



CITY OF SARNIA

**THE CORPORATION OF
THE CITY OF SARNIA**

FINANCIAL STATEMENTS

2012

CORPORATION OF THE CITY OF SARNIA

2012

CITY COUNCIL

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

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

2012

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, 2012

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Sarnia ON N7T 7J7 Canada

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 consolidated financial statements of the Corporation of the City of Sarnia, which comprise the consolidated statement of financial position as at December 31, 2012 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Sarnia as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
May 13, 2013

CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Financial Position as at December 31, 2012

	2012	2011 restated
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 30,284,833	\$ 24,659,454
Taxes receivable	9,006,350	7,866,084
Accounts receivable	14,020,729	15,139,124
Long-term receivables (note 5)	757,386	898,672
Investment in Sarnia Power Corporation (note 6)	<u>47,242,937</u>	<u>45,248,603</u>
Total financial assets	<u>101,312,235</u>	<u>93,811,937</u>
LIABILITIES		
Accounts payable and accrued liabilities	9,722,040	11,393,639
Other current liabilities	5,688,534	5,896,184
Deferred revenue (note 8)	12,377,274	10,569,225
Net long-term liabilities (note 9)	33,913,748	40,394,916
Interest on net long-term liabilities (note 10)	173,459	226,746
Landfill closure and post closure costs (note 11)	266,592	279,429
Employee future benefits (note 12)	<u>26,775,403</u>	<u>25,121,137</u>
Total liabilities	<u>88,917,050</u>	<u>93,881,276</u>
NET FINANCIAL ASSETS (DEBT)	<u>12,395,185</u>	<u>(69,339)</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets (note 14)	509,043,617	513,516,290
Other assets	<u>5,165,490</u>	<u>5,236,643</u>
Total Non-Financial Assets	<u>514,209,107</u>	<u>518,752,933</u>
Accumulated Surplus (note 15)	<u>\$ 526,604,292</u>	<u>\$ 518,683,594</u>

Approved on behalf of City Council

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Operations year ended December 31, 2012

	2012 Budget	2012	2011 restated
REVENUE			
Property taxation	\$ 62,587,520	\$ 61,800,707	\$ 60,492,939
User fees and service charges	36,877,867	39,462,022	37,559,724
User fees and service charges - other municipalities	2,570,157	2,923,758	3,948,247
Government transfers-operating (note 21)	1,270,759	1,180,148	1,143,563
Investment income	2,211,798	2,709,281	2,611,057
Penalty and interest on taxes	950,000	1,216,605	1,205,353
Gaming and casino revenues	1,500,000	1,481,637	1,491,906
Contributions - developers	-	270,226	329,201
Other	<u>1,214,163</u>	<u>1,540,180</u>	<u>3,009,253</u>
Total revenue	<u>109,182,264</u>	<u>112,584,564</u>	<u>111,791,243</u>
EXPENSES			
General government	8,301,923	8,449,722	8,476,651
Protection services	38,094,363	39,148,039	38,772,843
Transportation services	17,497,713	19,669,995	21,290,691
Environmental services	18,137,621	31,638,113	26,105,133
Health services	87,200	87,200	87,200
Social and family services	330,930	362,628	367,988
Recreation and cultural services	7,262,565	8,765,080	8,708,860
Planning and development	1,168,994	1,607,590	1,786,528
Non-functionalized unfunded liability	<u>-</u>	<u>1,514,272</u>	<u>1,522,200</u>
Total expenses	<u>90,881,309</u>	<u>111,242,639</u>	<u>107,118,094</u>
Net revenue	<u>18,300,955</u>	<u>1,341,925</u>	<u>4,673,149</u>
OTHER			
Government transfers - capital (note 21)	-	3,176,169	7,134,219
Capital contributions - developers	-	489,842	1,661,214
Other related to capital	-	313,000	(22,806)
Donated assets	-	477,826	1,850,089
Share of LAWSS	-	127,602	(751,732)
Sarnia Power Corporation, net change in equity	<u>-</u>	<u>1,994,334</u>	<u>1,688,749</u>
	<u>-</u>	<u>6,578,773</u>	<u>11,559,733</u>
Annual Surplus	<u>\$ 18,300,955</u>	<u>\$ 7,920,698</u>	<u>\$ 16,232,882</u>
Accumulated Surplus, Beginning of Year		518,683,594	502,450,712
Accumulated Surplus, End of Year		<u>\$ 526,604,292</u>	<u>\$ 518,683,594</u>

