

Consolidated Financial Statements of

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

Year ended December 31, 2011

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Financial Statements

Year ended December 31, 2011

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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 financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The finance committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the City. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.



Chief Administrative Officer



Commissioner of Finance & Treasurer



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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, 2011, the consolidated statements of operations, changes in net 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, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants
May 28, 2012
Sault Ste Marie, Canada

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Financial Position

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Financial assets:		
Cash and cash equivalents	\$ 43,616,273	\$ 36,555,017
Taxes receivable	4,699,342	6,832,002
Accounts receivable	18,883,753	23,296,921
Other current assets	348,709	470,709
Investment in government business enterprises (note 5)	67,975,054	63,905,996
	<u>135,523,131</u>	<u>131,060,645</u>
Financial liabilities:		
Accounts payable and accrued liabilities	23,034,078	25,136,502
Temporary advances from trust funds	981,422	853,269
Employee future benefit obligations (note 11)	31,650,501	29,852,135
Deferred revenue (note 3)	2,377,607	2,824,253
Landfill closure and post closure liability (note 12)	16,631,552	14,376,905
Net long-term liabilities (note 4)	16,718,442	17,936,258
	<u>91,393,602</u>	<u>90,979,322</u>
Net financial assets	44,129,529	40,081,323
Non-financial assets:		
Tangible capital assets (note 13)	417,951,866	402,639,960
Prepaid expenses	1,194,841	695,227
Inventories	2,044,743	2,018,128
	<u>421,191,450</u>	<u>405,353,315</u>
Commitments (note 9)		
Contingent liabilities (note 10)		
Accumulated surplus (note 14)	<u>\$ 465,320,979</u>	<u>\$ 445,434,638</u>

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget	2011	2010
	(unaudited)		
Revenue:			
Property taxation	\$ 94,609,224	\$ 95,609,707	\$ 90,343,766
Taxation from other governments	4,514,085	4,643,592	4,440,907
Fees and user charges	55,237,632	53,492,407	51,524,601
Government grants (note 15)	22,716,250	37,019,467	42,817,251
Investment income	5,654,507	5,028,441	5,492,957
Other	829,944	3,464,084	2,514,882
Gain on disposal of tangible capital assets	-	45,328	32,865
Government business enterprises operating results (note 5)	-	4,679,138	1,525,221
Total revenue	183,561,642	203,982,164	198,692,450
Expenses:			
General government	13,459,382	15,527,145	14,298,802
Protection services	37,755,989	39,333,714	37,522,145
Transportation services	33,223,693	33,117,768	33,100,014
Environmental services	20,779,624	24,127,221	19,670,512
Health services	7,608,500	7,560,626	7,626,613
Social and family services	25,311,573	24,934,041	28,350,681
Social housing	2,268,100	2,237,272	2,310,037
Planning and development	3,430,380	4,556,993	5,990,309
Recreation and cultural services	13,961,951	14,130,026	14,876,529
Contribution to new hospital construction	2,100,000	2,100,000	19,684,952
Amortization of tangible capital assets	-	16,471,017	15,332,665
Total expenses	159,899,192	184,095,823	198,763,259
Annual surplus (deficit)	23,662,451	19,886,341	(70,809)
Accumulated surplus, beginning of year	445,434,638	445,434,638	445,505,447
Accumulated surplus, end of year	\$ 469,097,089	\$ 465,320,979	\$ 445,434,638

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2011, with comparative figures for 2010

	Budget (unaudited)	2011	2010
Annual surplus (deficit)	\$ 23,662,451	\$ 19,886,341	\$ (70,809)
Acquisition of tangible capital assets	(17,680,520)	(31,809,145)	(31,369,097)
Amortization of tangible capital assets	-	16,471,017	15,332,665
Gain on sale of tangible capital assets	-	(45,328)	(32,865)
Proceeds on sale of tangible capital assets	-	71,550	250,799
	5,981,931	4,574,435	(15,889,307)
Change in prepaid expenses	-	(499,614)	(52,200)
Change in inventories	-	(26,615)	(41,661)
Change in net financial assets	5,981,931	4,048,206	(15,983,168)
Net financial assets, beginning of year	40,081,326	40,081,323	56,064,491
Net financial assets, end of year	\$ 46,063,257	\$ 44,129,529	\$ 40,081,323

