

# CORPORATION OF THE CITY OF SARNIA

2011

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## CITY COUNCIL

<b>Mayor</b>	<b>M. Bradley</b>
<b>Councilors</b>	<b>D. Boushy</b>
	<b>A. Bruziewicz</b>
	<b>T. Burrell</b>
	<b>J. Foubister</b>
	<b>A.M. Gillis</b>
	<b>M. Kelch</b>
	<b>B. MacDougall</b>
	<b>J. McEachran</b>

## CITY ADMINISTRATION

City Manager	L. Fennell
City Solicitor/Clerk	B. Knott
Director of Finance	B. McKay
City Engineer	A. Morin
Director of Planning & Building	K. Bresee
Director of Parks & Recreation	I. Smith
Director of Transit	J. Stevens
Fire Chief	P. Cayen
Chief of Police	P. Nelson

# **CORPORATION OF THE CITY OF SARNIA**

**2011**

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## **POLICE SERVICES BOARD**

Chairperson - Mayor M. Bradley  
Councilor A. Bruziewicz  
P. Brain

S. Keane  
S. Palko  
Secretary - S. McEachran

## **SARNIA POWER CORPORATION**

Chairperson - F. Bentley  
Vice Chairperson - R. Grogan  
G. Jones

## **AUDITORS**

BDO Canada LLP

# CORPORATION OF THE CITY OF SARNIA

**Financial Statements**  
**year ended December 31, 2011**

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## Independent Auditor's Report

### To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Sarnia

We have audited the accompanying financial statements of the Corporation of the City of Sarnia, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of operations, change in net financial debt and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Sarnia as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for public sector accounting.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario  
May 14, 2012

# CORPORATION OF THE CITY OF SARNIA

## Financial Statements

### Consolidated Statement of Financial Position as at December 31, 2011

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	2011	2010
<b>FINANCIAL ASSETS</b>		
Cash and investments (note 4)	\$ 24,659,454	\$ 16,648,430
Taxes receivable	7,866,084	8,133,647
Accounts receivable	15,023,720	19,217,506
Long-term receivables (note 5)	898,672	1,027,009
Investment in Sarnia Power Corporation (note 6)	<u>45,248,603</u>	<u>43,559,854</u>
Total financial assets	<u>93,696,533</u>	<u>88,586,446</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	11,393,639	13,478,771
Other current liabilities	5,896,184	4,221,926
Deferred revenue (note 8)	10,569,225	10,052,606
Net long-term liabilities (note 9)	40,394,916	46,018,364
Interest on net long-term liabilities (note 10)	226,746	240,908
Landfill closure and post closure costs (note 11)	279,429	291,483
Employee future benefits (note 12)	<u>25,121,137</u>	<u>23,572,264</u>
Total liabilities	<u>93,881,276</u>	<u>97,876,322</u>
<b>NET FINANCIAL DEBT</b>	<u>(184,743)</u>	<u>(9,289,876)</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible Capital Assets (note 14)	513,516,290	506,670,007
Other assets	<u>5,236,643</u>	<u>5,070,581</u>
Total Non-Financial Assets	<u>518,752,933</u>	<u>511,740,588</u>
<b>Accumulated Surplus</b> (note 15)	<u>\$ 518,568,190</u>	<u>\$ 502,450,712</u>

Approved on behalf of City Council

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# CORPORATION OF THE CITY OF SARNIA

## Financial Statements

### Consolidated Statement of Operations year ended December 31, 2011

	2011 Budget	2011	2010
<b>REVENUE</b>			
Property taxation	\$ 60,513,356	\$ 60,492,939	\$ 58,479,194
User fees and service charges	36,550,002	37,559,724	37,776,623
User fees and service charges - other municipalities	2,981,077	3,948,247	3,215,504
Government transfers-operating (Note 21)	1,254,650	1,143,563	1,000,206
Investment income	2,151,798	2,611,057	2,779,536
Penalty and interest on taxes	950,000	1,205,353	1,071,921
Gaming and casino revenues	1,500,000	1,491,906	1,494,493
Contributions - developers	-	329,201	168,531
Other	<u>923,663</u>	<u>3,009,253</u>	<u>1,439,512</u>
Total revenue	<u>106,824,546</u>	<u>111,791,243</u>	<u>107,425,520</u>
<b>EXPENSES</b>			
General government	8,173,602	8,476,651	10,158,627
Protection services	36,826,839	38,772,843	36,569,621
Transportation services	17,142,345	21,290,691	20,167,472
Environmental services	18,205,569	26,220,537	35,234,299
Health services	87,200	87,200	77,200
Social and family services	348,614	367,988	381,874
Recreation and cultural services	7,274,463	8,708,860	8,378,721
Planning and development	1,175,157	1,786,528	1,747,740
Non-functionalized unfunded liability	<u>-</u>	<u>1,522,200</u>	<u>715,753</u>
Total expenses	<u>89,233,789</u>	<u>107,233,498</u>	<u>113,431,307</u>
Net expenses	<u>17,590,757</u>	<u>4,557,745</u>	<u>(6,005,787)</u>
<b>OTHER</b>			
Government transfers - capital (Note 21)	-	7,134,219	13,176,717
Capital contributions - developers	-	1,661,214	2,152,505
Other related to capital	-	(22,806)	87,435
Donated assets	-	1,850,089	1,806,998
Share of LAWSS	-	(751,732)	978,287
Sarnia Power Corporation, net change in equity	<u>-</u>	<u>1,688,749</u>	<u>2,169,330</u>
	<u>-</u>	<u>11,559,733</u>	<u>20,371,272</u>
<b>Annual Surplus</b>	<u>\$ 17,590,757</u>	<u>\$ 16,117,478</u>	<u>\$ 14,365,485</u>
<b>Accumulated Surplus, Beginning of Year</b>		502,450,712	488,085,227
<b>Accumulated Surplus, End of Year</b>		<u>\$ 518,568,190</u>	<u>\$ 502,450,712</u>

# CORPORATION OF THE CITY OF SARNIA

## Financial Statements

### Consolidated Statement of Change in Net Financial Debt year ended December 31, 2011

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	2011	2010
<b>Annual Surplus</b>	\$ 16,117,478	\$ 14,365,485
Amortization of tangible capital assets	15,752,619	14,953,331
Proceeds from sale of tangible capital assets	90,000	72,753
Loss on sale of tangible capital assets	877,398	4,126,197
Acquisition of tangible capital assets	(23,566,300)	(24,187,871)
Change in other assets	<u>(166,062)</u>	<u>146,235</u>
<b>Increase in Net Financial Assets</b>	<u>9,105,133</u>	<u>9,476,130</u>
<b>Net Financial Assets, Beginning of Year</b>	<u>(9,289,876)</u>	<u>(18,766,006)</u>
<b>Net Financial Assets, End of Year</b>	<u>\$ (184,743)</u>	<u>\$ (9,289,876)</u>