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Change in Net Financial Assets (Debt) year ended December 31, 2012

	2012	2011 restated
Annual Surplus	\$ 7,920,698	\$ 16,232,882
Amortization of tangible capital assets	16,313,832	15,752,619
Proceeds from sale of tangible capital assets	42,000	90,000
Loss on sale of tangible capital assets	779,400	877,398
Acquisition of tangible capital assets	(12,662,559)	(23,566,300)
Change in other assets	<u>71,153</u>	<u>(166,062)</u>
Increase in Net Financial Assets	<u>12,464,524</u>	<u>9,220,537</u>
Net Financial Debt, Beginning of Year	<u>(69,339)</u>	<u>(9,289,876)</u>
Net Financial Assets (Debt), End of Year	<u>\$ 12,395,185</u>	<u>\$ (69,339)</u>

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Cash Flow year ended December 31, 2012

	2012	2011 restated
OPERATING ACTIVITIES		
Annual Surplus	\$ 7,920,698	\$ 16,232,882
Items not involving cash:		
Amortization of tangible capital assets	16,313,832	15,752,619
Loss on sale of tangible capital assets	779,400	877,398
Change in employee future benefits	1,654,266	1,548,873
Change in landfill closure and post closure costs	(12,837)	(12,054)
Change in non-cash assets and liabilities		
Taxes receivable	(1,140,266)	267,563
Accounts receivable	1,118,395	4,078,382
Accounts payable and accrued liabilities	(1,671,599)	(2,085,132)
Other current liabilities	(207,650)	1,674,258
Deferred revenue	1,808,049	516,619
Other assets	<u>71,153</u>	<u>(166,062)</u>
	<u>26,633,441</u>	<u>38,685,346</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	42,000	90,000
Acquisition of tangible capital assets	<u>(12,662,559)</u>	<u>(23,566,300)</u>
Net change in cash from capital activities	<u>(12,620,559)</u>	<u>(23,476,300)</u>
INVESTING ACTIVITIES		
Long term receivables	141,286	128,337
Investment in Sarnia Power Corporation	<u>(1,994,334)</u>	<u>(1,688,749)</u>
Net change in cash from investing activities	<u>(1,853,048)</u>	<u>(1,560,412)</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(53,287)	(14,162)
Long-term debt repaid	(6,323,039)	(6,514,636)
Share of LAWSS debt adjustment	<u>(158,129)</u>	<u>891,188</u>
Net decrease in cash from financing	<u>(6,534,455)</u>	<u>(5,637,610)</u>
Net change in cash and equivalents	5,625,379	8,011,024
Cash and cash equivalents, beginning of year	<u>24,659,454</u>	<u>16,648,430</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 30,284,833</u>	<u>\$ 24,659,454</u>

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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 2nd 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 2012, the municipality's share of the System was 62.81% (2011 – 63.78%). 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, 2012

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, 2012

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 2012, tangible capital assets with a value of \$477,826 were contributed by developers to the City (2011 - \$1,850,089). 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, 2012

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 2012 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, 2012

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	\$ 27,763,141	\$ 34,295,718	\$ 62,058,859
Share of payments in lieu of taxes	<u>37,862</u>	<u>347,610</u>	<u>385,472</u>
	<u>27,801,003</u>	<u>34,643,328</u>	<u>62,444,331</u>
Share of taxes written off	1,019,576	510,072	1,529,648
Share of tax rebates	<u>269,844</u>	<u>204,468</u>	<u>474,312</u>
	<u>1,289,420</u>	<u>714,540</u>	<u>2,003,960</u>
Amounts transferred	<u>\$ 26,511,583</u>	<u>\$ 33,928,788</u>	<u>\$ 60,440,371</u>

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$11,023 (2011 - \$84,447) 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:

	2012	2011
Cemetery Care and Maintenance	\$ 11,023	\$ 10,902
Boarding Home Program	<u>-</u>	<u>73,545</u>
	<u>\$ 11,023</u>	<u>\$ 84,447</u>

