



CITY OF SARNIA

THE CORPORATION OF
THE CITY OF SARNIA
FINANCIAL STATEMENTS
2013

CORPORATION OF THE CITY OF SARNIA

2013

CITY COUNCIL

Mayor	Mike Bradley
Councillors	Dave Boushy
	Andy Bruziewicz
	Terry Burrell
	Jim Foubister
	Anne Marie Gillis
	Mike Kelch
	Bev MacDougall
	Jon McEachran

CITY ADMINISTRATION

City Manager	Margaret Misek-Evans
City Solicitor/Clerk	Brian Knott
Director of Finance	Brian McKay
City Engineer	Andre Morin
Director of Planning & Building (acting)	Kevin Edwards / Alan Shaw
Director of Parks & Recreation	Ian Smith
Director of Transit	Jim Stevens
Fire Chief	John Kingyens
Chief of Police	Phil Nelson

CORPORATION OF THE CITY OF SARNIA

2013

POLICE SERVICES BOARD

Chairperson	Mayor Mike Bradley
Vice Chairperson	Sean Keane
Councillors	Andy Bruziewicz Scott Palko Dick Carpani
Secretary	Scott McEachran

SARNIA POWER CORPORATION

Chairperson	Firman Bentley
Vice Chairperson	Richard Grogan Glenn Jones

AUDITORS

BDO Canada LLP

CORPORATION OF THE CITY OF SARNIA

Financial Statements
year ended December 31, 2013

CONTENTS

	<u>Page</u>
CONSOLIDATED FINANCIAL STATEMENTS	
Auditor's Report	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Operations	6
Consolidated Statement of Change in Net Financial Assets	7
Consolidated Statement of Cash Flow	8
Notes to the Consolidated Financial Statements	9 - 33
Schedule of Segment Disclosure	34 - 35
TRUST FUND STATEMENTS	
Auditor's Report	36
Statement of Continuity of Trust Funds	37
Statement of Financial Position	38
Notes to the Financial Statements	39



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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 consolidated financial statements of the Corporation of the City of Sarnia, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations, change in net financial assets 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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
May 5, 2014

CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Financial Position as at December 31, 2013

	2013	2012
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 32,767,406	\$ 30,284,833
Taxes receivable	7,099,055	9,006,350
Accounts receivable	11,852,997	14,020,729
Long-term receivables (note 5)	588,154	757,386
Investment in Sarnia Power Corporation (note 6)	<u>49,861,538</u>	<u>47,242,937</u>
Total financial assets	<u>102,169,150</u>	<u>101,312,235</u>
LIABILITIES		
Accounts payable and accrued liabilities	13,628,718	9,722,040
Other current liabilities	5,974,460	5,688,534
Deferred revenue (note 8)	13,020,728	12,377,274
Net long-term liabilities (note 9)	27,270,664	33,913,748
Interest on net long-term liabilities (note 10)	138,093	173,459
Landfill closure and post closure costs (note 11)	252,920	266,592
Employee future benefits (note 12)	29,723,525	26,775,403
Accrued tax liabilities (note 14)	<u>800,000</u>	<u>-</u>
Total liabilities	<u>90,809,108</u>	<u>88,917,050</u>
NET FINANCIAL ASSETS	<u>11,360,042</u>	<u>12,395,185</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets (note 15)	504,200,103	509,043,617
Other assets	<u>5,474,110</u>	<u>5,165,490</u>
Total Non-Financial Assets	<u>509,674,213</u>	<u>514,209,107</u>
Accumulated Surplus (note 16)	<u>\$ 521,034,255</u>	<u>\$ 526,604,292</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, 2013

