-	-	181,250
	1,801,235	12,168,383	2,963,688	21,787,322	76,905,945	26,468,860	35,106,761	20,823,472	-	198,025,666
Annual surplus (deficit)	\$ 7,776,725	170,713	343,210	(689,869)	9,980,651	277,655	1,746,530	-	2,846,869	\$ 22,452,484

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2018

18. Segmented disclosure (continued):

	2017									
	General Government	Corporate Services	Legal Services	Fire Services	Public Works and Engineering	Community Development & Enterprise Services	Outside Agencies	Levy Boards	Government Business Enterprises	Total
Revenue:										
Taxation	\$ 2,825,718	11,232,878	1,095,706	11,531,121	29,054,085	12,221,980	28,447,103	20,461,965	-	\$ 116,870,556
Fees and user charges	-	126,699	2,314,895	6,897,396	31,258,549	9,420,832	695,549	-	-	50,713,920
Government grants	690,008	1,788,930	404,499	2,010,189	16,359,254	4,581,855	5,920,843	-	-	31,755,578
Interest income	6,462,251	-	7,580	-	61,877	151,330	-	-	-	6,683,038
Other	2,344,357	110,100	-	3,556	4,500,926	516,920	349,951	-	-	7,825,810
Net income of government business enterprise (note 5)	-	-	-	-	-	-	-	-	3,115,833	3,115,833
	12,322,334	13,258,607	3,822,680	20,442,262	81,234,691	26,892,917	35,413,446	20,461,965	3,115,833	216,964,735
Expenses:										
Salaries, wages and employee benefits	1,057,435	5,794,251	1,303,479	18,600,971	24,055,878	15,678,075	26,514,418	-	-	93,004,507
Materials	307,081	263,956	2,196,262	1,050,793	24,850,463	6,051,844	2,676,097	-	-	37,396,496
Contracted services	57,531	885,973	104,023	477,465	11,355,695	1,959,205	356,154	-	-	15,196,046
Rents and financial	-	5,265,636	69,564	5,897	4,419	540,151	156,224	-	-	6,041,891
Grants to others	31,566	2,000	-	-	-	794,320	3,039,382	20,461,965	-	24,329,233
Amortization of tangible capital assets	4,727	432,565	3,499	425,443	15,819,535	1,814,263	974,228	-	-	19,474,260
Loss (gain) on disposal of tangible capital assets	-	1,413	(38,718)	16,595	138,356	128,886	-	-	-	246,532
	1,458,340	12,645,794	3,638,109	20,577,164	76,224,346	26,966,744	33,716,503	20,461,965	-	195,688,965
Annual surplus (deficit)	\$ 10,863,994	612,813	184,571	(134,902)	5,010,345	(73,827)	1,696,943	-	3,115,833	\$ 21,275,770