

Consolidated Financial Statements of

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

Year ended December 31, 2017

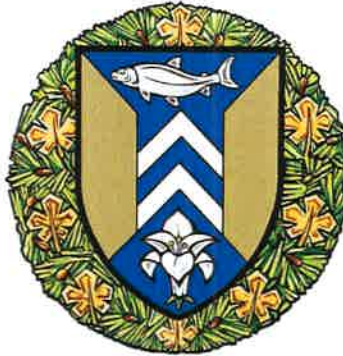
# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

## Consolidated Financial Statements

Year ended December 31, 2017

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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



KPMG LLP  
111 Elgin Street, Suite 200  
Sault Ste. Marie ON P6A 6L6  
Canada  
Telephone (705) 949-5811  
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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, 2017, the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



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*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, 2017, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada

June 11, 2018

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

## Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Financial assets</b>		
Cash and cash equivalents	\$ 59,247,123	\$ 52,398,532
Taxes receivable	25,512,939	19,040,809
Accounts receivable	14,838,449	15,272,158
Other current assets	98,868	178,048
Investment in government business enterprises (note 6)	72,271,951	69,156,118
	<u>171,969,330</u>	<u>156,045,665</u>
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	22,202,705	27,697,375
Future employee benefit obligations (note 12)	36,747,326	36,962,251
Deferred revenue (note 3)	2,039,483	827,137
Landfill closure and post closure liability (note 13)	23,723,226	22,125,572
Net long-term liabilities (note 4):		
The Corporation of the City of Sault Ste. Marie	6,307,250	7,711,972
Net long-term liabilities (note 5):		
Public Utilities Commission of the City of Sault Ste. Marie	6,652,782	7,365,679
	<u>97,672,772</u>	<u>102,689,986</u>
Net financial assets	74,296,558	53,355,679
<b>Non-financial assets:</b>		
Tangible capital assets (note 14)	458,258,381	457,899,510
Prepaid expenses	298,952	362,004
Inventories	2,383,042	2,343,970
	<u>460,940,375</u>	<u>460,605,484</u>
<b>Contingent liabilities (note 11)</b>		
Accumulated surplus (note 15)	\$ 535,236,933	\$ 513,961,163

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, 2017, with comparative information for 2016

	Budget (note 7)	2017	2016
<b>Revenue:</b>			
Property taxation	\$ 111,333,602	\$ 112,328,695	\$ 107,045,942
Taxation from other governments	4,371,195	4,541,861	4,372,432
Fees and user charges	54,505,826	50,713,920	56,461,495
Government grants (note 16)	35,438,490	31,755,578	30,205,612
Interest income	5,675,000	6,683,038	5,824,166
Developer contributions	-	3,912,138	1,776,729
Other	687,875	3,913,672	2,558,864
Net income (loss) of government business enterprise (note 6)	-	3,115,833	(113,515)
<b>Total revenue</b>	<b>212,011,988</b>	<b>216,964,735</b>	<b>208,131,725</b>
<b>Expenses:</b>			
General government	14,997,188	17,236,317	17,635,089
Protection services	42,104,236	43,686,947	42,196,438
Transportation services	34,049,503	37,760,899	42,189,118
Environmental services	26,736,253	26,715,714	26,722,771
Health services	10,044,938	10,107,478	9,719,895
Social and family services	19,949,032	20,114,167	25,911,903
Planning and development	3,050,614	3,719,033	4,046,041
Recreation and cultural services	15,754,931	16,627,618	17,175,595
Amortization of tangible capital assets	19,421,617	19,474,260	19,128,999
Loss on disposal of tangible capital assets	-	246,532	50,129
<b>Total expenses</b>	<b>186,108,312</b>	<b>195,688,965</b>	<b>204,775,978</b>
<b>Annual surplus</b>	<b>25,903,676</b>	<b>21,275,770</b>	<b>3,355,747</b>
<b>Accumulated surplus, beginning of year</b>	<b>513,961,163</b>	<b>513,961,163</b>	<b>510,605,416</b>
<b>Accumulated surplus, end of year</b>	<b>\$ 539,864,839</b>	<b>\$ 535,236,933</b>	<b>\$ 513,961,163</b>

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, 2017, with comparative information for 2016