# CORPORATION OF THE CITY OF SARNIA

## Financial Statements

### Consolidated Statement of Cash Flow year ended December 31, 2011

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	2011	2010
<b>OPERATING ACTIVITIES</b>		
Annual Surplus	\$ 16,117,478	\$ 14,365,485
Items not involving cash:		
Amortization of tangible capital assets	15,752,619	14,953,331
Loss on sale of tangible capital assets	877,398	4,126,197
Change in employee future benefits	1,548,873	809,265
Change in landfill closure and post closure costs	(12,054)	(11,318)
Change in non-cash assets and liabilities		
Taxes receivable	267,563	(832,464)
Accounts receivable	4,193,786	1,439,529
Accounts payable and accrued liabilities	(2,085,132)	477,860
Other current liabilities	1,674,258	99,975
Deferred revenue	516,619	220,229
Other assets	<u>(166,062)</u>	<u>146,235</u>
	<u>38,685,346</u>	<u>35,794,324</u>
<b>CAPITAL ACTIVITIES</b>		
Proceeds on sale of tangible capital assets	90,000	72,753
Acquisition of tangible capital assets	<u>(23,566,300)</u>	<u>(24,187,871)</u>
Net change in cash from capital activities	<u>(23,476,300)</u>	<u>(24,115,118)</u>
<b>INVESTING ACTIVITIES</b>		
Long term receivables	128,337	(52,251)
Investment in Sarnia Power Corporation	<u>(1,688,749)</u>	<u>(2,169,330)</u>
Net change in cash from investing activities	<u>(1,560,412)</u>	<u>(2,221,581)</u>
<b>FINANCING ACTIVITIES</b>		
Interest on net long-term liabilities	(14,162)	(286,594)
Long-term debt issued	-	6,552,000
Long-term debt repaid	(6,514,636)	(13,429,500)
Share of LAWSS debt adjustment	<u>891,188</u>	<u>(1,151,067)</u>
Net decrease in cash from financing	<u>(5,637,610)</u>	<u>(8,315,161)</u>
Net change in cash and equivalents	8,011,024	1,142,464
Cash and cash equivalents, beginning of year	<u>16,648,430</u>	<u>15,505,966</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 24,659,454</u>	<u>\$ 16,648,430</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the municipality are the representation of management and have been prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These estimates and approximations have been made using careful judgments. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

#### (a) Basis of Consolidation

- (i) These consolidated financial statements reflect the assets, liabilities, reserves, surpluses/deficits, revenues and expenses of those City funds and organizations, committees, local boards and entities accountable to the City for the administration of their financial affairs and resources, and which are owned or controlled by the City. The organizations included in the consolidated financial statements are as follows:

- Transit Special Area
- Sewer Special Area
- Sarnia Waterworks
- Sarnia Police Services Board

#### (ii) Government Business Enterprises

Sarnia Power Corporation and its affiliates are not consolidated but are accounted for on the modified equity basis which reflects the City of Sarnia's investment in the enterprises and its share of net income since acquisition. Under the modified equity basis, the enterprises' accounting principles are not adjusted to conform to those of the municipality, and inter-organizational transactions and balances are not eliminated.

#### (iii) Joint Local Board

The Lambton Area Water Supply System (LAWSS) has been consolidated on a proportionate basis based upon the water flow of the municipality in proportion to the entire flows provided by the joint board for the previous year. Under the proportionate basis, the municipality's pro rata share of each of the assets, liabilities, revenues and expenditures of the board are consolidated with similar items in the municipality's financial statements. For 2011, the municipality's share of the System was 63.78% (2010 – 58.93%). Material inter-organizational transactions and balances have been eliminated.

#### (iv) Accounting for School Boards and the County of Lambton

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the County of Lambton are not included in the consolidated financial statements.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

#### (v) Trust Funds

Trust funds and their related operations administered by the municipality are not consolidated, but are reported separately on the Trust Funds Financial Statements.

#### (b) Basis of Accounting

##### (i) Accrual Accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Expenses are recognized as they are incurred and measurable based upon receipt of goods or services and/or the creation of a legal obligation to pay.

##### (ii) 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. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Increase in Net Financial Assets for the year.

##### Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land Improvements	15 to 40 years
Buildings	15 to 80 years
Machinery & Equipment	8 to 25 years
Vehicles	3 to 20 years
Computers	5 to 20 years
Roads	15 to 50 years
Water Distribution	60 years
Sanitary Sewer	60 years
Storm Sewer	50 to 60 years

One half of the annual 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, at which time they are capitalized.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

#### Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. During 2011, tangible capital assets with a value of \$ \$1,850,089 were contributed by developers to the City (2010 - \$1,806,998 ). These items were comprised of sanitary sewer, storm sewer, water and roads assets.

#### Interest Capitalization

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

#### Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. All other leases are accounted as operating leases and the related lease payments are charged to expenses as incurred.

#### Inventories

Inventories held for consumption are recorded at the lower of cost or replacement cost.

#### **(iii) Deferred Revenue – Development Charges**

The municipality receives development charges and sub-divider contributions under the authority of provincial legislation and municipal by-laws. These funds, by their nature, are restricted in their use and, until applied to specific capital works, are recorded as deferred revenue. These amounts will be recognized as revenue in the fiscal year they are expended.

#### **(iv) Taxation and Related Revenue**

Property tax billings are prepared by the municipality based on assessment rolls issued by the Municipal Property Assessment Corporation (“MPAC”). Tax rates are established annually by City Council, incorporating amounts to be raised for local services, the requisition made by the County of Lambton in respect of County services and amounts the City is required to collect on behalf of the Province of Ontario in respect of education taxes. A normal part of the assessment process is the issue of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the municipality determines the taxes applicable and renders supplementary tax billings. Taxation revenue is recorded at the time tax billings are issued. Assessments and related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known.

The municipality is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -continued

#### (v) Government Transfers

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, eligibility criteria are met, and reasonable estimates of the amount can be made.

#### (vi) Budget Figures

City Council completes separate budget reviews for its operating and capital budgets each year. The approved operating budget for 2011 is reflected on the Consolidated Statement of Operations.

Budgets established for capital investment in tangible capital assets are on a project-oriented basis, the costs of which may be carried out over one or more years and, therefore, may not be comparable with current year's actual expenditure amounts.

Budget figures exclude the impact of amortization expense, post-employment benefit expenses, solid waste landfill closure and post closure expenses, and consolidated revenue and expenses from LAWSS.

#### (vii) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 periods. Actual results could differ from these estimates.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 2. OPERATIONS OF SCHOOL BOARDS AND THE COUNTY OF LAMBTON

Further to note 1(a)(iv), the taxation, other revenues and requisitions for the school boards and the County of Lambton are comprised of:

	School Boards	County	Total
Taxation and user charges	\$ 28,667,303	\$ 33,251,957	\$ 61,919,260
Share of payments in lieu of taxes	<u>26,612</u>	<u>304,794</u>	<u>331,406</u>
	<u>28,693,915</u>	<u>33,556,751</u>	<u>62,250,666</u>
Share of taxes written off	912,872	579,491	1,492,363
Share of tax rebates	<u>302,103</u>	<u>169,492</u>	<u>471,595</u>
	<u>1,214,975</u>	<u>748,983</u>	<u>1,963,958</u>
Amounts transferred	<u>\$ 27,478,940</u>	<u>\$ 32,807,768</u>	<u>\$ 60,286,708</u>

### 3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$84,447 (2010 - \$83,524) have not been included in the Consolidated Statement of Financial Position nor have their operations been included in the Consolidated Statement of Operations. The Trust Funds under administration include the following:

	2011	2010
Cemetery Care and Maintenance	\$ 10,902	\$ 10,783
Boarding Home Program	<u>73,545</u>	<u>72,741</u>
	<u>\$ 84,447</u>	<u>\$ 83,524</u>

### 4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2011	2010
Cash on hand	\$ 79,160	\$ 122,785
Cash in bank	23,457,294	15,394,822
Investments	<u>1,123,000</u>	<u>1,130,823</u>
	<u>\$ 24,659,454</u>	<u>\$ 16,648,430</u>

The cash in bank is held at a Canadian chartered bank and earns interest at the 30 Day Average Bankers' Acceptance rate less 10 basis points.