	2013 Budget	2013	2012
REVENUE			
Property taxation (note 14)	\$ 63,414,876	\$ 61,537,605	\$ 61,800,707
User fees and service charges	37,732,572	38,704,630	39,462,022
User fees and service charges - other municipalities	2,675,916	2,847,076	2,923,758
Government transfers-operating (note 22)	1,319,569	982,976	1,180,148
Investment income	2,181,798	2,717,484	2,709,281
Penalty and interest on taxes	1,120,000	487,187	1,216,605
Gaming and casino revenues	522,750	377,250	1,481,637
Contributions - developers	-	177,583	270,226
Other	<u>1,443,930</u>	<u>1,553,110</u>	<u>1,540,180</u>
Total revenue	<u>110,411,411</u>	<u>109,384,901</u>	<u>112,584,564</u>
EXPENSES			
General government	8,124,889	10,041,643	8,449,722
Protection services	39,170,274	41,193,493	39,148,039
Transportation services	15,003,029	20,347,617	19,669,995
Environmental services	22,200,033	37,157,580	31,638,113
Health services	87,200	87,625	87,200
Social and family services	349,858	492,266	362,628
Recreation and cultural services	7,227,149	9,205,301	8,765,080
Planning and development	1,163,389	1,385,297	1,607,590
Non-functionalized unfunded liability	<u>-</u>	<u>2,893,585</u>	<u>1,514,272</u>
Total expenses	<u>93,325,821</u>	<u>122,804,407</u>	<u>111,242,639</u>
Net revenue	<u>17,085,590</u>	<u>(13,419,506)</u>	<u>1,341,925</u>
OTHER			
Government transfers - capital (note 22)	-	2,629,163	3,176,169
Capital contributions - developers	-	422,131	489,842
Other related to capital	-	446,220	313,000
Donated assets	-	1,350,688	477,826
Share of LAWSS	-	382,666	127,602
Sarnia Power Corporation, net change in equity	<u>-</u>	<u>2,618,601</u>	<u>1,994,334</u>
	<u>-</u>	<u>7,849,469</u>	<u>6,578,773</u>
Annual Surplus (Deficit)	\$ <u>17,085,590</u>	\$ <u>(5,570,037)</u>	\$ <u>7,920,698</u>
Accumulated Surplus, Beginning of Year		526,604,292	518,683,594
Accumulated Surplus, End of Year		\$ <u>521,034,255</u>	\$ <u>526,604,292</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 year ended December 31, 2013

	2013	2012
Annual Surplus (Deficit)	\$ (5,570,037)	\$ 7,920,698
Amortization of tangible capital assets	16,643,961	16,313,832
Proceeds from sale of tangible capital assets	72,878	42,000
Loss on sale of tangible capital assets	729,501	779,400
Acquisition of tangible capital assets	(12,602,826)	(12,662,559)
Change in other assets	<u>(308,620)</u>	<u>71,153</u>
Increase in Net Financial Assets	<u>(1,035,143)</u>	<u>12,464,524</u>
Net Financial Assets (Debt), Beginning of Year	<u>12,395,185</u>	<u>(69,339)</u>
Net Financial Assets, End of Year	<u>\$ 11,360,042</u>	<u>\$ 12,395,185</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, 2013

	2013	2012
OPERATING ACTIVITIES		
Annual Surplus (Deficit)	\$ (5,570,037)	\$ 7,920,698
Items not involving cash:		
Amortization of tangible capital assets	16,643,961	16,313,832
Loss on sale of tangible capital assets	729,501	779,400
Change in employee future benefits	2,948,122	1,654,266
Change in landfill closure and post closure costs	(13,672)	(12,837)
Change in accrued tax liabilities	800,000	-
Change in non-cash assets and liabilities		
Taxes receivable	1,907,295	(1,140,266)
Accounts receivable	2,167,732	1,118,395
Accounts payable and accrued liabilities	3,906,678	(1,671,599)
Other current liabilities	285,926	(207,650)
Deferred revenue	643,454	1,808,049
Other assets	<u>(308,620)</u>	<u>71,153</u>
	<u>24,140,340</u>	<u>26,633,441</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	72,878	42,000
Acquisition of tangible capital assets	<u>(12,602,826)</u>	<u>(12,662,559)</u>
Net change in cash from capital activities	<u>(12,529,948)</u>	<u>(12,620,559)</u>
INVESTING ACTIVITIES		
Long-term receivables	169,232	141,286
Investment in Sarnia Power Corporation	<u>(2,618,601)</u>	<u>(1,994,334)</u>
Net change in cash from investing activities	<u>(2,449,369)</u>	<u>(1,853,048)</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(35,366)	(53,287)
Long-term debt repaid	(6,130,972)	(6,323,039)
Share of LAWSS debt adjustment	<u>(512,112)</u>	<u>(158,129)</u>
Net decrease in cash from financing	<u>(6,678,450)</u>	<u>(6,534,455)</u>
Net change in cash and equivalents	2,482,573	5,625,379
Cash and cash equivalents, beginning of year	<u>30,284,833</u>	<u>24,659,454</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 32,767,406</u>	<u>\$ 30,284,833</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, 2013