	Budget (note 7)	2017	2016
Annual surplus	\$ 25,903,676	\$ 21,275,770	\$ 3,355,747
Acquisition of tangible capital assets	(46,452,897)	(20,254,354)	(29,993,167)
Amortization of tangible capital assets	19,421,617	19,474,260	19,128,999
Gain on sale of tangible capital assets	-	246,532	50,129
Proceeds on sale of tangible capital assets	-	174,691	816,393
	(1,127,604)	20,916,899	(6,641,899)
Change in prepaid expenses	-	63,052	22,390
Change in inventories	-	(39,072)	357,469
Change in net financial assets	(1,127,604)	20,940,879	(6,262,040)
Net financial assets, beginning of year	53,355,679	53,355,679	59,617,719
Net financial assets, end of year	\$ 52,228,075	\$ 74,296,558	\$ 53,355,679

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, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 21,275,770	\$ 3,355,747
Items not involving cash:		
Amortization of tangible capital assets	19,474,260	19,128,999
Loss on sale of tangible capital assets	246,532	50,129
Developer contributions	(3,912,138)	(1,776,729)
Change in future employee benefit obligations	(214,925)	(1,802,639)
Change in landfill closure and post-closure liability	1,597,654	967,149
Net (income) loss of government business enterprise (note 6)	(3,115,833)	113,515
	35,351,320	20,036,171
Change in non-cash assets and liabilities:		
Taxes receivable	(6,472,130)	(5,462,110)
Accounts receivable	433,709	(247,337)
Other current assets	79,180	40,740
Prepaid expenses	63,052	22,390
Inventories	(39,072)	357,469
Accounts payable and accrued liabilities	(4,781,772)	91,286
Deferred revenue	1,212,346	(658,917)
	25,846,633	14,179,692
Capital activities:		
Proceeds on sale of tangible capital assets	174,691	816,393
Cash used to acquire tangible capital assets	(16,342,216)	(28,216,443)
	(16,167,525)	(27,400,050)
Investing activities:		
Dividends received from PUC Inc.	-	1,220,160
Financing activities:		
Proceeds from long-term liabilities	-	8,000,000
Repayment of long-term liabilities	(2,830,517)	(1,916,357)
	(2,830,517)	6,083,643
Net change in cash	6,848,591	(5,916,555)
Cash and cash equivalents, beginning of year	52,398,532	58,315,087
Cash and cash equivalents, end of year	\$ 59,247,123	\$ 52,398,532

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, 2017

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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, 2017

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## 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, 2017

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## 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, 2017

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## 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, 2017

### 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 2017. 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 \$8,583,032 (2016 - \$9,121,298). 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:

	2017	2016
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>

Continuity of deferred revenue is as follows:

	2017	2016
Balance, beginning of year:		
Development charges act	\$ 5,800	\$ 378,236
Provincial Gas Tax	35,869	20,508
Parkland	508,375	644,181
Building permits Bill 124	277,093	443,128
	<u>827,137</u>	<u>1,486,053</u>
Other revenue	84,813	53,189
Interest earned	74,784	36,858
Total revenue	<u>159,597</u>	<u>90,047</u>
Contributions deferred	1,333,352	–
Contributions used	(280,603)	(748,963)
Balance, end of year	<u>\$ 2,039,483</u>	<u>\$ 827,137</u>

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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#### 4. Net long-term liabilities:

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	2017	2016
Net long-term liabilities incurred by:		
The Corporation of the City of Sault Ste. Marie	\$ 6,307,250	\$ 7,711,972

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

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2018	\$ 1,437,236
2019	1,522,124
2020	1,612,297
2021	636,337
2022	23,527

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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 2022 and 0% to 8.07% respectively. Interest paid in the year and included in current expenses is \$367,400 (2016 - \$442,671).

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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## 5. Net long-term liabilities:

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	2017	2016
Net long-term liabilities incurred by:		
Public Utilities Commission of the City of Sault Ste. Marie	\$ 6,652,782	\$ 7,365,679

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

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2018	\$ 735,388
2019	758,587
2020	782,518
2021	807,205
2022	832,670

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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, 2017

## 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:

	2017	2016
Financial Position:		
Current assets	\$ 43,979,054	\$ 46,687,707
Notes receivable	8,315,331	8,315,331
Future income tax assets	965,000	2,121,000
Capital assets	109,768,325	105,340,837
Regulatory assets	120,529	698,439
<b>Total assets</b>	<b>\$ 163,148,239</b>	<b>\$ 163,163,314</b>
Current liabilities	\$ 23,018,917	\$ 26,759,114
Employee future benefit obligations	2,240,410	2,002,450
Notes payable	78,447,993	79,744,733
Deferred revenue	10,732,985	10,716,759
Regulatory liabilities	8,155,983	6,504,140
<b>Total liabilities</b>	<b>122,596,288</b>	<b>125,727,196</b>
Shareholder's equity	40,551,951	37,436,118
<b>Total liabilities and equity</b>	<b>\$ 163,148,239</b>	<b>\$ 163,163,314</b>