The investments are comprised of nine GICs, recorded at cost, with effective interest rates between 1.25% and 1.80% maturing in 2012. The market value of these investments amounted to \$1,123,000 (2010 - \$1,130,823). Interest is receivable on an annual basis.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 5. LONG-TERM RECEIVABLES

	2011	2010
Mortgage receivable, due in annual installments increasing 4.5% each successive installment with a final installment due July 15, 2018. Provided installments are made when due, no interest is payable thereon. The mortgage may be discharged in whole or in part, at the option of the mortgagee at any time in the amount of the present value of the future installment payments calculated at the lowest rate of interest charged by the municipality's bankers to the municipality on the date of such payment. This mortgage is reported in the accompanying Consolidated Statement of Financial Position at the actual amount of future installments.	\$ 171,370	\$ 191,820
Loans receivable – employees re Ontario Police College, repayable over 2 years with no interest	36,058	21,635
Loan receivable, at 4.50%, repayable in monthly installments of \$1,898 with final payment due July 2023	205,339	218,549
Loans receivable - employee purchase plan, repayable over one or two years with no interest	76,965	90,824
Long-term mortgage receivable, at 0% interest, repayable over 20 years at \$30,000 per year	130,000	160,000
Loan receivable, at 0% interest, repayable over 10 years at \$15,000 per year, forgivable based on continuation of annual Celebration of Lights display	60,000	75,000
Final lease payment, due December 31, 2030	51,286	51,286
Loans receivable, 1.125% to 3.0%, issued under Municipal Facade Improvement Program, due in quarterly installments including principal and interest of \$19,548 with a final installment due August 1, 2021	<u>417,890</u>	<u>434,381</u>
	1,148,908	1,243,495
Current portion included in accounts receivable	<u>250,236</u>	<u>216,486</u>
Total long-term receivables	<u>\$ 898,672</u>	<u>\$ 1,027,009</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 6. INVESTMENT IN SARNIA POWER CORPORATION

Under the provincial government's Electricity Competition Act (Bill 35), Sarnia Power Corporation, a holding company, along with its affiliates Bluewater Power Corporation and Sarnia Hydro Energy Services were incorporated October 20, 2000 under the Ontario Business Corporations Act.

On November 1, 2000 the Hydro-Electric Commission of the City of Sarnia merged its operations with the Petrolia Public Utilities Commission, Point Edward Public Utilities Commission, Alvinston Public Utilities Commission, Warwick Hydro Electric Commission and Oil Springs Hydro Electric Commission as Bluewater Power Corporation.

As part of this electricity restructuring, the municipality transferred the net assets of the former Hydro-Electric Commission of the City of Sarnia to Bluewater Power Corporation. Sarnia Power Corporation, wholly owned by the municipality, was incorporated to hold the City of Sarnia's investment in this entity. As consideration for the transfers, the municipality took back an 86.05% share in the common shares of Bluewater Power Corporation and promissory notes.

The investment is composed of the following:

	<b>2011</b>	<b>2010</b>
Sarnia Power Corporation common shares	\$ 15,566,626	\$ 15,566,626
Bluewater Power Distribution Corporation, long-term notes receivable	16,729,636	16,729,636
Share of net income since acquisition, net of dividends received	<u>12,952,341</u>	<u>11,263,592</u>
	<u>\$ 45,248,603</u>	<u>\$ 43,559,854</u>

The notes receivable are unsecured and bear interest at the rate of 7.62%. Interest received from these notes receivable amounted to \$1,274,798 (2010 - \$1,274,798) and is reported in the Consolidated Statement of Operations.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

### 6. INVESTMENT IN SARNIA POWER CORPORATION - continued

The following table provides condensed financial information from the consolidated financial statements of Sarnia Power Corporation for the year ended December 31:

	2011	2010
Financial Position		
Assets		
Current assets	\$ 28,287,879	\$ 32,323,774
Long-term assets	<u>63,936,909</u>	<u>62,776,071</u>
Total assets	<u>\$ 92,224,788</u>	<u>\$ 95,099,845</u>
Liabilities		
Current liabilities	\$ 18,512,120	\$ 26,036,464
Long-term liabilities	40,570,348	37,883,581
Non-controlling interest	<u>4,623,352</u>	<u>4,349,581</u>
Total liabilities	<u>63,705,820</u>	<u>68,269,626</u>
Equity		
Share capital	15,566,626	15,566,626
Retained earnings	<u>12,952,342</u>	<u>11,263,593</u>
Total equity	<u>28,518,968</u>	<u>26,830,219</u>
Total liabilities and equity	<u>\$ 92,224,788</u>	<u>\$ 95,099,845</u>
Results of Operations		
Revenues	\$ 87,639,940	\$ 90,731,554
Operating expenses	<u>84,606,030</u>	<u>86,770,352</u>
Net income before non-controlling interest	3,033,910	3,961,202
Non-controlling interest	<u>423,230</u>	<u>552,588</u>
Net income	<u>\$ 2,610,680</u>	<u>\$ 3,408,614</u>

#### (a) Continuity of Investment

	2011	2010
Balance, beginning of year	\$ <u>43,559,854</u>	\$ <u>41,390,524</u>
Net income for the year	2,610,680	3,408,614
Dividends received during the year	<u>(921,931)</u>	<u>(1,239,284)</u>
Net increase in equity during the year	<u>1,688,749</u>	<u>2,169,330</u>
Balance, end of year	<u>\$ 45,248,603</u>	<u>\$ 43,559,854</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 7. BANK INDEBTEDNESS

An operating line of credit was available by way of bank overdraft in the amount of \$8,000,000 as at December 31, 2011. Amounts obtained under this credit are due on demand and bear interest at the bank's prime rate less .65%, calculated and payable monthly.

### 8. DEFERRED REVENUE

Provincial legislation restricts how funds relating to development charges, subdivider contributions, provincial and federal gas tax and building permits may be used.

	<b>2011</b>	<b>2010</b>
Development Charges Act	\$ 6,676,366	\$ 6,891,000
Recreational land (The Planning Act)	141,384	280,738
Gasoline Tax - Canada	1,471,780	815,091
Gasoline Tax - Ontario	1,496,539	986,721
Building Permit (Building Code Act)	<u>783,156</u>	<u>1,079,056</u>
Total	<u>\$ 10,569,225</u>	<u>\$ 10,052,606</u>

Total activities for the above items is summarized as follows:

	<b>2011</b>	<b>2010</b>
Balance, beginning of the year	\$ <u>10,052,606</u>	\$ <u>9,832,377</u>
Developer contributions received	1,340,527	1,423,481
Canada grants	2,190,778	2,198,165
Ontario grants	934,608	914,493
Interest earned	115,949	55,538
Provincial Gasoline Tax funding utilized	(434,694)	(676,021)
Funds earned by municipality	(3,630,549)	(3,698,427)
Contribution from revenue fund	<u>-</u>	<u>3,000</u>
Net increase (decrease)	<u>516,619</u>	<u>220,229</u>
Balance, end of the year	<u>\$ 10,569,225</u>	<u>\$ 10,052,606</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

### 9. NET LONG-TERM LIABILITIES

- (a) The balance of net long-term liabilities reported on the Consolidated Statement of Financial Position is made up of the following:

	<b>2011</b>	<b>2010</b>
Total long-term liabilities incurred by the municipality including those incurred on behalf of municipal enterprises issued at various interest rates ranging from 4.50% to 10.52% and outstanding at the end of the year amount to	\$ 40,429,259	\$ 46,058,984
Of the long-term liabilities shown above, the responsibility for payment of principal and interest charges for tile drainage loans has been assumed by individuals. At the end of the year, the outstanding principal amount of this liability is	<u>(34,343)</u>	<u>(40,620)</u>
Net long-term liabilities, end of the year	<u>\$ 40,394,916</u>	<u>\$ 46,018,364</u>