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 2013, the municipality's share of the System was 59.17% (2012 – 62.81%). 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, 2013

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	3 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, 2013

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 2013, tangible capital assets with a value of \$1,350,688 were contributed by developers to the City (2012 - \$477,826). 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. Assessments and related property taxes are also subject to appeal. Each year, management provides a best estimate of the affect of supplementary assessments and tax appeals on taxation revenue.

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, 2013

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) **Revenue Recognition**

User charges are recorded when the amount is determinable, collectability is assured and the services provided. Investment income is recorded as earned.

(vii) **Budget Figures**

City Council completes separate budget reviews for its operating and capital budgets each year. The approved operating budget for 2013 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, employee future benefits expense, solid waste landfill closure and post closure expenses, and consolidated revenue and expenses from LAWSS.

(viii) **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, 2013

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	\$ 26,651,908	\$ 34,614,464	\$ 61,266,372
Share of payments in lieu of taxes	<u>38,334</u>	<u>372,656</u>	<u>410,990</u>
	<u>26,690,242</u>	<u>34,987,120</u>	<u>61,677,362</u>
Share of taxes written off	1,227,112	1,038,843	2,265,955
Share of tax rebates	<u>141,272</u>	<u>77,588</u>	<u>218,860</u>
	<u>1,368,384</u>	<u>1,116,431</u>	<u>2,484,815</u>
Amounts transferred	<u>\$ 25,321,858</u>	<u>\$ 33,870,689</u>	<u>\$ 59,192,547</u>

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$11,147 (2012 - \$11,023) 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:

	2013	2012
Cemetery Care and Maintenance	\$ <u>11,147</u>	\$ <u>11,023</u>

4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2013	2012
Cash on hand	\$ 77,107	\$ 64,131
Cash in bank	31,563,131	29,108,702
Investments	<u>1,127,168</u>	<u>1,112,000</u>
	<u>\$ 32,767,406</u>	<u>\$ 30,284,833</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 1.41% and 1.90% maturing in 2014. The market value of these investments amounted to \$1,127,168 (2012 - \$1,112,000). Interest is receivable on an annual basis.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

5. LONG-TERM RECEIVABLES

	2013	2012
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.	\$ 127,668	\$ 149,999
Loans receivable – employees re Ontario Police College, repayable over 2 years with no interest	10,096	31,298
Loan receivable, at 4.50%, repayable in monthly installments of \$1,898 with final payment due July 2023	177,069	191,522
Loans receivable - employee purchase plan, repayable over one or two years with no interest	67,181	82,023
Long-term mortgage receivable, at 0% interest, repayable over 20 years at \$30,000 per year	70,000	100,000
Loan receivable, at 0% interest, repayable over 10 years at \$15,000 per year, forgivable based on continuation of annual Celebration of Lights display	30,000	45,000
Final lease payment, due December 31, 2030	51,286	51,286
Loans receivable, 1.125% to 2.75%, issued under Municipal Facade Improvement Program, due in quarterly installments including principal and interest of \$13,301 with a final installment due September 1, 2022	<u>243,971</u>	<u>352,470</u>
	777,271	1,003,598
Current portion included in accounts receivable	<u>189,117</u>	<u>246,212</u>
Total long-term receivables	<u>\$ 588,154</u>	<u>\$ 757,386</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

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:

	2013	2012
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>17,565,276</u>	<u>14,946,675</u>
	<u>\$ 49,861,538</u>	<u>\$ 47,242,937</u>

The notes receivable are unsecured and bear interest at the rate of 6.39%. Interest received from these notes receivable amounted to \$1,136,676 (2012 - \$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, 2013

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:

	2013	2012
Financial Position		
Assets		
Current assets	\$ 33,846,694	\$ 28,620,350
Long-term assets	<u>63,213,298</u>	<u>63,823,180</u>
Total assets	<u>\$ 97,059,992</u>	<u>\$ 92,443,530</u>
Liabilities		
Current liabilities	\$ 19,824,135	\$ 17,745,614
Long-term liabilities	38,732,777	39,237,951
Non-controlling interest	<u>5,371,177</u>	<u>4,946,663</u>
Total liabilities	<u>63,928,089</u>	<u>61,930,228</u>
Equity		
Share capital	15,566,626	15,566,626
Retained earnings	<u>17,565,277</u>	<u>14,946,676</u>
Total equity	<u>33,131,903</u>	<u>30,513,302</u>
Total liabilities and equity	<u>\$ 97,059,992</u>	<u>\$ 92,443,530</u>
Results of Operations		
Revenues	\$ 118,660,901	\$ 85,886,776
Operating expenses	<u>114,389,072</u>	<u>82,376,931</u>
Net income before non-controlling interest	4,271,829	3,509,845
Non-controlling interest	<u>595,920</u>	<u>489,623</u>
Net income	<u>\$ 3,675,909</u>	<u>\$ 3,020,222</u>

(a) Continuity of Investment

	2013	2012
Balance, beginning of year	\$ <u>47,242,937</u>	\$ <u>45,248,603</u>
Net income for the year	3,675,909	3,020,222
Dividends received during the year	<u>(1,057,308)</u>	<u>(1,025,888)</u>
Net increase in equity during the year	<u>2,618,601</u>	<u>1,994,334</u>
Balance, end of year	<u>\$ 49,861,538</u>	<u>\$ 47,242,937</u>

During 2013, Sarnia Power Corporation changed its accounting policy for the treatment of global adjustment and low voltage flow-through charges. This includes the revenue charges to its customers and the costs by its energy suppliers. In previous periods, Sarnia Power Corporation recorded the revenue and costs on the balance sheet in its RSVA accounts.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

6. INVESTMENT IN SARNIA POWER CORPORATION - continued

The revenue and costs are now recorded on the income statement. To ensure that energy revenue and cost of power remain equal, the resulting variances are recorded in the applicable RSVA accounts. This new policy provides reliable and more relevant information because it better reflects the underlying economic reality of the revenue and costs. In addition, this policy is also consistent with local industry practice, which makes Sarnia Power Corporation's financial statements more comparable. This change in accounting policy has been applied retrospectively, and the comparative financial statements for 2012 have been restated.

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, 2013. 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, 2013.

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.

	2013	2012
Development Charges Act	\$ 7,669,131	\$ 7,327,026
Recreational land (The Planning Act)	155,486	126,569
Gasoline Tax - Canada	3,009,487	2,778,864
Gasoline Tax - Ontario	2,124,009	1,913,716
Building Permit (Building Code Act)	<u>62,615</u>	<u>231,099</u>
Total	<u>\$ 13,020,728</u>	<u>\$ 12,377,274</u>

Total activities for the above items is summarized as follows:

	2013	2012
Balance, beginning of the year	\$ <u>12,377,274</u>	\$ <u>10,569,225</u>
Developer contributions received	802,251	610,864
Canada grants	2,190,778	2,190,778
Ontario grants	943,032	932,852
Interest earned	142,082	125,082
Provincial Gasoline Tax funding utilized	(752,335)	(535,146)
Funds earned by municipality	<u>(2,682,354)</u>	<u>(1,516,381)</u>
Net increase	<u>643,454</u>	<u>1,808,049</u>
Balance, end of the year	<u>\$ 13,020,728</u>	<u>\$ 12,377,274</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

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:

	2013	2012
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	\$ 27,276,264	\$ 33,943,806
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>(5,600)</u>	<u>(30,058)</u>
Net long-term liabilities, end of the year	<u>\$ 27,270,664</u>	<u>\$ 33,913,748</u>

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

2014	\$ 5,164,803
2015	4,507,571
2016	3,787,827
2017	3,993,586
2018	2,121,718
2019 to 2023	5,073,778
2024 onwards	<u>2,621,381</u>
	<u>\$ 27,270,664</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:

	2013	2012
Installment (serial) debentures	\$ 8,254,166	\$ 10,422,741
Long-term bank loans	18,933,765	23,377,198
Ontario Clean Water Agency (OCWA)	<u>82,733</u>	<u>113,809</u>
Net long-term liabilities, end of year	<u>\$ 27,270,664</u>	<u>\$ 33,913,748</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, 2013

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, 2013 is \$5,600 (2012 - \$30,058) 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:

	2013	2012
Balance, beginning of year	\$ 33,913,748	\$ 40,394,916
Principal payments	(6,130,972)	(6,323,039)
Adjustment to City share of LAWSS debt	<u>(512,112)</u>	<u>(158,129)</u>
Balance, end of year	<u>\$ 27,270,664</u>	<u>\$ 33,913,748</u>

Actual interest payments related to net long-term liabilities in the current year were \$1,689,744 (2012 - \$2,100,283).