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, 2017

## 6. Investment in government business enterprises (continued):

	2017	2016
Results of operations:		
Revenues	\$ 113,147,898	\$ 117,775,800
Expenses	(109,895,043)	(117,958,287)
(Provision) recovery for payment in lieu of taxes	(43,182)	100,066
Other comprehensive loss	(93,840)	(31,094)
Net income (loss) for the year	\$ 3,115,833	\$ (113,515)
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 (loss) income	(6,005)	87,835
Retained earnings	9,376,408	6,166,735
Equity, end of year	40,551,951	37,436,118
Notes receivable	31,720,000	31,720,000
Investment in government business enterprises	\$ 72,271,951	\$ 69,156,118

## 7. Budget figures:

The Budget By-law adopted by Council for the 2017 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:

	2017	2016
Adopted budget by-law for the year	\$ -	\$ -
Adjustments to adopted budget:		
Debt principal repayments	3,597,987	1,980,330
Investment in tangible capital assets	46,452,897	25,487,179
Amortization of tangible capital assets	(19,421,617)	(19,128,999)
Proceeds from long-term debt	(5,000,000)	-
Net transfer to/from reserves and other	274,409	14,736,448
Budget surplus per consolidated statement of operations and accumulated surplus	\$ 25,903,676	\$ 23,074,958

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

## 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 2017 was \$6,400,394 (2016 - \$6,909,989) is included as an expense on the consolidated statement of operations and accumulated surplus.

## 9. Operations of school boards:

During 2017, the City collected and transferred property taxes totaling \$20,031,699 (2016 - \$20,870,257) on behalf of area school boards.

## 10. Trust funds:

The trust funds administered by the City amounting to \$7,934,414 (2016 - \$7,745,700) 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, 2017, the trust fund balances are comprised of:

	2017	2016
Cemetery Care and Maintenance funds	\$ 5,530,632	\$ 5,380,266
Pre-need assurance	2,222,474	2,210,973
Transit employees' pension	76,426	75,593
Historic Sites	55,376	29,324
Heritage Sault Ste. Marie	28,094	27,415
Ontario Home Renewal Program	8,031	8,914
Cultural Endowment	13,381	13,215
	<u>\$ 7,934,414</u>	<u>\$ 7,745,700</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, 2017

## 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:

	2017	2016
Future payments required to W.S.I.B.	\$ 12,212,609	\$ 13,101,168
Post-employment and post-retirement benefits	15,375,038	14,802,487
Vacation pay	7,272,443	7,432,995
Non-vesting sick leave benefits	1,887,236	1,625,601
<b>Employee future benefit obligations</b>	<b>\$ 36,747,326</b>	<b>\$ 36,962,251</b>

### *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, 2017.

The benefit liability continuity is as follows:

	2017	2016
Accrued benefit liability, January 1	\$ 14,802,487	\$ 15,077,442
Expense	1,451,040	1,476,308
Payments	(878,489)	(961,706)
Transfer Payments	–	(789,557)
<b>Accrued benefit liability, December 31</b>	<b>\$ 15,375,038</b>	<b>\$ 14,802,487</b>

### *Significant assumptions*

Discount rate	3.25%
Health cost increase	5.0% - 7.0%

### *Non-vesting sick leave benefits*

Sick leave benefits accrue to City employees at a rate of one and a half days per month. Unused sick days are banked and may be used in the future if sick leave is beyond yearly allocation. No cash payments are made for unused sick time upon termination or retirement.

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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## 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, 2017.

### *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 354,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 5.9 years.

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$26,897,081 (2016 - \$25,667,717). At December 31, 2017, an amount of \$23,723,226 (2016 - \$22,125,572) 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 \$12,170,315 (2016 - \$12,317,708).