4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2012	2011
Cash on hand	\$ 64,131	\$ 79,160
Cash in bank	29,108,702	23,457,294
Investments	<u>1,112,000</u>	<u>1,123,000</u>
	<u>\$ 30,284,833</u>	<u>\$ 24,659,454</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 eleven GICs, recorded at cost, with effective interest rates between 1.40% and 1.80% maturing in 2013. The market value of these investments amounted to \$1,112,000 (2011 - \$1,123,000). Interest is receivable on an annual basis.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

5. LONG-TERM RECEIVABLES

	2012	2011
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.	\$ 149,999	\$ 171,370
Loans receivable – employees re Ontario Police College, repayable over 2 years with no interest	31,298	36,058
Loan receivable, at 4.50%, repayable in monthly installments of \$1,898 with final payment due July 2023	191,522	205,339
Loans receivable - employee purchase plan, repayable over one or two years with no interest	82,023	76,965
Long-term mortgage receivable, at 0% interest, repayable over 20 years at \$30,000 per year	100,000	130,000
Loan receivable, at 0% interest, repayable over 10 years at \$15,000 per year, forgivable based on continuation of annual Celebration of Lights display	45,000	60,000
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 \$15,988 with a final installment due September 1, 2022	<u>352,470</u>	<u>417,890</u>
	1,003,598	1,148,908
Current portion included in accounts receivable	<u>246,212</u>	<u>250,236</u>
Total long-term receivables	<u>\$ 757,386</u>	<u>\$ 898,672</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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:

	2012	2011
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>14,946,675</u>	<u>12,952,341</u>
	<u>\$ 47,242,937</u>	<u>\$ 45,248,603</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 (2011 - \$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, 2012

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:

	2012	2011
Financial Position		
Assets		
Current assets	\$ 28,620,350	\$ 28,287,879
Long-term assets	<u>63,823,180</u>	<u>63,936,909</u>
Total assets	<u>\$ 92,443,530</u>	<u>\$ 92,224,788</u>
Liabilities		
Current liabilities	\$ 17,745,614	\$ 18,512,120
Long-term liabilities	39,237,951	40,570,348
Non-controlling interest	<u>4,946,663</u>	<u>4,623,352</u>
Total liabilities	<u>61,930,228</u>	<u>63,705,820</u>
Equity		
Share capital	15,566,626	15,566,626
Retained earnings	<u>14,946,676</u>	<u>12,952,342</u>
Total equity	<u>30,513,302</u>	<u>28,518,968</u>
Total liabilities and equity	<u>\$ 92,443,530</u>	<u>\$ 92,224,788</u>
Results of Operations		
Revenues	\$ 85,886,776	\$ 87,639,940
Operating expenses	<u>82,376,931</u>	<u>84,606,030</u>
Net income before non-controlling interest	3,509,845	3,033,910
Non-controlling interest	<u>489,623</u>	<u>423,230</u>
Net income	<u>\$ 3,020,222</u>	<u>\$ 2,610,680</u>

(a) Continuity of Investment

	2012	2011
Balance, beginning of year	\$ <u>45,248,603</u>	\$ <u>43,559,854</u>
Net income for the year	3,020,222	2,610,680
Dividends received during the year	<u>(1,025,888)</u>	<u>(921,931)</u>
Net increase in equity during the year	<u>1,994,334</u>	<u>1,688,749</u>
Balance, end of year	<u>\$ 47,242,937</u>	<u>\$ 45,248,603</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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, 2012. Amounts obtained under this credit are due on demand and bear interest at the bank's prime rate less .65%, calculated and payable monthly. NIL has been drawn on this line as of December 31, 2012.

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.

	2012	2011
Development Charges Act	\$ 7,327,026	\$ 6,676,366
Recreational land (The Planning Act)	126,569	141,384
Gasoline Tax - Canada	2,778,864	1,471,780
Gasoline Tax - Ontario	1,913,716	1,496,539
Building Permit (Building Code Act)	<u>231,099</u>	<u>783,156</u>
Total	<u>\$ 12,377,274</u>	<u>\$ 10,569,225</u>

Total activities for the above items is summarized as follows:

	2012	2011
Balance, beginning of the year	\$ <u>10,569,225</u>	\$ <u>10,052,606</u>
Developer contributions received	610,864	1,340,527
Canada grants	2,190,778	2,190,778
Ontario grants	932,852	934,608
Interest earned	125,082	115,949
Provincial Gasoline Tax funding utilized	(535,146)	(434,694)
Funds earned by municipality	<u>(1,516,381)</u>	<u>(3,630,549)</u>
Net increase	<u>1,808,049</u>	<u>516,619</u>
Balance, end of the year	<u>\$ 12,377,274</u>	<u>\$ 10,569,225</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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:

	2012	2011
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	\$ 33,943,806	\$ 40,429,259
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>(30,058)</u>	<u>(34,343)</u>
Net long-term liabilities, end of the year	\$ <u>33,913,748</u>	\$ <u>40,394,916</u>

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

2013	\$ 6,212,760
2014	5,265,075
2015	4,609,385
2016	3,897,670
2017	4,136,099
2018 to 2022	6,860,122
2023 onwards	<u>2,932,637</u>
	\$ <u>33,913,748</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:

	2012	2011
Installment (serial) debentures	\$ 10,422,741	\$ 12,198,617
Long-term bank loans	23,377,198	28,054,439
Ontario Clean Water Agency (OCWA)	<u>113,809</u>	<u>141,860</u>
Net long-term liabilities, end of year	\$ <u>33,913,748</u>	\$ <u>40,394,916</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, 2012

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, 2012 is \$30,058 (2011 - \$34,343) 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:

	2012	2011
Balance, beginning of year	\$ 40,394,916	\$ 46,018,364
Principal payments	(6,323,039)	(6,514,636)
Adjustment to City share of LAWSS debt	<u>(158,129)</u>	<u>891,188</u>
Balance, end of year	<u>\$ 33,913,748</u>	<u>\$ 40,394,916</u>

Interest payments related to net long-term liabilities in the current year were \$2,100,283 (2011 - \$2,562,319).

- (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 \$5,387,599 (2011 - \$5,577,772) 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 \$173,459 (2011 - \$226,746) 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, 2012

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 \$266,592 (2011 - \$279,429) 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.

	2012	2011
Sick leave benefit plan	\$ 2,653,600	\$ 2,440,600
Future payments required to WSIB	7,734,011	7,666,139
Post retirement benefits	15,131,400	13,898,000
Accrued vacation pay	917,434	890,405
Accrued overtime pay	<u>338,958</u>	<u>225,993</u>
Total	<u>\$ 26,775,403</u>	<u>\$ 25,121,137</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, 2012	\$ 2,440,600
Current service cost	211,200
Interest on accrued benefit obligation	106,400
Benefit payments	<u>(104,600)</u>
Estimated benefit liability as at December 31, 2012	<u>\$ 2,653,600</u>

Reserve funds amounting to \$30,623 (2011 - \$30,285) 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, 2012

12. EMPLOYEE FUTURE BENEFITS - continued

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

2013	\$	591,478
2014		250,746
2015		8,716
2016		108,455
2017		<u>219,650</u>
Total	\$	<u>1,179,045</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 \$855,362 (2011 - \$847,862). 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 \$162,942 (2011 - \$302).

(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.

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

Accrued benefit liability as at January 1, 2012	\$	13,898,000
Current service cost		841,100
Interest cost		755,700
Amortization of actuarial experience loss		672,500
Estimated benefits paid		<u>(1,035,900)</u>
Estimated benefit liability as at December 31, 2012	\$	<u>15,131,400</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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, 2012	\$ <u>20,389,900</u>
Less unamortized amounts:	
Prior service costs	<u>5,258,500</u>
Post-retirement benefit liability as at December 31, 2012	\$ <u>15,131,400</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, 2012 is \$917,434 (2011 - \$890,405).

(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, 2012 is \$338,958 (2011 - \$225,993).

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 429,000 active and retired members and approximately 968 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, 2012. The results of this valuation disclosed total actuarial liabilities of \$69,122 million in respect of benefits accrued for service with actuarial assets at that date of \$59,198 million indicating an actuarial deficit of \$9,924 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 2012 was \$4,379,614 (2011 - \$4,012,597) for current service. The OMERS Board rate was 8.3% to 13.9% depending on income level for 2012 (2011 - 7.4% to 14.1% depending on income level).