- (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 \$5,188,731 (2012 - \$5,387,599) 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 \$138,093 (2012 - \$173,459) 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, 2013

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 \$252,920 (2012 - \$266,592) 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.

	2013	2012
Sick leave benefit plan	\$ 2,841,000	\$ 2,653,600
Future payments required to WSIB	9,392,896	7,734,011
Post retirement benefits	16,178,700	15,131,400
Accrued vacation pay	1,013,022	917,434
Accrued overtime pay	<u>297,907</u>	<u>338,958</u>
Total	<u>\$ 29,723,525</u>	<u>\$ 26,775,403</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, 2013	\$ 2,653,600
Current service cost	224,100
Interest on accrued benefit obligation	111,300
Benefit payments	<u>(148,000)</u>
Estimated benefit liability as at December 31, 2013	<u>\$ 2,841,000</u>

Reserve funds amounting to \$31,813 (2012 - \$30,623) 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, 2013

12. EMPLOYEE FUTURE BENEFITS - continued

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

2014	\$	718,336
2015		8,979
2016		57,356
2017		226,301
2018		<u>528,500</u>
Total	\$	<u>1,539,472</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 \$1,068,189 (2012 - \$855,362). 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	18.79%
Accidents from 1990 to 1997	22.52%
Accidents after 1997	13.49%
Health care and non-income benefits	16.57%
Administrative loading	35.10%

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 \$82,984 (2012 - \$162,942).

(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, 2013	\$	15,131,400
Current service cost		808,000
Interest cost		690,600
Amortization of actuarial experience loss		479,500
Estimated benefits paid		<u>(930,800)</u>
Estimated benefit liability as at December 31, 2013	\$	<u>16,178,700</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

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, 2013	\$ <u>17,366,400</u>
Less unamortized amounts:	
Prior service costs	<u>1,187,700</u>
Post-retirement benefit liability as at December 31, 2013	\$ <u>16,178,700</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 7.0%. No reserve fund has been established to provide for this liability. The date of the most recent actuarial valuation was December 31, 2013.

(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, 2013 is \$1,013,022 (2012 - \$917,434).

(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, 2013 is \$297,907 (2012 - \$338,958).

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 439,500 active and retired members and approximately 982 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, 2013. The results of this valuation disclosed total actuarial liabilities of \$73,004 million in respect of benefits accrued for service with actuarial assets at that date of \$64,363 million indicating an actuarial deficit of \$8,641 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 2013 was \$4,934,961 (2012 - \$4,379,614) for current service. The OMERS Board rate was 9.0% to 15.9% depending on income level for 2013 (2012 - 8.3% to 13.9% depending on income level).

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

14. ACCRUED TAX LIABILITIES

Taxation Revenue - General Levy	\$ 58,695,269	
Taxation Revenue - Supplementary Tax Levy	371,582	
Payment in Lieu Taxation Revenue	1,122,046	
Other Taxation Revenue - Local Improvements	708,338	
Taxation Revenue - Transit Levy	3,509,058	
Taxation Revenue - Supplementary Transit Tax Levy	<u>21,405</u>	
Subtotal of Taxation Revenue		64,427,698
Tax Write - offs	1,899,433	
Tax Rebates and Exemptions	190,660	
Accrued Tax Liability	<u>800,000</u>	
Subtotal of Tax Write - offs, Rebates and Exemptions		<u>2,890,093</u>
Total Property Taxation		<u>\$ 61,537,605</u>

Reconciliation of Assessment Appeal Provision and Accrued Tax Liability

Estimate of expected appeals	\$ 1,676,359
Estimate of expected supplementary taxes	(502,038)
Other adjustments	<u>132,597</u>
Potential Future Tax Liability	<u>\$ 1,306,918</u>

The potential future tax liability includes all potential changes due to the results of tax appeals and supplementary taxes as the result of Assessment Review Board Decisions, Minutes of Settlement, Post Roll Assessments notices, Supplementary and Omitted Assessments and other tax adjustments that are processed under the Municipal Act 2001.