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, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating Activities:		
Annual surplus (deficit)	\$ 19,886,341	\$ (70,809)
Items not involving cash:		
Amortization of tangible capital assets	16,471,017	15,332,665
Gain on sale of tangible capital assets	(45,328)	(32,865)
Developer contributions of tangible capital assets	(1,547,239)	(197,645)
Change in future employee benefit obligations	1,798,366	3,054,344
Change in landfill closure and post-closure liability	2,254,647	208,483
Government business enterprises operating results	(4,679,138)	(1,525,221)
Change in non-cash assets and liabilities:		
Taxes receivable	2,132,659	1,553,286
Accounts receivable	4,648,065	(978,400)
Prepaid expenses	(499,613)	(52,200)
Other current assets	122,000	129,500
Inventories	(26,616)	(41,661)
Accounts payable and accrued liabilities	(1,783,425)	3,429,729
Deferred revenue	(446,977)	55,133
Temporary advances from trust funds	128,153	625,187
Net change in cash from operating activities	38,412,912	21,489,526
Capital Activities:		
Proceeds on sale of tangible capital assets	71,550	250,800
Cash used to acquire tangible capital assets	(30,261,907)	(31,171,453)
Net change in cash from capital activities	(30,190,357)	(30,920,653)
Investing Activities:		
Dividends received from government business enterprises	610,080	610,080
Financing Activities:		
Proceeds from long-term liabilities	663,447	-
Repayment of long-term liabilities	(2,434,826)	(3,234,431)
Net change in cash from financing activities	(1,771,379)	(3,234,431)
Net change in cash	7,061,256	(12,055,478)
Cash and cash equivalents, beginning of year	36,555,017	48,610,495
Cash and cash equivalents, end of year	\$ 43,616,273	\$ 36,555,017

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, 2011

The City of Sault Ste. Marie (the "City") is a municipality that was created on January 1, 1950 pursuant to the City 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 of Sault Ste. Marie (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 Canadian Institute of Chartered Accountants. 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, 2011

1. Summary of significant accounting policies (continued):

(iii) Related entities:

The consolidated financial statements do not reflect the assets, liabilities, sources of financing, expenses and the activities of the following Boards and enterprises which are not under the control of Council.

Algoma Health Unit
District of Sault Ste. Marie Social Services Administration Board
Board of Management of Queenstown
The Sault Ste. Marie Central Business District Improvement Area
Board of Management of City Centre Business Improvement Area
Sault Ste. Marie Public Region Conservation Authority

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in their consolidated financial statements.

(b) Basis of accounting:

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers received relate to social services, child care, housing and health programs. Government transfers paid relate to social services programs. Transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(d) Temporary investments:

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

(e) Inventories:

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

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

1. Significant accounting policies (continued):

(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, 2011

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, landfill liability and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

(i) Employee future benefits:

- i. The City provides certain benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, and life insurance, extended health and dental benefits for early retirees.

The costs of sick leave, benefits under the Workplace Safety and Insurance Board Act and life insurance, extended health and dental benefits are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long-term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulated over the periods of service provided by employees, such as retirement gratuities, compensated absences and health, dental and life insurance benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains and losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

- ii. The costs of multi-employer defined contribution pension plan benefits, such as the Ontario Municipal Employees Retirement System ("OMERS") pensions, are the employer's contributions due to the plan in the period.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

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 2011. However, the property tax revenue and tax receivables of the City are subject to measurement uncertainty as a number of significant appeals submitted by ratepayers have yet to be heard.

The City has established a contingency reserve for tax appeals and other items in the amount of \$1,754,638 (2010 - \$2,004,638). 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:

	2011	2010
Development charges act	\$ 350,905	\$ 344,255
Provincial Gas Tax	22,763	9,929
Federal Gas Tax	-	563,606
Parkland	316,919	281,221
Building permits Bill 124	1,687,020	1,625,242
	<hr/>	<hr/>
	\$ 2,377,607	\$ 2,824,253