- (b) Of the net long-term liabilities reported in (a) of this note, the annual principal payments are:

2012	\$ 6,344,698
2013	6,236,098
2014	5,290,227
2015	4,636,506
2016	3,926,935
2017 to 2021	10,660,694
2022 onwards	<u>3,299,758</u>
	<u>\$ 40,394,916</u>

- (c) All net long-term liabilities on the Consolidated Statement of Financial Position are payable in Canadian dollars.
- (d) The following is an analysis of the net-long term liabilities by debt instrument:

	<b>2011</b>	<b>2010</b>
Installment (serial) debentures	\$ 12,198,617	\$ 12,831,589
Long-term bank loans	28,054,439	33,019,596
Ontario Clean Water Agency (OCWA)	<u>141,860</u>	<u>167,179</u>
Net long-term liabilities, end of year	<u>\$ 40,394,916</u>	<u>\$ 46,018,364</u>

The long-term bank loans are issued on a demand basis.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 9. NET LONG-TERM LIABILITIES - continued

- (e) The annual principal and interest payments required to service the long-term liabilities in (a) are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.
- (f) The municipality is contingently liable for long-term liabilities with respect to tile drainage loans. The total amount outstanding as at December 31, 2011 is \$34,343 (2010 - \$40,620) and is not recorded on the Consolidated Statement of Financial Position.
- (g) Total activity for the year for net long-term liabilities which are reported on the Consolidated Statement of Operations are as follows:

	2011	2010
Balance, beginning of year	\$ 46,018,364	\$ 54,046,931
Debt issued	-	6,552,000
Principal payments	(6,514,636)	(6,877,500)
Adjustment to City share of LAWSS debt	891,188	(1,151,067)
Payout of Final WPCC debenture	<u>-</u>	<u>(6,552,000)</u>
Balance, end of year	<u>\$ 40,394,916</u>	<u>\$ 46,018,364</u>

Interest payments related to net long-term liabilities in the current year were \$2,562,319 (2010 - \$3,174,192).

- (h) Interest charges are recorded in the Consolidated Statement of Operations. Charges for long-term liabilities assumed by non-consolidated entities and individual ratepayers, in the case of tile drainage and shoreline property assistance loans, are not recorded in these financial statements.
- (i) The municipality has entered into an agreement with a private company to co-covenant a bank loan with respect to the construction and operation of the multi-use sports and entertainment complex. The demand loan has a balance outstanding in the amount of \$5,577,772 (2010 - \$5,759,593) bearing interest at a rate of 4.50%, with blended monthly payments of principal and interest of \$36,440 and due in 2030. The demand loan is to be repaid from the complex's operations.

### 10. INTEREST ON NET LONG-TERM LIABILITIES

A provision for the interest on long-term liabilities that has been accrued but not yet paid in the current year is estimated at \$226,746 (2010 - \$240,908) and is reported as an accrued liability on the Consolidated Statement of Financial Position.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 11. LANDFILL CLOSURE AND POST CLOSURE COSTS

The Ontario Environmental and Protection Act sets out 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.

Landfill closure and post closure care requirements have been defined in accordance with industry standards and include covering and landscaping of the landfill, pumping of ground water and leachate from the site, and ongoing environmental monitoring, site inspection and maintenance.

The estimated liability of \$279,429 (2010 - \$291,483) represents the sum of the discounted future cash flows for post closure care activities discounted at the municipality's current long term borrowing rate of 6.5%.

### 12. EMPLOYEE FUTURE BENEFITS

The municipality provides certain employee benefits, which will require funding in future periods. An estimate of the future liabilities for these benefits has been completed and forms the basis for the estimated liability reported in these financial statements.

	<b>2011</b>	<b>2010</b>
Sick leave benefit plan	\$ 2,440,600	\$ 2,428,900
Future payments required to WSIB	7,666,139	7,666,139
Post retirement benefits	13,898,000	12,387,500
Accrued vacation pay	890,405	844,177
Accrued overtime pay	<u>225,993</u>	<u>245,548</u>
Total	<u>\$ 25,121,137</u>	<u>\$ 23,572,264</u>

#### (a) Sick Leave Benefit Plan

Under the sick leave benefit plan for members of the Firefighters' Association, unused sick leave can be accumulated and employees may become entitled to a cash payment when they leave the municipality's employment. For members of the Police Association, the sick leave benefit plan was terminated in 1991 at which time the unused sick leave was frozen with payout upon employee request or termination. For all other staff, the sick leave benefit plan was terminated prior to 1980, at which time the unused sick leave was frozen with payout due when the employee leaves the municipality's employment.

Information about the municipality's sick leave benefit plan is as follows:

Accrued benefit liability as at January 1, 2011	\$ 2,428,900
Current service cost	176,500
Interest on accrued benefit obligation	123,500
Benefit payments	<u>(288,300)</u>
Estimated benefit liability as at December 31, 2011	<u>\$ 2,440,600</u>

Reserve funds amounting to \$30,285 (2010 - \$29,954) at year-end have been established to provide for a portion of this past service liability.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 12. EMPLOYEE FUTURE BENEFITS - continued

Possible payments over the next five years to employees who are eligible to retire are:

2012	\$	428,948
2013		190,742
2014		216,887
2015		8,460
2016		<u>88,235</u>
Total	\$	<u>933,272</u>

#### (b) Workplace Safety and Insurance Board

The Workplace Safety and Insurance Board (WSIB) administers injured worker benefits on behalf of the municipality as a Schedule II employer. The expense for the year was \$847,862 (2010 - \$867,888). The estimate of the future benefit costs for WSIB claims was provided by WSIB and was determined based on benefits currently in force with provision for benefits not yet awarded as follows:

Accidents prior to 1990 and survivor pensions	10.52%
Accidents from 1990 to 1997	16.05%
Accidents after 1997	1.72%
Health care and non-income benefits	20.63%
Administrative loading	22.20%

Reserve funds have been established to provide for a portion of this liability and are included in the Consolidated Statement of Financial Position. The balance at the end of the year is a surplus of \$302 (2010 - \$(1,285,591)).

#### (c) Post-Retirement Benefits

The municipality provides certain health and dental benefits on behalf of retired employees up to the age of 65 if they have at least 25 years service with the municipality.

The municipality introduced a Health Spending Account in 2011 covering certain existing retirees and current employees. The cost of this new benefit has been treated as a past service cost and has been recognized in the 2011 benefit expenditures.

Information about the municipality's health and dental plan is as follows:

Accrued benefit liability as at January 1, 2011	\$	12,387,500
Current service cost		676,400
Interest cost		822,500
Recognition of past service costs		489,500
Amortization of actuarial experience loss		530,400
Estimated benefits paid		<u>(1,008,300)</u>
Estimated benefit liability as at December 31, 2011	\$	<u>13,898,000</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 12. EMPLOYEE FUTURE BENEFITS - continued

The following shows the reconciliation between the accrued benefit obligation and the post-retirement benefit liability:

Accrued benefit obligation as at December 31, 2011	\$ <u>19,829,000</u>
Less unamortized amounts:	
Prior service costs	<u>5,931,000</u>
Total	<u>5,931,000</u>
Post-retirement benefit liability as at December 31, 2011	\$ <u>13,898,000</u>

The actuarial estimate of the future liability for post-retirement benefits assumes a discount rate of 3.75% and inflation rates for benefit premiums of 4.0% to 7.5%. No reserve fund has been established to provide for this liability. The date of the most recent actuarial valuation was December 31, 2010.