The actual future results will differ from these estimates as tax appeals are settled and actual assessment values are applied to supplemental properties.

The municipality has set up a provision for assessment appeals of \$312,666 (2012 - \$312,666) and an accrued tax liability of \$800,000 (2012 - \$0) to recognize these future liabilities.

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2013**

15. TANGIBLE CAPITAL ASSETS

2013

	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2013	2012
Cost													
Balance, beginning 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
Add: additions during the year	113,530	816,358	296,928	1,417,236	3,064,877	168,723	4,477,433	1,464,970	2,308,126	835,142	1,722,890	16,686,213	20,028,295
Less: disposals during the year	-	-	(26,752)	(105,450)	(1,972,902)	-	(854,116)	(38,076)	(85,499)	(48,894)	(779,628)	(3,911,317)	(9,072,679)
Other	(46,308)	(24,574)	(1,502,529)	(1,354)	-	-	-	(3,040,337)	-	-	(6,992)	(4,622,094)	(1,237,147)
Balance, end of year	124,974,508	27,271,171	84,528,311	71,329,681	28,275,205	3,104,997	219,667,402	124,064,126	46,974,125	75,518,124	1,810,902	807,518,552	799,365,750
Accumulated Amortization													
Balance, beginning 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
Add: amortization	-	1,222,624	1,885,978	2,820,089	1,577,224	232,650	5,013,255	1,788,932	758,864	1,344,345	-	16,643,961	16,313,832
Less: accumulated amortization on disposals	-	-	(13,911)	(81,544)	(1,465,541)	-	(650,950)	(25,460)	(62,272)	(29,632)	-	(2,329,310)	(1,787,886)
Other	-	(19,898)	(566,760)	(913)	-	-	-	(730,764)	-	-	-	(1,318,335)	(334,804)
Balance, end of year	-	20,444,132	35,390,756	38,567,314	13,312,388	2,356,604	101,296,030	42,656,290	17,125,450	32,169,485	-	303,318,449	290,322,133
Net book value of tangible capital assets	\$ 124,974,508	\$ 6,827,039	\$ 49,137,555	\$ 32,762,367	\$ 14,962,817	\$ 748,393	\$ 118,371,372	\$ 81,407,836	\$ 29,848,675	\$ 43,348,639	\$ 1,810,902	\$ 504,200,103	\$ 509,043,617

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2013**

15. 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, 2013

16. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2013	2012
Investment in tangible capital assets	\$ 504,200,103	\$ 509,043,617
Investment in land inventories held for sale	4,560,540	4,560,540
Capital fund	(39,260)	1,523,428
Reserves and reserve funds	23,636,536	25,362,972
Equity in Sarnia Power Corporation	49,861,538	47,242,937
Less: unfunded liabilities	<u>(61,185,202)</u>	<u>(61,129,202)</u>
Accumulated Surplus	<u>\$ 521,034,255</u>	<u>\$ 526,604,292</u>

17. RESERVES AND RESERVE FUNDS

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

	2013	2012
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 1,514,197	\$ 2,143,997
replacement of equipment	3,285,378	3,963,154
capital projects	13,466,917	12,330,733
other	<u>500,289</u>	<u>465,442</u>
Total reserves	<u>\$ 18,766,781</u>	<u>\$ 18,903,326</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 31,813	\$ 30,623
self-insurance	555,600	358,645
Workplace Safety and Insurance Board	82,984	162,942
sub-division development	45,173	45,173
parking revenues	1,771	1,751
watermain construction	-	148,486
waterfront development	301,869	239,327
Sarnia Bay improvements	176,683	169,758
operation of Airport	161,354	300,405
capital projects	1,600,446	3,346,169
special projects	1,703,023	1,481,142
legacy	86,124	72,533
other current purposes	<u>122,915</u>	<u>102,692</u>
Total discretionary reserve funds	<u>\$ 4,869,755</u>	<u>\$ 6,459,646</u>
Total reserves and reserve fund balances, end of year	<u>\$ 23,636,536</u>	<u>\$ 25,362,972</u>