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2012**

14. TANGIBLE CAPITAL ASSETS

2012

	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2012	2011
Cost													
Balance, beginning of year	\$ 124,892,614	\$ 26,239,965	\$ 85,111,956	\$ 68,466,417	\$ 26,210,162	\$ 2,503,972	\$ 211,158,344	\$ 124,090,003	\$ 42,767,015	\$ 71,642,122	\$ 6,564,711	\$ 789,647,281	\$ 767,976,842
Add: additions during the year	27,012	302,109	1,186,048	1,865,906	1,212,268	449,502	6,161,167	2,591,719	2,107,961	3,334,586	790,017	20,028,295	35,218,348
Less: disposals during the year	-	(56,138)	(146,345)	(312,713)	(239,200)	(17,200)	(1,275,426)	(193,954)	(123,478)	(244,832)	(6,463,393)	(9,072,679)	(19,643,494)
Other	(12,340)	(6,549)	(390,995)	(361)	-	-	-	(810,199)	-	-	(16,703)	(1,237,147)	6,095,585
Balance, end of year	124,907,286	26,479,387	85,760,664	70,019,249	27,183,230	2,936,274	216,044,085	125,677,569	44,751,498	74,731,876	874,632	799,365,750	789,647,281
Accumulated Amortization													
Balance, beginning of year	-	18,043,961	32,426,710	33,384,465	11,828,108	1,950,388	92,835,167	40,171,294	15,795,681	29,695,217	-	276,130,991	261,306,835
Add: amortization	-	1,242,048	1,874,174	2,753,755	1,583,437	190,766	4,864,099	1,778,075	720,159	1,307,319	-	16,313,832	15,752,619
Less: accumulated amortization on disposals	-	(39,500)	(72,614)	(308,318)	(210,840)	(17,200)	(765,541)	(139,127)	(86,982)	(147,764)	-	(1,787,886)	(2,512,650)
Other	-	(5,103)	(142,821)	(220)	-	-	-	(186,660)	-	-	-	(334,804)	1,584,187
Balance, end of year	-	19,241,406	34,085,449	35,829,682	13,200,705	2,123,954	96,933,725	41,623,582	16,428,858	30,854,772	-	290,322,133	276,130,991
Net book value of tangible capital assets	\$ 124,907,286	\$ 7,237,981	\$ 51,675,215	\$ 34,189,567	\$ 13,982,525	\$ 812,320	\$ 119,110,360	\$ 84,053,987	\$ 28,322,640	\$ 43,877,104	\$ 874,632	\$ 509,043,617	\$ 513,516,290

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2012**

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
Cost													
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)
Balance, end of year	124,892,614	26,239,965	85,111,956	68,466,417	26,210,162	2,503,972	211,158,344	124,090,003	42,767,015	71,642,122	6,564,711	789,647,281	767,976,842
Accumulated Amortization													
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)
Balance, end of year	-	18,043,961	32,426,710	33,384,465	11,828,108	1,950,388	92,835,167	40,171,294	15,795,681	29,695,217	-	276,130,991	261,306,835
Net book value of tangible capital assets	\$ 124,892,614	\$ 8,196,004	\$ 52,685,246	\$ 35,081,952	\$ 14,382,054	\$ 553,584	\$ 118,323,177	\$ 83,918,709	\$ 26,971,334	\$ 41,946,905	\$ 6,564,711	\$ 513,516,290	\$ 506,670,007

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

15. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2012	2011 restated
Investment in tangible capital assets	\$ 509,043,617	\$ 513,516,290
Investment in land inventories held for sale	4,560,540	4,560,540
Capital fund	1,523,428	3,044,980
Reserves and reserve funds	25,362,972	18,335,409
Equity in Sarnia Power Corporation	47,242,937	45,248,603
Less: unfunded liabilities	<u>(61,129,202)</u>	<u>(66,022,228)</u>
Accumulated Surplus	<u>\$ 526,604,292</u>	<u>\$ 518,683,594</u>