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

3. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2011	2010
Balance, beginning of year:		
Development charges act	\$ 344,255	\$ 340,208
Provincial Gas Tax	9,929	135,738
Federal Gas Tax	563,606	178,107
Parkland	281,221	233,627
Building permits Bill 124	1,625,242	1,881,440
	2,824,253	2,769,120
Other revenue	34,670	45,175
Interest earned	36,488	21,832
Total revenue	71,158	67,007
Contributions used	(517,804)	(11,874)
Balance, end of year	\$ 2,377,607	\$ 2,824,253

4. Net long-term liabilities:

	2011	2010
Total long-term liabilities incurred by the City	\$ 16,718,442	\$ 17,936,258

Principal payments due on net long-term liabilities for the next five fiscal years and thereafter are as follows:

	2012 to 2016	2017 to 2021	2022 and thereafter	2011 Total	2010 Total
From general municipal revenues	\$8,690,555	\$6,698,332	\$1,123,145	\$16,718,442	\$17,936,258

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 CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

4. Net long-term liabilities (continued):

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 \$945,770 (2010 - \$1,051,500).

5. Investment in government business enterprises:

PUC Inc. is incorporated under the laws of the Province of Ontario and provides municipal electrical distribution and other services to the residents of Sault Ste. Marie. The City owns 100% of the outstanding shares of PUC Inc. PUC Services Inc. is incorporated under the laws of the Province of Ontario and provides management, operations and maintenance services related to water, wastewater and electrical services to its related entities and other organizations. The City owns 100% of the outstanding shares of PUC Services Inc. The note payable to the City of \$6,720,000 is unsecured, bears interest at 8.5% per annum, and is payable one year after demand. The note payable to the City of \$25,000,000 is unsecured, bears interest at rates negotiated periodically, currently 6.1%, and is payable one year after demand.

The following schedule reflects the financial information of PUC Inc. and PUC Services Inc. for 2011, and the consolidated PUC Inc. for 2010.

	2011	2010
Financial Position:		
Current assets	\$ 41,913,467	\$ 33,144,831
Notes receivable	8,310,000	-
Future income tax assets	2,062,600	3,061,800
Capital assets	57,146,727	50,734,173
Regulatory assets	4,894,792	4,789,723
Total assets	\$ 114,327,586	\$ 91,730,527
Current liabilities	\$ 24,905,739	\$ 16,238,363
Employee future benefit obligations	1,501,284	1,302,203
Notes payable	46,122,003	36,720,000
Regulatory liabilities	5,543,506	5,283,965
Total liabilities	78,072,532	59,544,531
Shareholder's equity	36,255,054	32,185,996
Total liabilities and equity	\$ 114,327,586	\$ 91,730,527

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

5. Investment in government business enterprises (continued):

	2011	2010
Results of Operations:		
Revenues	\$ 91,886,525	\$ 78,362,493
Expenses	(88,255,557)	(76,649,472)
Gain on sale of assets	2,005,070	-
Provision for payment in lieu of taxes	(956,900)	(187,800)
Net income for the year	\$ 4,679,138	\$ 1,525,221

	2011	2010
The City's investment in government business enterprises is comprised of:		
Common shares	\$ 15,668,248	\$ 14,618,249
Special shares	15,513,300	14,620,000
Retained earnings	5,073,506	2,947,747
Equity, end of year	36,255,054	32,185,996
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 67,975,054	\$ 63,905,996

6. 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 2011 was \$5,386,606 (2010 - \$4,616,049) is included as an expense on the consolidated statement of financial activities.

7. Operations of school boards:

During 2011, the City collected and transferred property taxes totaling \$19,332,217 (2010 - \$19,250,458) on behalf of area school boards.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

8. Trust funds:

The trust funds administered by the City amounting to \$7,046,488 (2010 - \$6,863,450) 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, 2011, the trust fund balances are comprised of:

	2011	2010
Cemetery Care and Maintenance funds	\$ 4,665,443	\$ 4,522,057
Pre-need assurance	2,119,418	2,088,708
Transit employees pension	71,894	74,319
Historic Sites	95,919	74,912
Heritage Sault Ste. Marie	58,414	57,780
Ontario Home Renewal Program	25,400	32,822
Ontario Home Renewal Plan (Rental)	-	2,852
Cultural Endowment	10,000	10,000
	<u>\$ 7,046,488</u>	<u>\$ 6,863,450</u>

9. Commitments:

The City has committed to providing funding of \$29,500,000 for the new hospital in Sault Ste. Marie of which \$24,609,101 (2010 - \$22,509,101) has been contributed to date. \$22,509,101 was contributed up to March 31, 2010 and the remaining funding is provided in installments of \$2,100,000 with the first payment having been made in 2011 and the remainder until such time that the full commitment is advanced. Of the annual contribution, \$1,100,000 is to be levied upon the taxpayers of Sault Ste. Marie, while the other \$1,000,000 is derived from the City's share of Charity Casino revenues.