#### (d) Accrued Vacation Pay

Under the provision of certain employee vacation plans, some vacation credits are earned as at December 31 but are generally unavailable for use until a later date. In addition, the provisions of certain plans allow the accumulation of vacation credits for use in future periods. The approximate value of these credits as of December 31, 2011 is \$890,405 (2010 - \$844,177).

#### (e) Accrued Overtime Pay

Overtime credits are earned as at December 31 but are generally unavailable for use until a later date. The approximate value of these credits as of December 31, 2011 is \$225,993 (2010 - \$245,548).

### 13. PENSION AGREEMENTS

The municipality makes contributions to the Ontario Municipal Employees' Retirement System (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The OMERS Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to more than 419,000 active and retired members and approximately 947 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2011. The results of this valuation disclosed total actuarial liabilities of \$62,200 million in respect of benefits accrued for service with actuarial assets at that date of \$54,900 million indicating an actuarial deficit of \$7,300 million.

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of the Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2011 was \$4,012,597 (2010 - \$3,559,395) for current service. The OMERS Board rate was 7.4% to 14.1% depending on income level for 2011 (2010 - 6.4% to 13.1% depending on income level).

**CORPORATION OF THE CITY OF SARNIA**

**Notes to the Consolidated Financial Statements  
year ended December 31, 2011**

**14. TANGIBLE CAPITAL ASSETS**

**2011**

	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2011	2010
<b>Cost</b>													
Balance, beginning of year	\$ 124,707,609	\$ 25,828,103	\$ 75,132,198	\$ 65,033,969	\$ 25,361,982	\$ 2,116,869	\$ 207,837,502	\$ 117,892,052	\$ 39,102,332	\$ 68,770,486	\$ 16,193,740	\$ 767,976,842	\$ 756,299,488
Add: additions during the year	123,303	393,451	8,092,720	3,484,642	2,455,023	427,903	4,519,148	2,298,507	3,896,308	3,004,128	6,523,215	35,218,348	40,130,712
Less: disposals during the year	-	(14,333)	(50,100)	(54,000)	(1,606,843)	(40,800)	(1,198,306)	(151,549)	(231,625)	(132,492)	(16,163,446)	(19,643,494)	(21,359,731)
Other	61,702	32,744	1,937,138	1,806	-	-	-	4,050,993	-	-	11,202	6,095,585	(7,093,627)
<b>Balance, end of year</b>	<b>124,892,614</b>	<b>26,239,965</b>	<b>85,111,956</b>	<b>68,466,417</b>	<b>26,210,162</b>	<b>2,503,972</b>	<b>211,158,344</b>	<b>124,090,003</b>	<b>42,767,015</b>	<b>71,642,122</b>	<b>6,564,711</b>	<b>789,647,281</b>	<b>767,976,842</b>
<b>Accumulated Amortization</b>													
Balance, beginning of year	-	16,759,742	29,984,091	30,755,647	11,722,241	1,875,263	88,797,210	37,633,399	15,264,106	28,515,136	-	261,306,835	254,665,071
Add: amortization	-	1,272,960	1,796,263	2,681,835	1,514,629	115,925	4,705,561	1,739,542	671,645	1,254,259	-	15,752,619	14,953,331
Less: accumulated amortization on disposals	-	(13,258)	(19,414)	(54,000)	(1,408,762)	(40,800)	(667,604)	(94,564)	(140,070)	(74,178)	-	(2,512,650)	(6,563,744)
Other	-	24,517	665,770	983	-	-	-	892,917	-	-	-	1,584,187	(1,747,823)
<b>Balance, end of year</b>	<b>-</b>	<b>18,043,961</b>	<b>32,426,710</b>	<b>33,384,465</b>	<b>11,828,108</b>	<b>1,950,388</b>	<b>92,835,167</b>	<b>40,171,294</b>	<b>15,795,681</b>	<b>29,695,217</b>	<b>-</b>	<b>276,130,991</b>	<b>261,306,835</b>
<b>Net book value of tangible capital assets</b>	<b>\$ 124,892,614</b>	<b>\$ 8,196,004</b>	<b>\$ 52,685,246</b>	<b>\$ 35,081,952</b>	<b>\$ 14,382,054</b>	<b>\$ 553,584</b>	<b>\$ 118,323,177</b>	<b>\$ 83,918,709</b>	<b>\$ 26,971,334</b>	<b>\$ 41,946,905</b>	<b>\$ 6,564,711</b>	<b>\$ 513,516,290</b>	<b>\$ 506,670,007</b>

**CORPORATION OF THE CITY OF SARNIA**

**Notes to the Consolidated Financial Statements  
year ended December 31, 2011**

**14. TANGIBLE CAPITAL ASSETS**

**2010**

	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2010	2009
<b>Cost</b>													
Balance, beginning of year	\$ 124,548,143	\$ 28,590,213	\$ 75,871,758	\$ 64,587,606	\$ 23,241,954	\$ 2,037,477	\$ 198,688,088	\$ 119,777,308	\$ 37,030,808	\$ 64,571,253	\$ 17,354,880	\$ 756,299,488	\$ 734,753,902
Add: additions during the year	231,600	570,170	1,505,636	1,243,900	2,749,815	79,392	13,615,082	3,425,434	2,237,506	5,036,280	9,435,897	40,130,712	38,014,303
Less: disposals during the year	-	(3,294,000)	-	(795,425)	(629,787)	-	(4,465,668)	(574,785)	(165,982)	(837,047)	(10,597,037)	(21,359,731)	(14,085,228)
Other	(72,134)	(38,280)	(2,245,196)	(2,112)	-	-	-	(4,735,905)	-	-	-	(7,093,627)	(2,383,489)
<b>Balance, end of year</b>	<b>124,707,609</b>	<b>25,828,103</b>	<b>75,132,198</b>	<b>65,033,969</b>	<b>25,361,982</b>	<b>2,116,869</b>	<b>207,837,502</b>	<b>117,892,052</b>	<b>39,102,332</b>	<b>68,770,486</b>	<b>16,193,740</b>	<b>767,976,842</b>	<b>756,299,488</b>
<b>Accumulated Amortization</b>													
Balance, beginning of year	-	17,593,561	29,051,081	28,603,053	10,763,839	1,772,403	87,145,656	37,292,862	14,734,880	27,707,736	-	254,665,071	244,913,489
Add: amortization	-	1,252,427	1,655,651	2,621,329	1,422,952	102,860	4,440,588	1,647,316	624,267	1,185,941	-	14,953,331	14,720,549
Less: accumulated amortization on disposals	-	(2,058,750)	-	(467,722)	(464,550)	-	(2,789,034)	(310,106)	(95,041)	(378,541)	-	(6,563,744)	(4,426,438)
Other	-	(27,496)	(722,641)	(1,013)	-	-	-	(996,673)	-	-	-	(1,747,823)	(542,529)
<b>Balance, end of year</b>	<b>-</b>	<b>16,759,742</b>	<b>29,984,091</b>	<b>30,755,647</b>	<b>11,722,241</b>	<b>1,875,263</b>	<b>88,797,210</b>	<b>37,633,399</b>	<b>15,264,106</b>	<b>28,515,136</b>	<b>-</b>	<b>261,306,835</b>	<b>254,665,071</b>
<b>Net book value of tangible capital assets</b>	<b>\$ 124,707,609</b>	<b>\$ 9,068,361</b>	<b>\$ 45,148,107</b>	<b>\$ 34,278,322</b>	<b>\$ 13,639,741</b>	<b>\$ 241,606</b>	<b>\$ 119,040,292</b>	<b>\$ 80,258,653</b>	<b>\$ 23,838,226</b>	<b>\$ 40,255,350</b>	<b>\$ 16,193,740</b>	<b>\$ 506,670,007</b>	<b>\$ 501,634,417</b>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 15. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	<b>2011</b>	<b>2010</b>
Investment in tangible capital assets	\$ 513,516,290	\$ 506,670,007
Investment in land inventories held for sale	4,560,540	4,560,540
Capital fund	3,044,980	492,801
Reserves and reserve funds	18,220,005	17,290,529
Equity in Sarnia Power Corporation	45,248,603	43,559,854
Less: unfunded liabilities	<u>(66,022,228)</u>	<u>(70,123,019)</u>
Accumulated Surplus	<u>\$ 518,568,190</u>	<u>\$ 502,450,712</u>