16. RESERVES AND RESERVE FUNDS

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

	2012	2011 restated
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 2,143,997	\$ 2,218,689
replacement of equipment	3,963,154	3,510,706
capital projects	12,330,733	6,350,527
other	<u>465,442</u>	<u>454,261</u>
Total reserves	<u>\$ 18,903,326</u>	<u>\$ 12,534,183</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 30,623	\$ 30,285
self-insurance	358,645	97,947
Workplace Safety and Insurance Board	162,942	302
sub-division development	45,173	45,173
parking revenues	1,751	1,732
watermain construction	148,486	199,960
waterfront development	239,327	186,332
Sarnia Bay improvements	169,758	190,064
operation of Airport	300,405	307,796
capital projects	3,346,169	3,178,906
special projects	1,481,142	1,416,400
legacy	72,533	69,550
other current purposes	<u>102,692</u>	<u>76,779</u>
Total discretionary reserve funds	<u>\$ 6,459,646</u>	<u>\$ 5,801,226</u>
Total reserves and reserve fund balances, end of year	<u>\$ 25,362,972</u>	<u>\$ 18,335,409</u>

The municipality is committed to pay the interest earned on approximately \$900,405 of the reserve funds to outside agencies.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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 62.81% (2011 - 63.78%) proportionate interest of the following:

	2012	2011
Statement of Financial Position		
Financial Assets	\$ <u>3,767,135</u>	\$ <u>3,417,820</u>
Liabilities		
Current liabilities	\$ 210,925	\$ 270,714
Long-term liabilities	<u>14,069,000</u>	<u>16,302,000</u>
Total liabilities	<u>14,279,925</u>	<u>16,572,714</u>
Net Financial Debt	(10,512,790)	(13,154,894)
Non-Financial Assets		
Tangible Capital Assets	<u>90,762,625</u>	<u>91,570,469</u>
Accumulated Surplus	\$ <u>80,249,835</u>	\$ <u>78,415,575</u>
Statement of Operations		
Revenues	\$ 9,725,526	\$ 9,499,699
Expenses - excluding amortization	6,073,568	6,750,786
Amortization	<u>1,817,698</u>	<u>1,852,231</u>
Net revenues	\$ <u>1,834,260</u>	\$ <u>896,682</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 \$74,093 (2011 - \$92,263). The Consolidated Statement of Financial Position also reflects long term liabilities due to the Agency for the water project in the amount of \$39,717 (2011 - \$49,596).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2012 are charges for the operation of the water treatment plant in the amount of \$2,424,473 (2011 - \$2,780,808).

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2012**

19. BUDGET VARIANCE

The following chart reconciles the 2012 budget with the 2012 actuals found in the consolidated statement of operations:

	2012 Budget	LAWSS adjusting entries	Addition, Deletion and Amortization entries	Employee furture benefits	2012 Revised budget	2012 Actual	Variance
REVENUE							
Property taxation	\$ 62,587,520	\$ -	\$ -	\$ -	\$ 62,587,520	\$ 61,800,707	\$ (786,813)
User fees and service charges	36,877,867	-	-	-	36,877,867	39,462,022	2,584,155
User fees and service charges - other municipalities	2,570,157	3,778,128	-	-	6,348,285	2,923,758	(3,424,527)
Government transfers - operating	1,270,759	-	-	-	1,270,759	1,180,148	(90,611)
Investment income	2,211,798	5,904	-	-	2,217,702	2,709,281	491,579
Penalty and interest on taxes	950,000	-	-	-	950,000	1,216,605	266,605
Gaming and casino revenues	1,500,000	-	-	-	1,500,000	1,481,637	(18,363)
Contributions - developers	-	-	-	-	-	270,226	270,226
Other	1,214,163	-	-	-	1,214,163	1,540,180	326,017
Total revenue	<u>\$ 109,182,264</u>	<u>\$ 3,784,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,966,296</u>	<u>\$ 112,584,564</u>	<u>\$ (381,732)</u>
EXPENSES							
General government	\$ 8,301,923	\$ -	\$ 1,086,318	\$ (2,308)	\$ 9,385,933	\$ 8,449,722	\$ (936,211)
Protection services	38,094,363	-	615,151	18,915	38,728,429	39,148,039	419,610
Transportation services	17,497,713	-	6,469,416	71,403	24,038,532	19,669,995	(4,368,537)
Environmental services	18,137,621	4,502,892	6,233,753	(45,188)	28,829,078	31,638,113	2,809,035
Health services	87,200	-	-	-	87,200	87,200	-
Social and family services	330,930	-	-	14,357	345,287	362,628	17,341
Recreation and cultural services	7,262,565	-	1,137,901	24,921	8,425,387	8,765,080	339,693
Planning and development	1,168,994	-	-	(8,230)	1,160,764	1,607,590	446,826
Non-functionalized unfunded liability	-	-	(224,691)	1,514,273	1,289,582	1,514,272	224,690
Total	<u>\$ 90,881,309</u>	<u>\$ 4,502,892</u>	<u>\$ 15,317,848</u>	<u>\$ 1,588,143</u>	<u>\$ 112,290,192</u>	<u>\$ 111,242,639</u>	<u>\$ (1,047,553)</u>
NET EXPENSE	<u>\$ 18,300,955</u>	<u>\$ (718,860)</u>	<u>\$ (15,317,848)</u>	<u>\$ (1,588,143)</u>	<u>\$ 676,104</u>	<u>\$ 1,341,925</u>	<u>\$ 665,821</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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:

	2012	2011
Salaries, wages and employee benefits	\$ 62,891,296	\$ 61,238,402
Net long-term debt interest charges	2,061,072	2,562,319
Materials and supplies	18,958,408	17,901,775
Contracted services	9,638,479	9,826,282
Amortization	<u>16,313,831</u>	<u>14,833,820</u>
Total	<u>\$ 109,863,086</u>	<u>\$ 106,362,598</u>

21. GOVERNMENT TRANSFERS

	2012	2011
Operating		
Province of Ontario		
OMPF - Unconditional	\$ 301,400	\$ 164,200
Program Support	510,104	570,453
Provincial Gas Tax	<u>319,250</u>	<u>360,868</u>
	1,130,754	1,095,521
Government of Canada		
Program Support	<u>49,394</u>	<u>48,042</u>
Total Operating	<u>1,180,148</u>	<u>1,143,563</u>
Capital		
Province of Ontario		
Provincial Gas Tax	185,924	38,251
Ministry of Transportation	-	151,851
Ministry of Finance - JEPP	4,227	-
ISF	154,833	803,504
RinC	-	49,658
Drainage Grants	<u>141,463</u>	<u>(3,585)</u>
	486,447	1,039,679
Government of Canada		
Federal Gas Tax	883,695	1,534,089
ACAP	-	174,591
ISF	154,833	803,504
RinC	-	49,658
CSIF	1,552,946	3,532,698
MASAS	<u>98,248</u>	<u>-</u>
	<u>2,689,722</u>	<u>6,094,540</u>
Total Capital	<u>3,176,169</u>	<u>7,134,219</u>
Total Government Transfers	<u>\$ 4,356,317</u>	<u>\$ 8,277,782</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2012

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 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, 2012

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, 2012 was \$1,760,113 (2011 - \$1,817,150). 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, 2012

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, 2012 amounted to \$358,645 (2011 - \$97,947) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$300,590 (2011 - \$499,146), 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 2012 (2011 - 10%). The total amount of protection for these properties amounted to \$22,948 (2011 - \$309,588).

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 \$932,129 (2011 - \$893,882)

28. ACCOUNTING CHANGES - PRIOR PERIOD CORRECTION

LAWSS 2011 ACCOUNTS RECEIVABLE

This prior period adjustment in the amount of \$115,404 impacts Note 15 and Note 16 found on page 25. The amounts that are presented for comparative purposes have been restated to correct this error as follows:

	As Reported	Change	Restated
As at December 31,2011			
Accounts receivable	\$ 15,023,720	\$ 115,404	\$ 15,139,124
Environmental services	26,220,537	(115,404)	26,105,133
Accumulated surplus	518,568,190	115,404	518,683,594
As at December 31, 2011			
Reserves and reserve funds	18,220,005	115,404	18,335,409
Reserves - Capital projects	6,235,123	115,404	6,350,527