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 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, 2011

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, 2011:

	2011	2010
Future payments required to W.S.I.B.	\$ 13,325,860	\$ 12,517,461
Post employment and post retirement benefits	10,346,815	9,963,686
Vacation pay	7,475,494	6,925,788
Sick leave benefits	501,882	445,200
Employee future benefit obligations	\$ 31,650,501	\$ 29,852,135

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, 2011.

The benefit liability continuity is as follows:

	2011	2010
Accrued benefit liability, January 1	\$ 9,963,686	\$ 9,296,601
Expense	746,170	1,025,215
Payments	(363,041)	(358,130)
Accrued benefit liability, December 31	\$ 10,346,815	\$ 9,963,686

Significant assumptions

Discount rate	3.75%
Health cost increase	5.00%-7.00%

Accrued sick leave

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, 2011.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

11. Employee future benefit obligation (continued):

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

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

12. Landfill closure and post-closure liability:

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

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

The City operates one primary landfill site, the 5th Line Landfill. The site has capacity of approximately 3,000,000 metric tons with approximately 534,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 8.9 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$20,233,000 (2010 - \$17,580,000). The City has established a reserve to contribute to the cost of closing and maintaining the landfill site. At December 31, 2011, an amount of \$16,631,552 (2010 - \$14,376,905) with respect to landfill closure and post-closure liability has been accrued and will be funded from future taxation revenues.

The City will be undertaking a full Environmental Assessment of the landfill site to determine future options which may extend the operating life of the landfill.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

13. Tangible capital assets:

	2011							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of year	\$ 24,505,879	\$ 10,937,944	\$ 79,805,883	\$ 430,626,947	\$ 21,814,870	\$ 26,151,928	\$ 24,394,216	\$ 618,237,667
Additions	486,403	160,086	-	35,302,729	1,612,934	3,036,749	13,843,440	54,442,341
Disposals	(3,703)	-	-	(843,328)	(479,079)	(576,958)	(22,633,196)	(24,536,264)
Balance, end of year	24,988,579	11,098,030	79,805,883	465,086,348	22,948,725	28,611,719	15,604,460	648,143,744
Accumulated Amortization								
Balance, beginning of year	-	(4,036,248)	(24,982,230)	(163,008,893)	(9,579,154)	(13,991,182)	-	(215,597,707)
Disposals	-	-	-	850,261	480,204	546,381	-	1,876,846
Amortization Expense	-	(610,727)	(1,777,904)	(10,327,493)	(1,837,989)	(1,916,904)	-	(16,471,017)
Balance, end of year	-	(4,646,975)	(26,760,134)	(172,486,125)	(10,936,939)	(15,361,705)	-	(230,191,878)
Net Book Value, end of year	24,988,579	6,451,055	53,045,749	292,600,223	12,011,786	13,250,014	15,604,460	417,951,866
Net Book value, beginning of year	\$ 24,505,879	\$ 6,901,696	\$ 54,823,653	\$ 267,618,054	\$ 12,235,716	\$ 12,160,745	\$ 24,394,216	\$ 402,639,960