### 16. RESERVES AND RESERVE FUNDS

The total balances of reserves and reserve funds are made up of:

	<b>2011</b>	<b>2010</b>
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 2,218,689	\$ 2,626,738
replacement of equipment	3,510,706	4,214,532
capital projects	6,235,123	5,006,624
other	<u>454,261</u>	<u>284,865</u>
Total reserves	<u>\$ 12,418,779</u>	<u>\$ 12,132,759</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 30,285	\$ 29,954
self-insurance	97,947	120,165
Workplace Safety and Insurance Board	302	(1,285,591)
sub-division development	45,173	45,173
parking revenues	1,732	13,608
watermain construction	199,960	262,055
waterfront development	186,332	69,615
Sarnia Bay improvements	190,064	186,117
operation of Airport	307,796	360,841
capital projects	3,178,906	3,858,743
special projects	1,416,400	1,379,353
legacy	69,550	66,263
other current purposes	<u>76,779</u>	<u>51,474</u>
Total discretionary reserve funds	<u>\$ 5,801,226</u>	<u>\$ 5,157,770</u>
Total reserves and reserve fund balances, end of year	<u>\$ 18,220,005</u>	<u>\$ 17,290,529</u>

The municipality is committed to pay the interest earned on approximately \$907,796 of the reserve funds to outside agencies.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 17. JOINT LOCAL BOARD CONSOLIDATION - LAWSS

The following summarizes the financial position and operations of Lambton Area Water Supply System (LAWSS) which has been reported in these financial statements using the proportionate consolidation method.

The consolidated financial statements include the municipality's 63.78% (2010 - 58.93%) proportionate interest of the following:

	2011	2010
Statement of Financial Position		
Financial Assets	\$ <u>3,417,820</u>	\$ <u>3,146,546</u>
Liabilities		
Current liabilities	\$ 270,714	\$ 271,165
Long-term liabilities	<u>16,302,000</u>	<u>18,375,000</u>
Total liabilities	<u>16,572,714</u>	<u>18,646,165</u>
Net Financial Debt	(13,154,894)	(15,499,619)
Non-Financial Assets		
Tangible Capital Assets	<u>91,570,469</u>	<u>93,018,512</u>
Accumulated Surplus	\$ <u>78,415,575</u>	\$ <u>77,518,893</u>
Statement of Operations		
Revenues	\$ 9,499,699	\$ 9,451,926
Expenses - excluding amortization	6,750,786	7,123,655
Amortization	<u>1,852,231</u>	<u>1,837,815</u>
Net revenues	\$ <u>896,682</u>	\$ <u>490,456</u>

### 18. CONTRACTUAL OBLIGATIONS - ONTARIO CLEAN WATER AGENCY

- (a) In accordance with service agreements entered into with the Ontario Clean Water Agency ("OCWA"), a portion of the sewage and water system is operated by the Agency. The municipality is obligated to meet all operating costs and repay the long-term liabilities related to these projects.

The Consolidated Statement of Financial Position reflects the long term liabilities due to the Agency for the sewer project in the amount of \$92,263 (2010 - \$108,628). The Consolidated Statement of Financial Position also reflects long term liabilities due to the Agency for the water project in the amount of \$49,596 (2010 - \$58,551).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2011 are charges for the operation of the water treatment plant in the amount of \$2,780,808 (2010 - \$2,790,906).

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

### 19. BUDGET VARIANCE

The following chart reconciles the 2011 budget with the 2011 actuals found in the consolidated statement of operations:

	2011 Budget	LAWSS adjusting entries	Addition, Deletion and Amortization entries	Employee furture benefits	2011 Revised budget	2011 Actual	Variance
<b>REVENUE</b>							
Property taxation	\$ 60,513,356	\$ -	\$ -	\$ -	\$ 60,513,356	\$ 60,492,939	\$ (20,417)
User fees and service charges	36,550,002	-	-	-	36,550,002	37,559,724	1,009,722
User fees and service - other municipalities	2,981,077	62,760	-	-	3,043,837	3,948,247	904,410
Government transfers - operating	1,254,650	-	-	-	1,254,650	1,143,563	(111,087)
Investment income	2,151,798	15,945	-	-	2,167,743	2,611,057	443,314
Penalty and interest on taxes	950,000	-	-	-	950,000	1,205,353	255,353
Gaming and casino revenues	1,500,000	-	-	-	1,500,000	1,491,906	(8,094)
Contributions - developers	-	-	-	-	-	329,201	329,201
Other	923,663	-	35,816	-	959,479	3,009,253	2,049,774
Total revenue	<u>\$ 106,824,546</u>	<u>\$ 78,705</u>	<u>\$ 35,816</u>	<u>\$ -</u>	<u>\$ 106,939,067</u>	<u>\$ 111,791,243</u>	<u>\$ 4,852,176</u>
<b>EXPENSES</b>							
General government	\$ 8,173,602	\$ -	\$ 1,002,879	\$ 6,429	\$ 9,182,910	\$ 8,476,651	\$ (706,259)
Protection services	36,826,839	-	902,295	16,535	37,745,669	38,772,843	1,027,174
Transportation services	17,142,345	-	6,215,334	8,677	23,366,356	21,290,691	(2,075,665)
Environmental services	18,205,569	954,185	6,005,291	9,731	25,174,776	26,220,537	1,045,761
Health services	87,200	-	-	-	87,200	87,200	-
Social and family services	348,614	-	-	7,671	356,285	367,988	11,703
Recreation and cultural services	7,274,463	-	1,186,640	10,883	8,471,986	8,708,860	236,874
Planning and development	1,175,157	-	-	5,921	1,181,078	1,786,528	605,450
Non-functionalized unfunded liability	-	-	-	1,522,200	1,522,200	1,522,200	-
Total	<u>\$ 89,233,789</u>	<u>\$ 954,185</u>	<u>\$ 15,312,439</u>	<u>\$ 1,588,047</u>	<u>\$ 107,088,460</u>	<u>\$ 107,233,498</u>	<u>\$ 145,038</u>
<b>NET EXPENSE</b>	<u>\$ 17,590,757</u>	<u>\$ (875,480)</u>	<u>\$ (15,276,623)</u>	<u>\$ (1,588,047)</u>	<u>\$ (149,393)</u>	<u>\$ 4,557,745</u>	<u>\$ 4,707,138</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

### 20. EXPENDITURE BY OBJECT

The following is a summary of the total current expenditures on the Consolidated Statement of Operations by the object of expenditures:

	<b>2011</b>	<b>2010</b>
Salaries, wages and employee benefits	\$ 61,238,402	\$ 58,187,039
Net long-term debt interest charges	2,562,319	2,887,597
Materials and supplies	17,901,775	22,709,364
Contracted services	9,941,686	9,117,270
Amortization	<u>14,833,820</u>	<u>14,953,332</u>
Total	<u>\$ 106,478,002</u>	<u>\$ 107,854,602</u>