CORPORATION OF THE CITY OF SARNIA

Schedule A

**Schedule of Segment Disclosure
year ended December 31, 2012**

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2012 Total
REVENUES									
Taxation	\$ 58,354,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,354,976
Fees and service charges	869,675	1,619,644	7,203,147	30,695,886	-	162,975	2,445,275	671,218	43,667,820
Grants	328,362	418,335	871,893	2,436,640	-	65,260	20,000	215,829	4,356,319
Rents and financial	3,766,664	8,148	59,224	48,651	-	-	33,056	10,142	3,925,885
Other municipal	-	1,378,329	703,873	470,553	-	-	14,605	484,000	3,051,360
Other	4,012,353	109,070	26,661	1,071,750	-	7,196	571,452	8,495	5,806,977
	<u>67,332,030</u>	<u>3,533,526</u>	<u>8,864,798</u>	<u>34,723,480</u>	<u>-</u>	<u>235,431</u>	<u>3,084,388</u>	<u>1,389,684</u>	<u>119,163,337</u>
EXPENSES									
Salaries and benefits	6,177,426	35,563,575	10,315,085	5,282,388	-	192,184	4,545,584	815,054	62,891,296
Materials	887,876	3,239,853	2,646,390	8,860,935	-	155,063	2,516,067	652,224	18,958,408
Contracted services	452,343	157,559	351,248	8,664,728	-	-	569	12,032	9,638,479
Long-term debt - interest	9,116	11,260	32,818	1,475,533	-	-	374,933	157,412	2,061,072
Amortization	1,086,318	802,872	5,962,173	7,279,445	-	-	1,183,023	-	16,313,831
Other	(3,405)	290,182	585,488	145,160	87,200	20,357	262,601	(8,030)	1,379,553
	<u>8,609,674</u>	<u>40,065,301</u>	<u>19,893,202</u>	<u>31,708,189</u>	<u>87,200</u>	<u>367,604</u>	<u>8,882,777</u>	<u>1,628,692</u>	<u>111,242,639</u>
NET SURPLUS (DEFICIT)	<u>\$ 58,722,356</u>	<u>\$ (36,531,775)</u>	<u>\$ (11,028,404)</u>	<u>\$ 3,015,291</u>	<u>\$ (87,200)</u>	<u>\$ (132,173)</u>	<u>\$ (5,798,389)</u>	<u>\$ (239,008)</u>	<u>\$ 7,920,698</u>

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
REVENUES									
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>
EXPENSES									
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	9,052,732	-	-	-	31,777	9,826,282
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>26,975,710</u>	<u>87,200</u>	<u>372,834</u>	<u>8,821,670</u>	<u>1,805,434</u>	<u>107,869,827</u>
NET SURPLUS (DEFICIT)	<u>\$ 59,582,011</u>	<u>\$ (35,997,925)</u>	<u>\$ (10,184,428)</u>	<u>\$ 8,197,900</u>	<u>\$ (87,200)</u>	<u>\$ (19,888)</u>	<u>\$ (5,891,345)</u>	<u>\$ 633,757</u>	<u>\$ 16,232,882</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, 2012 and the statement of continuity of trust funds 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 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, 2012 and the continuity of the trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
May 13, 2013

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

**Statement of Continuity of Trust Funds
year ended December 31, 2012**

	Cemetery Care and Maintenance	Boarding Home Program	2012 Total	2011 Total
FUND BALANCES, BEGINNING OF YEAR	\$ <u>10,902</u>	\$ <u>73,545</u>	\$ <u>84,447</u>	\$ <u>83,524</u>
REVENUES				
Interest earned				
Investment income	<u>121</u>	<u>821</u>	<u>942</u>	<u>923</u>
Total revenues	<u>121</u>	<u>821</u>	<u>942</u>	<u>923</u>
EXPENDITURES				
Contribution to operations	<u>-</u>	<u>74,366</u>	<u>74,366</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>74,366</u>	<u>74,366</u>	<u>-</u>
FUND BALANCES, END OF YEAR	\$ <u>11,023</u>	\$ <u>-</u>	\$ <u>11,023</u>	\$ <u>84,447</u>

The accompanying notes are an integral part of this financial statement

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

**Statement of Financial Position
as at December 31, 2012**

	Cemetery Care and Maintenance	Boarding Home Program	2012 Total	2011 Total
ASSETS				
Due from municipality	\$ <u>11,023</u>	\$ <u>-</u>	\$ <u>11,023</u>	\$ <u>84,447</u>
Total assets	\$ <u>11,023</u>	\$ <u>-</u>	\$ <u>11,023</u>	\$ <u>84,447</u>
FUND BALANCES	\$ <u>11,023</u>	\$ <u>-</u>	\$ <u>11,023</u>	\$ <u>84,447</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, 2012

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. This program has ceased and the funding was transferred to the operating budget at the end of 2012.