The municipality is committed to pay the interest earned on approximately \$761,354 of the reserve funds to outside agencies.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

18. 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 59.17% (2012 - 62.81%) proportionate interest of the following:

	2013	2012
Statement of Financial Position		
Financial Assets	\$ <u>3,799,501</u>	\$ <u>3,767,135</u>
Liabilities		
Current liabilities	\$ 210,562	\$ 210,925
Long-term liabilities	<u>11,663,000</u>	<u>14,069,000</u>
Total liabilities	<u>11,873,562</u>	<u>14,279,925</u>
Net Financial Debt	(8,074,061)	(10,512,790)
Non-Financial Assets		
Tangible Capital Assets	<u>89,606,049</u>	<u>90,762,625</u>
Accumulated Surplus	\$ <u>81,531,988</u>	\$ <u>80,249,835</u>
Statement of Operations		
Revenues	\$ 9,673,297	\$ 9,725,526
Expenses - excluding amortization	6,506,913	6,073,568
Amortization	<u>1,884,231</u>	<u>1,817,698</u>
Net revenues	\$ <u>1,282,153</u>	\$ <u>1,834,260</u>

19. 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 \$53,916 (2012 - \$74,093). The Consolidated Statement of Financial Position also reflects long term liabilities due to the Agency for the water project in the amount of \$28,817 (2012 - \$39,717).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2013 are charges for the operation of the water treatment plant in the amount of \$2,248,467 (2012 - \$2,424,473).

CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
year ended December 31, 2013**

20. BUDGET VARIANCE

The following chart reconciles the 2013 budget with the 2013 actuals found in the consolidated statement of operations:

	2013 Budget	LAWSS adjusting entries	Addition, Deletion and Amortization entries	Unfunded Liabilities	Other Reconciling Items	2013 Revised budget	2013 Actual	Variance Favorable / (Unfavorable)
REVENUE								
Property taxation	\$ 63,414,876	\$ -	\$ -	\$ (800,000)	¹ \$ (913,933)	\$ 61,700,943	\$ 61,537,605	\$ (163,338)
User fees and service charges	37,732,572	-	-	-	-	37,732,572	38,704,630	972,058
User fees and service charges - other municipalities	2,675,916	96,980	-	-	-	2,772,896	2,847,076	74,180
Government transfers - operating	1,319,569	-	-	-	-	1,319,569	982,976	(336,593)
Investment income	2,181,798	14,793	-	-	-	2,196,591	2,717,484	520,893
Penalty and interest on taxes	1,120,000	-	-	-	-	1,120,000	487,187	(632,813)
Gaming and casino revenues	522,750	-	-	-	-	522,750	377,250	(145,500)
Contributions - developers	-	-	-	-	-	-	177,583	177,583
Other	1,443,930	-	-	-	-	1,443,930	1,553,110	109,180
Total revenue	<u>\$ 110,411,411</u>	<u>\$ 111,773</u>	<u>\$ -</u>	<u>\$ (800,000)</u>	<u>\$ (913,933)</u>	<u>\$ 108,809,251</u>	<u>\$ 109,384,901</u>	<u>\$ 575,650</u>
EXPENSES								
General government	\$ 8,124,889	\$ -	\$ 1,151,897	\$ 16,817	\$ -	\$ 9,293,603	\$ 10,041,643	\$ (748,040)
Protection services	39,170,274	-	1,040,084	36,553	-	40,246,911	41,193,493	(946,582)
Transportation services	15,003,029	-	6,405,277	(26,356)	-	21,381,950	20,347,617	1,034,333
Environmental services	22,200,033	4,432,922	6,330,098	2,936,492	² 1,572,888	37,472,433	37,157,580	314,853
Health services	87,200	-	-	-	-	87,200	87,625	(425)
Social and family services	349,858	-	-	47,742	-	397,600	492,266	(94,666)
Recreation and cultural services	7,227,149	-	1,180,833	1,626	-	8,409,608	9,205,301	(795,693)
Planning and development	1,163,389	-	-	(7,374)	-	1,156,015	1,385,297	(229,282)
Non-functionalized unfunded liability	-	-	47,727	2,893,585	-	2,941,312	2,893,585	47,727
Total expenses	<u>\$ 93,325,821</u>	<u>\$ 4,432,922</u>	<u>\$ 16,155,916</u>	<u>\$ 5,899,085</u>	<u>\$ 1,572,888</u>	<u>\$ 121,386,632</u>	<u>\$ 122,804,407</u>	<u>\$ (1,417,775)</u>
NET REVENUE	<u>\$ 17,085,590</u>	<u>\$ (4,321,149)</u>	<u>\$ (16,155,916)</u>	<u>\$ (6,699,085)</u>	<u>\$ (2,486,821)</u>	<u>\$ (12,577,381)</u>	<u>\$ (13,419,506)</u>	<u>\$ (842,125)</u>