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

13. Tangible capital assets (continued):

	2010							
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction	Total
Cost								
Balance, beginning of year	\$ 24,185,437	\$ 8,226,410	\$ 78,927,189	\$ 412,931,905	\$ 20,604,976	\$ 22,697,987	\$ 23,017,645	\$ 590,591,549
Additions	342,600	2,711,534	977,113	19,682,660	1,796,466	4,482,154	15,187,536	45,180,063
Disposals	(22,158)	-	(98,419)	(1,987,618)	(586,572)	(1,028,213)	(13,810,965)	(17,533,945)
Balance, end of year	24,505,879	10,937,944	79,805,883	430,626,947	21,814,870	26,151,928	24,394,216	618,237,667
Accumulated Amortization								
Balance, beginning of year	-	(3,569,102)	(23,245,264)	(155,381,056)	(8,332,197)	(13,242,470)	-	(203,770,089)
Disposals	-	-	19,684	1,987,500	523,212	974,650	-	3,505,046
Amortization expense	-	(467,146)	(1,756,650)	(9,615,337)	(1,770,169)	(1,723,362)	-	(15,332,665)
Balance, end of year	-	(4,036,248)	(24,982,230)	(163,008,893)	(9,579,154)	(13,991,182)	-	(215,597,707)
Net book value, end of year	24,505,879	6,901,696	54,823,653	267,618,054	12,235,716	12,160,745	24,394,216	402,639,960
Net book value, beginning of year	\$ 24,185,437	\$ 4,657,308	\$ 55,681,925	\$ 257,550,849	\$ 12,272,779	\$ 9,455,517	\$ 23,017,645	\$ 386,821,460

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

13. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$15,604,460 (2010 - \$24,394,216) 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 \$1,547,239 (2010 - \$197,645) comprised of water infrastructure, land and roads infrastructure.

c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value.

d) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

e) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$nil (2010 - \$nil).

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

14. Accumulated surplus:

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

	2011	2010
Surplus:		
Invested in tangible capital assets	\$ 417,951,866	\$ 402,639,960
Invested in government business enterprises	67,975,054	63,905,996
Other	18,759,553	14,572,412
Unfunded		
Net long-term liabilities	(16,718,442)	(17,936,258)
Landfill closure costs	(16,631,552)	(14,376,905)
Employee benefits	(31,650,501)	(29,852,135)
Total surplus	439,685,978	418,953,070
Reserves set aside for specific purpose by Council:		
Working capital	1,081,007	2,163,507
Acquisition of tangible capital assets	3,466,771	3,190,577
Planning and development	717,572	662,252
Parking facilities	3,614	3,614
Other programs	6,388,292	6,539,288
Waste disposal site	9,564,427	9,151,015
Total reserve	21,221,683	21,710,253
Reserve funds set aside for specific purpose by Council:		
Sewage plants	470,183	456,840
Cemetery development	1,257,397	1,260,571
Industrial land	44,259	43,781
Property purchases	936,815	941,569
Hospital development	1,530,603	1,884,580
Other programs	174,061	183,974
Total reserve funds	4,413,318	4,771,315
	\$ 465,320,979	\$ 445,434,638

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

15. Government transfers:

The City recognizes the transfer of government funding as expenses or revenues in the period that the events giving rise to the transfer occurred. The transfers reported on the Statement of Operations are:

	2011	2010
Revenue:		
Provincial grants	\$ 26,560,917	\$ 33,043,828
Federal grants	10,458,550	9,773,423
Total revenues	\$ 37,019,467	\$ 42,817,251

16. Segmented information:

The City of Sault Ste. Marie is a diversified municipal government institution that provides a wide range of services to its citizens. City services are provided by departments and certain departments have been separately disclosed in the segmented information, along with the services they provide. These departments are:

General Government

General Government is comprised of City Council, the Chief Administrators' Office (CAO), Clerks Department, Legal Department, Human Resources Department and the Finance Department. Each of these departments provides program support to various other areas.

The 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 CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

16. Segmented information (continued):

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.

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.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

16. Segmented information (continued):

Social Services

The Social Services Department provides administration support to the Sault Ste. Marie District Social Services Administration Board. This includes assisting in the development of client action plans designed to facilitate financial independence; providing employment resources to assist consumers in the transition to self-sufficiency; coordination of community child care services; administering and managing the Rent-Geared-to-Income Public Housing Portfolio and central administration and coordination for the Rent Supplement Program and the Non-Profit and Cooperative Housing Developments.