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, 2017

## 14. Tangible capital assets

									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, 2017

## 14. Tangible capital assets (continued):

									2016
	Land	Landfill and Land Improvements	Buildings and Building Improvements	Infrastructure	Machinery and Equipment	Vehicles	Assets under Construction		Total
Cost									
Balance, beginning of the year	\$ 24,956,957	11,893,318	96,309,669	536,409,073	26,969,237	29,044,191	8,483,083	\$	734,065,528
Additions	568,974	523,822	1,536,719	22,514,378	2,244,835	2,082,411	5,204,876		34,676,015
Disposals	(52,885)	-	(1,511,468)	(2,214,625)	(1,275,557)	(885,380)	(4,682,844)		(10,622,759)
Balance, end of 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
Accumulated Amortization									
Balance, beginning of the year	-	(7,214,710)	(35,015,507)	(213,106,059)	(15,419,649)	(15,407,742)	-		(286,163,667)
Disposals/transfers	-	-	935,620	2,214,626	1,039,516	883,630	-		5,073,392
Amortization expense	-	(653,774)	(2,147,120)	(12,283,022)	(1,986,796)	(2,058,287)	-		(19,128,999)
Balance, end of year	-	(7,868,484)	(36,227,007)	(223,174,455)	(16,366,929)	(16,582,399)	-		(300,219,274)
Net book value, end 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
Net book value, beginning of year	\$ 24,956,957	4,678,608	61,294,162	323,303,014	11,549,588	13,636,449	8,483,083	\$	447,901,861

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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## 14. Tangible capital assets (continued):

a) Assets under construction:

Assets under construction having a value of \$15,898,577 (2016 - \$9,005,115) 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 \$3,912,138 (2016 - \$1,776,729) 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, 2017

## 15. Accumulated surplus:

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

	2017	2016
Surplus:		
Invested in tangible capital assets	\$ 458,258,381	\$ 457,899,510
Invested in government business enterprises	72,271,951	69,156,118
Sanitary sewer	34,490,311	31,406,421
Operating fund	7,289,482	(1,068,810)
Unfunded		
Net long-term liabilities	(12,960,032)	(15,077,651)
Landfill closure costs	(23,723,226)	(22,125,572)
Employee benefits	(36,747,326)	(36,962,251)
Total surplus	498,879,541	483,227,765
Reserves set aside for specific purpose by Council:		
Acquisition of tangible capital assets	3,571,870	3,374,225
Planning and development	517,601	213,799
Other programs	17,871,960	12,683,138
Waste disposal site	12,170,315	12,317,708
Total reserves	34,131,746	28,588,870
Reserve funds set aside for specific purpose by Council:		
Sewage plants	–	11,193
Cemetery development	658,602	525,763
Industrial land	554,676	537,514
Property purchases	738,523	716,343
Hospital development	273,845	344,514
Other programs	–	9,201
Total reserve funds	2,225,646	2,144,528
	\$ 535,236,933	\$ 513,961,163

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

## 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:

	2017	2016
Revenue:		
Provincial grants	\$ 24,286,194	\$ 23,354,729
Federal grants	7,469,383	6,850,883
<b>Total revenues</b>	<b>\$ 31,755,577</b>	<b>\$ 30,205,612</b>

## 17. Comparative amounts:

Certain 2016 comparative amounts have been reclassified to conform to the financial statement presentation of 2017.

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

The Chief Administrators' Office is charged with the responsibility of coordinating the work of all municipal departments and ensuring that those departments carry out the policies and directions given by City Council.

The Clerks Departments' primary task is to function as the corporate secretary to City Council, ensuring that all Council Agendas, Minutes of proceedings, resolutions, decisions, voting, records, and accounts are recorded, documented and certified.

The Legal Department is responsible for the preparation of by-laws, deeds, leases, agreements and other legal documents, as well as property management for the City in regards to purchases, sales, leasing, easements and related agreements. Prosecutions and administration of Provincial Offences Act is also part of their responsibility.

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

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

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

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## 18. Segmented information (continued):

### Fire Services

Fire Services is responsible to provide fire suppression service; fire prevention programs; training and education related to prevention, detection or extinguishment of fires. It is also responsible, through its Emergency Medical Services, for pre-hospital emergency paramedical care and the transport of the sick and injured.

### Police Services

The mandate of the Police Services is to ensure the safety of the lives and property of citizens; preserve the peace and good order; prevent crimes from occurring; detect offenders; and enforce the law.

### Engineering and Planning

The Engineering and Planning Department provides diverse services. It manages urban development for business interests, environmental concerns, local neighborhoods and the downtown through city planning and community development. It ensures the quality of building construction and maintenance of properties through enforcement of construction codes, building standards and by-law for the protection of occupants. It facilitates economic development by providing services for the approval of all land development plans, the application of enforcement of zoning by-laws and the processing of building permit applications.

### Public Works and Transportation

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

### Community Services

The Community Services Department provides public services in the area of recreation and culture and Community Centres.