### 21. GOVERNMENT TRANSFERS

	<b>2011</b>	<b>2010</b>
Operating		
Province of Ontario		
OMPF - Unconditional	\$ 164,200	\$ 182,400
Program Support	570,453	409,171
Provincial Gas Tax	<u>360,868</u>	<u>384,135</u>
	1,095,521	975,706
Government of Canada		
Program Support	<u>48,042</u>	<u>24,500</u>
Total Operating	<u>1,143,563</u>	<u>1,000,206</u>
Capital		
Province of Ontario		
Provincial Gas Tax	38,251	365,959
Ministry of Transportation	151,851	332,742
Ministry of Finance - JEPP	-	4,327
ISF	803,504	2,264,576
RinC	49,658	246,704
COMRIF	-	70,610
CSIF	-	582,584
Drainage Grants	<u>(3,585)</u>	<u>105,037</u>
	1,039,679	3,972,539
Government of Canada		
Federal Gas Tax	1,534,089	1,896,780
ACAP	174,591	241,707
ISF	803,504	2,264,576
RinC	49,658	246,704
COMRIF	-	70,610
CSIF	<u>3,532,698</u>	<u>4,483,801</u>
	<u>6,094,540</u>	<u>9,204,178</u>
Total Capital	<u>7,134,219</u>	<u>13,176,717</u>
Total Government Transfers	<u>\$ 8,277,782</u>	<u>\$ 14,176,923</u>

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 22. SEGMENTED REPORTING

The City of Sarnia has adopted a business approach to the various responsibilities carried out by the municipality and has separated the financial transactions of the current fund to better reflect the true cost of each segment. The following provides a brief description of the individual segments used.

#### **General Government**

General Government is comprised of various departments including the Clerk's, Finance and Taxation, Legal, Human Resources, Information Technology and Economic Development departments. These departments support and provide a variety of services to other departments within the municipality and the public.

#### **Protection Services**

Protection services is comprised of the Police Services and Fire Services departments. The Police Services mandate is to ensure public safety within the municipality. Through patrols, detective, education, and other efforts the police department works to deter and prevent crime. The Sarnia Fire Rescue Service serves the residents of the City of Sarnia by providing fire prevention, public education and fire suppression services. It operates out of five stations covering an area of 168 square kilometres and over 72,000 residents. The services provided range from fire suppression and prevention, land-based water rescue, high-angle, confined space, specialized vehicle extrication and industrial firefighting.

#### **Transportation Services**

Transportation Services consists of road maintenance and construction as well as Sarnia Transit, winter control, parking, and streetlighting. Sarnia Transit is responsible for providing public transportation within the transit service area of the city. Our employees operate and maintain a fleet of 25 buses on the conventional transit system and 6 specialized vehicles on our Care-a-Van service. Road maintenance and construction maintains approximately 460 kilometres of road and takes care of pothole maintenance, hot mix patching, paving, street cleaning, signage, and winter control.

#### **Environmental Services**

Environmental Services consists of sanitary sewer, storm sewer maintenance, waterworks system construction and maintenance, waste collection, waste disposal, and recycling. The sewage division constructs and maintains the City's storm and sanitary sewage systems. Environmental Services also ensures the maintenance and proper operation of 51 sewage pump stations, and catch basins. The municipality also runs and maintains a wastewater treatment plant.

#### **Health Services**

Health Services consists of grants to the Physician Recruitment Taskforce and Bluewater Health Foundation.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### 22. SEGMENTED REPORTING - continued

#### **Social and Family Services**

Social and Family Services consists of the Strangway Centre and general assistance. The Strangway Centre provides leisure, educational and social activities and services.

#### **Recreation and Cultural Services**

Recreation and Cultural Services provide for all of the City's parks, trees, floral displays, sports and recreation facilities, beaches, pools, arenas, special events and more. Numerous recreational programs are offered throughout the year for the enjoyment of the general public.

#### **Planning and Development**

Planning and development's function is to assist City Council, the development community and the public in matters relating to land use planning, building construction and by-law enforcement.

### 23. OUTSTANDING LITIGATION

The municipality and/or its related board have been named defendants in certain legal actions. The final liability, if any, of these claims is indeterminable as the municipality and/or its related board have established defence actions.

### 24. CONTINGENCIES AND COMMITMENTS

- (a) A settlement with respect to a mortgage receivable held by the municipality in the amount of \$3,390,812 saw the municipality foreclose upon the mortgage in 2003 and receive title to approximately 87.6 acres of future residential land with 5 acres of land being retained by the mortgagee. As the mortgage balance recoverable was contingent upon development requirements, it has not been included in the accompanying Consolidated Statement of Financial Position. During 2009, the City sold 43.64 acres of the land to a private developer. During 2011, the City sold another 18.42 acres of the land to a private developer and 6.80 acres to the MTO. The City has retained ownership to the remaining 18.42 acres. The net proceeds on disposition of the 25.22 acres was recorded in the Reserve Funds and Reserves as per Council resolution.
- (b) The municipality has guaranteed a bank loan with respect to the private company that operates the multi-use sports and entertainment complex on behalf of the municipality. The balance of the demand loan outstanding as at December 31, 2011 was \$1,817,150 (2010 - \$1,871,288). This loan was refinanced in 2006 with the amount repayable of \$2,100,000 amortized over 25 years at an interest rate of 5.23%.

# CORPORATION OF THE CITY OF SARNIA

## Notes to the Consolidated Financial Statements year ended December 31, 2011

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### **25. PUBLIC LIABILITY INSURANCE**

In recent years, there have been substantial increases in the premiums charged by the insurance industry for public liability insurance. As a result, the municipality has undertaken some portion of the risk which would normally have been covered by outside insurers.

The municipality is self-insured for public liability claims up to \$25,000 for any individual claim and \$25,000 for any number of claims arising out of a single occurrence. Outside coverage is in place for claims in excess of these limits.

The municipality has made provision for a reserve fund for self-insurance which at December 31, 2011 amounted to \$97,947 (2010 - \$120,165) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$499,146 (2010 - \$550,649), have been provided for from the reserve fund and are accordingly reported as an expenditure on the Consolidated Statement of Operations.

### **26. PROPERTY TAX CAPPING**

The province has required municipalities to limit assessment related tax increases for individual, commercial, industrial and multi-residential properties to 10% for 2011 (2010 - 10%). The total amount of protection for these properties amounted to \$309,588 (2010 - \$283,848).

These tax reductions are funded on a pooled basis by the municipalities within the County of Lambton by limiting same class tax reductions.