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

16. Segmented information (continued):

	2011								
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenues:									
Taxation	\$ 17,014,166	\$ 9,982,591	\$ 19,006,233	\$ 6,294,764	\$ 26,751,169	\$ 7,732,048	\$ 13,472,328	\$ -	\$ 100,253,299
Fees and user charges	2,696,891	4,384,644	396,890	25,084,266	7,972,797	5,216,180	7,740,737	-	53,492,405
Government grants	3,397,693	1,940,753	4,178,061	14,942,787	6,090,598	3,225,068	3,244,507	-	37,019,467
Investment income	4,440,688	115,750	351,775	49,060	30,993	40,175	-	-	5,028,441
Other	158,500	13,791	266,235	2,759,283	135,030	131,245	-	-	3,464,084
Gain (loss) on disposal of capital assets	5,897	-	-	(43)	39,474	-	-	-	45,328
Government business enterprises	-	-	-	-	-	-	-	4,679,138	4,679,138
Total revenues	27,713,837	16,437,529	24,199,194	49,130,117	41,020,061	16,344,716	24,457,572	4,679,138	203,982,164
Expenses:									
Salaries, wages and employee benefits	6,361,807	15,749,867	21,153,599	7,447,761	24,017,349	8,700,043	7,371,475	-	90,801,901
Materials	1,955,836	1,495,634	1,669,521	7,826,276	14,084,422	2,701,854	505,093	-	30,238,636
Contracted services	-	261,071	949,795	8,371,657	3,688,970	1,814,257	148,606	-	15,234,356
Rents and financial	5,770,028	2,429	65,723	100,296	13,188	858,841	431,244	-	7,241,749
Grants to others	8,284	-	-	3,144,413	-	2,485,481	16,369,987	-	22,008,165
Contribution to new hospital	2,100,000	-	-	-	-	-	-	-	2,100,000
Amortization	588,511	391,688	522,171	11,144,989	2,133,723	1,574,646	115,284	-	16,471,013
Total expenses	16,784,471	17,900,689	24,360,809	38,035,391	43,937,652	18,135,122	24,941,687	-	184,095,823
Annual surplus (deficit)	\$ 10,929,366	\$ (1,463,160)	\$ (161,615)	\$ 11,094,726	\$ (2,917,591)	\$ (1,790,406)	\$ (484,117)	\$ 4,679,138	\$ 19,886,341

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

16. Segmented information (continued):

	2010								
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenues:									
Taxation	\$ 1,249,760	\$ 9,753,189	\$ 17,685,730	\$ 4,708,671	\$ 26,655,636	\$ 8,365,454	\$ 16,366,234	\$ -	\$ 94,784,674
Fees and user charges	2,662,003	4,134,513	361,712	23,342,518	7,939,587	5,372,438	7,711,831	-	51,524,602
Government grants	5,696,207	2,055,588	3,928,965	16,953,857	6,652,938	3,697,263	3,832,432	-	42,817,250
Investment income	4,990,634	109,475	332,092	46,236	14,521	-	-	-	5,492,958
Other	249,426	-	397,833	1,270,795	251,617	378,074	-	-	2,547,745
Government business enterprises	-	-	-	-	-	-	-	1,525,221	1,525,221
Total revenues	24,848,030	16,052,765	22,706,332	46,322,077	41,514,299	17,813,229	27,910,497	1,525,221	198,692,450
Expenses:									
Salaries, wages and employee benefits	7,037,160	15,256,023	19,963,054	7,343,791	23,724,895	8,393,770	7,535,473	-	89,254,166
Materials	3,019,374	949,498	1,875,761	7,834,973	13,396,735	3,683,802	401,178	-	31,161,321
Contracted services	-	212,817	895,182	6,751,025	3,893,645	1,210,824	130,507	-	13,094,000
Rents and financial	2,717,722	2,429	79,912	400,730	23,916	904,208	503,674	-	4,632,591
Grants to others	35,484	-	-	3,134,108	-	2,588,982	19,844,989	-	25,603,563
Contribution to new hospital	19,684,952	-	-	-	-	-	-	-	19,684,952
Amortization	601,061	368,272	357,440	10,307,014	2,048,985	1,532,067	117,827	-	15,332,666
Total expenses	33,095,753	16,789,039	23,171,349	35,771,641	43,088,176	18,313,653	28,533,648	-	198,763,259
Annual surplus (deficit)	\$ (8,247,723)	\$ (736,274)	\$ (465,017)	\$ 10,550,436	\$ (1,573,877)	\$ (500,424)	\$ (623,151)	\$ 1,525,221	\$ (70,809)

THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2011

17. Comparative figures:

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