### Social Services

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

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

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

## 18. Segmented disclosure (continued):

	2017								
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenue:									
Taxation	\$ 11,859,880	11,644,732	23,558,484	12,920,772	29,788,564	10,861,049	16,237,075	-	\$ 116,870,556
Fees and user charges	2,441,594	6,897,396	502,786	29,949,060	6,063,435	4,859,649	-	-	50,713,920
Government grants	2,542,600	1,765,375	4,409,569	12,873,102	5,723,353	2,449,461	1,992,118	-	31,755,578
Interest income	6,469,832	-	-	35,182	26,694	151,330	-	-	6,683,038
Other	2,456,256	756	266,834	4,510,900	123,425	466,639	1,000	-	7,825,810
Net loss of government business enterprise (note 5)	-	-	-	-	-	-	-	3,115,833	3,115,833
	25,770,162	20,308,259	28,737,673	60,289,016	41,725,471	18,788,128	18,230,193	3,115,833	216,964,735
Expenses:									
Salaries, wages and employee benefits	8,100,305	18,479,958	23,872,594	8,123,161	25,115,554	8,978,568	334,367	-	93,004,507
Materials	2,251,647	1,040,312	2,003,911	17,752,252	10,648,713	3,035,608	77,932	-	36,810,375
Contracted services	-	474,957	1,354,466	7,898,465	3,591,089	2,442,726	20,464	-	15,782,167
Rents and financial	5,335,200	5,897	156,224	85,508	11,203	447,859	-	-	6,041,891
Grants to others	31,566	-	-	3,698,774	-	2,881,037	17,717,856	-	24,329,233
Amortization of tangible capital assets	440,790	425,443	716,160	13,329,443	2,490,093	1,989,575	82,756	-	19,474,260
Loss (gain) on disposal of tangible capital assets	(37,305)	16,595	-	176	138,181	10,086	118,799	-	246,532
	16,122,203	20,443,162	28,103,355	50,887,779	41,994,833	19,785,459	18,352,174	-	195,688,965
Annual surplus (deficit)	\$ 9,647,959	(134,903)	634,318	9,401,237	(269,362)	(997,331)	(121,981)	3,115,833	\$ 21,275,770

# THE CORPORATION OF THE CITY OF SAULT STE. MARIE

Notes to Consolidated Financial Statements

Year ended December 31, 2017

## 18. Segmented disclosure (continued):

									2016
	General Government	Fire Services	Police Services	Engineering and Planning	Public Works and Transportation	Community Services	Social Services	Government Business Enterprises	Total
Revenue:									
Taxation	\$ 8,079,360	12,723,051	22,430,497	13,688,632	29,156,414	10,367,073	14,973,347	-	\$ 111,418,374
Fees and user charges	2,449,517	6,576,436	448,946	28,436,117	6,400,135	5,663,368	6,486,976	-	56,461,495
Government grants	2,261,678	1,793,285	4,051,169	11,831,157	5,316,364	2,398,644	2,553,315	-	30,205,612
Interest income	5,680,888	-	91	38,134	26,794	78,259	-	-	5,824,166
Other	459,650	42,831	303,170	2,831,461	77,581	619,900	1,000	-	4,335,593
Net loss of government business enterprise (note 5)	-	-	-	-	-	-	-	(113,515)	(113,515)
	18,931,093	21,135,603	27,233,873	56,825,501	40,977,288	19,127,244	24,014,638	(113,515)	208,131,725
Expenses:									
Salaries, wages and employee benefits	7,765,525	19,196,540	22,616,346	8,456,411	24,345,693	9,417,967	5,784,090	-	97,582,572
Materials	2,681,154	578,088	1,409,026	23,704,856	9,792,725	3,189,564	477,417	-	41,832,830
Contracted services	-	396,915	999,227	8,341,106	3,773,653	2,166,859	85,918	-	15,763,678
Rents and financial	5,456,850	4,861	137,979	85,466	11,033	623,592	28,071	-	6,347,852
Grants to others	864	-	-	3,835,152	-	2,848,346	17,385,556	-	24,069,918
Amortization of tangible capital assets	442,627	417,058	641,381	13,027,682	2,488,208	2,017,153	94,890	-	19,128,999
Loss (gain) on disposal of tangible capital assets	-	(33,194)	(1,500)	262	90,561	(6,000)	-	-	50,129
	16,347,020	20,560,268	25,802,459	57,450,935	40,501,873	20,257,481	23,855,942	-	204,775,978
Annual surplus (deficit)	\$ 2,584,073	575,335	1,431,414	(625,434)	475,415	(1,130,237)	158,696	(113,515)	\$ 3,355,747