### **27. RELATED PARTY TRANSACTIONS**

The municipality has contracted with Bluewater Power Distribution Corporation to provide billing and collection services for water and sewer charges on a cost recovery basis. The municipality has also contracted with Bluewater Power Distribution Corporation to provide water meter management, repair and replacement services. Charges for the year were \$893,882 (2010 - \$826,401)

**CORPORATION OF THE CITY OF SARNIA**

**Schedule A**

**Schedule of Segment Disclosure  
year ended December 31, 2011**

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2011 Total
<b>REVENUES</b>									
Taxation	\$ 57,170,238	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,170,238
Fees and service charges	845,945	1,886,798	6,923,367	28,659,823	-	178,833	2,494,432	1,883,642	42,872,840
Grants	226,793	406,085	2,397,833	5,064,472	-	64,524	121,661	(3,585)	8,277,783
Rents and financial	3,647,920	12,583	13,491	32,370	-	-	25,757	84,289	3,816,410
Other municipal	-	1,306,761	1,970,443	183,717	-	-	13,725	473,600	3,948,246
Other	6,317,074	33,697	47,609	1,233,228	-	109,589	274,750	1,245	8,017,192
	<u>68,207,970</u>	<u>3,645,924</u>	<u>11,352,743</u>	<u>35,173,610</u>	<u>-</u>	<u>352,946</u>	<u>2,930,325</u>	<u>2,439,191</u>	<u>124,102,709</u>
<b>EXPENSES</b>									
Salaries and benefits	5,983,414	34,904,475	9,877,427	5,000,464	-	194,236	4,520,763	757,623	61,238,402
Materials	1,339,967	3,391,339	5,909,283	3,860,444	-	157,927	2,442,279	800,536	17,901,775
Contracted services	271,689	120,400	349,684	9,168,136	-	-	-	31,777	9,941,686
Long-term debt - interest	16,274	29,200	51,300	1,852,904	-	-	403,264	209,377	2,562,319
Amortization	1,013,303	847,190	4,803,003	7,016,386	-	-	1,153,938	-	14,833,820
Other	1,312	351,245	546,474	192,780	87,200	20,671	301,426	6,121	1,507,229
	<u>8,625,959</u>	<u>39,643,849</u>	<u>21,537,171</u>	<u>27,091,114</u>	<u>87,200</u>	<u>372,834</u>	<u>8,821,670</u>	<u>1,805,434</u>	<u>107,985,231</u>
<b>NET SURPLUS (DEFICIT)</b>	<u>\$ 59,582,011</u>	<u>\$ (35,997,925)</u>	<u>\$ (10,184,428)</u>	<u>\$ 8,082,496</u>	<u>\$ (87,200)</u>	<u>\$ (19,888)</u>	<u>\$ (5,891,345)</u>	<u>\$ 633,757</u>	<u>\$ 16,117,478</u>

**CORPORATION OF THE CITY OF SARNIA**

**Schedule A**

**Schedule of Segment Disclosure  
year ended December 31, 2010**

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2010 Total
<b>REVENUES</b>									
Taxation	\$ 55,263,205	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,263,205
Fees and service charges	900,398	1,317,436	7,366,461	29,316,508	-	183,794	2,500,308	1,728,743	43,313,648
Grants	241,343	254,312	1,219,812	11,843,303	-	138,810	433,776	45,567	14,176,923
Rents and financial	3,053,576	6,865	708,976	16,103	-	-	25,242	40,695	3,851,457
Other municipal	2,945	1,222,281	798,647	731,831	-	-	-	459,800	3,215,504
Other	5,487,916	7,319	40,477	1,080,164	-	4,965	326,450	50,478	6,997,769
	<u>64,949,383</u>	<u>2,808,213</u>	<u>10,134,373</u>	<u>42,987,909</u>	<u>-</u>	<u>327,569</u>	<u>3,285,776</u>	<u>2,325,283</u>	<u>126,818,506</u>
<b>EXPENSES</b>									
Salaries and benefits	6,107,112	32,673,511	9,546,030	4,709,825	-	208,324	4,313,389	628,848	58,187,039
Materials	1,596,873	2,848,559	3,337,445	11,691,604	-	162,946	2,304,358	767,579	22,709,364
Contracted services	271,112	182,254	362,935	8,225,169	-	-	-	75,800	9,117,270
Long-term debt - interest	22,541	59,391	75,530	2,104,766	-	-	366,969	258,400	2,887,597
Amortization	988,068	910,397	5,328,372	6,614,784	-	-	1,111,711	-	14,953,332
Other	1,247,137	298,828	1,635,228	965,986	77,200	13,000	335,518	25,522	4,598,419
Unfunded liabilities	-	-	-	-	-	-	-	-	-
	<u>10,232,843</u>	<u>36,972,940</u>	<u>20,285,540</u>	<u>34,312,134</u>	<u>77,200</u>	<u>384,270</u>	<u>8,431,945</u>	<u>1,756,149</u>	<u>112,453,021</u>
<b>NET SURPLUS (DEFICIT)</b>	<u>\$ 54,716,540</u>	<u>\$ (34,164,727)</u>	<u>\$ (10,151,167)</u>	<u>\$ 8,675,775</u>	<u>\$ (77,200)</u>	<u>\$ (56,701)</u>	<u>\$ (5,146,169)</u>	<u>\$ 569,134</u>	<u>\$ 14,365,485</u>



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## Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the  
Corporation of the City of Sarnia

We have audited the accompanying trust fund financial statements of the Corporation of the City of Sarnia, which comprise the statement of financial position as at December 31, 2011, and the statement of continuity of trust funds for the year then ended, a summary of the significant accounting policy and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these trust fund 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of the trust funds of the Corporation of the City of Sarnia as at December 31, 2011 and the continuity of the trust funds for the year then ended in accordance with Canadian accounting standards for public sector accounting.

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario  
May 14, 2012

**CORPORATION OF THE CITY OF SARNIA  
TRUST FUNDS**

**Statement of Continuity of Trust Funds  
year ended December 31, 2011**

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	<b>Cemetery Care and Maintenance</b>	<b>Boarding Home Program</b>	<b>2011 Total</b>	<b>2010 Total</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	\$ <u>10,783</u>	\$ <u>72,741</u>	\$ <u>83,524</u>	\$ <u>85,886</u>
<b>REVENUES</b>				
Interest earned				
Investment income	<u>119</u>	<u>804</u>	<u>923</u>	<u>428</u>
Total revenues	<u>119</u>	<u>804</u>	<u>923</u>	<u>428</u>
<b>EXPENDITURES</b>				
Surplus returned	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,790</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,790</u>
<b>FUND BALANCES, END OF YEAR</b>	\$ <u>10,902</u>	\$ <u>73,545</u>	\$ <u>84,447</u>	\$ <u>83,524</u>

**CORPORATION OF THE CITY OF SARNIA  
TRUST FUNDS**

**Statement of Financial Position  
as at December 31, 2011**

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	<b>Cemetery Care and Maintenance</b>	<b>Boarding Home Program</b>	<b>2011 Total</b>	<b>2010 Total</b>
<b>ASSETS</b>				
Due from municipality	<u>10,902</u>	<u>73,545</u>	\$ <u>84,447</u>	\$ <u>83,524</u>
Total assets	\$ <u>10,902</u>	\$ <u>73,545</u>	\$ <u>84,447</u>	\$ <u>83,524</u>
<b>FUND BALANCES</b>	\$ <u>10,902</u>	\$ <u>73,545</u>	\$ <u>84,447</u>	\$ <u>83,524</u>

The accompanying notes are an integral part of this financial statement

# **CORPORATION OF THE CITY OF SARNIA TRUST FUNDS**

## **Notes to the Financial Statements year ended December 31, 2011**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY**

The Trust Fund financial statements are the representation of management and have been prepared in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Precise determination of some assets and liabilities may be dependent upon future events and involves the use of estimates and approximations. These estimates have been based upon the information available using careful judgment and review.

#### **(a) Basis of Accounting**

- i) Sources of financing and expenditures are reported on the accrual basis of accounting.
- ii) The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

### **2. NATURE OF TRUST FUNDS**

The Cemetery Care and Maintenance trust fund was established in accordance with the Cemeteries Act for the care and maintenance of certain cemetery grounds.

The Boarding Home Program trust fund was established by the Ministry of Health in order to provide municipalities with funds to be used for loans to owners of existing boarding, lodging or rooming houses which provide a home for former psychiatric patients in order that the houses can be upgraded to meet the Ontario Building Code, Ontario Fire Code and Local Housing Standards.