1. This reconciling item is for tax write offs.

2. This reconciling item is comprised of sewer and watermain maintenance and environmental capital contract costs.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

21. EXPENDITURE BY OBJECT

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

	2013	2012
Salaries, wages and employee benefits	\$ 66,955,577	\$ 62,891,296
Net long-term debt interest charges	1,654,378	2,061,072
Materials and supplies	23,305,153	18,958,408
Contracted services	12,944,666	9,638,479
Amortization	16,643,961	16,313,831
Other	<u>1,300,672</u>	<u>1,379,553</u>
Total	<u>\$ 122,804,407</u>	<u>\$ 111,242,639</u>

22. GOVERNMENT TRANSFERS

	2013	2012
Operating		
Province of Ontario		
OMPF - Unconditional	\$ 285,200	\$ 301,400
Program Support	338,298	510,104
Provincial Gas Tax	<u>297,335</u>	<u>319,250</u>
	920,833	1,130,754
Government of Canada		
Program Support	<u>62,143</u>	<u>49,394</u>
Total Operating	<u>982,976</u>	<u>1,180,148</u>
Capital		
Province of Ontario		
Provincial Gas Tax	435,404	185,924
Ministry of Environment	132,673	
Ministry of Finance - JEPP	(244)	4,227
ISF	-	154,833
Drainage Grants	<u>22,396</u>	<u>141,463</u>
	590,229	486,447
Government of Canada		
Federal Gas Tax	1,960,154	883,695
ISF	-	154,833
Enabling Accessibility Fund	20,946	-
CIIF	22,930	-
CSIF	2	1,552,946
MASAS	<u>34,902</u>	<u>98,248</u>
	<u>2,038,934</u>	<u>2,689,722</u>
Total Capital	<u>2,629,163</u>	<u>3,176,169</u>
Total Government Transfers	<u>\$ 3,612,139</u>	<u>\$ 4,356,317</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

23. 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 23 buses on the conventional transit system and 6 specialized vehicles on our Care-a-Van service. Road maintenance and construction maintains approximately 439 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, 2013

23. 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.

24. 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.

25. 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, 2013 was \$1,700,022 (2012 - \$1,760,113). 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%. The ongoing payment of this loan by the private company is in doubt. The municipality may have to assume this financial liability in 2014.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

25. CONTINGENCIES AND COMMITMENTS - continued

- (c) The Municipality is faced with the remediation of Centennial Park due to contaminants found in the top soil and subsoil/fill. A liability of \$3 million was accrued in 2013 for the remediation of Centennial Park. The remediation efforts would include a soft cap through the majority of the park, hard capping done in the area of the parking lot and former playground, the construction of new berms, and replacement of trees plus a small construction contingency. It is anticipated that work on the remediation of Centennial Park would occur, beginning in 2014 and would last for several years.
- (d) Canatara Park – The Municipality is undertaking environmental investigative work in Canatara Park. The City is working on delineating the extent of any contamination in Canatara Park and the necessity to undertake remedial action within the park. No estimates or accrual of any liability have been set up for any possible future remediation of Canatara Park as work is currently in the discovery stages.

26. 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, 2013 amounted to \$555,560 (2012 - \$358,645) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$367,038 (2012 - \$300,590), have been provided for from the reserve fund and are accordingly reported as an expenditure on the Consolidated Statement of Operations.

27. 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 2013 (2012 - 10%). The total amount of protection for these properties amounted to \$12,157 (2012 - \$22,948).

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

28. 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 \$931,540 (2012 - \$932,129)

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2013

29. SUBSEQUENT EVENTS - ACQUISITION OF SARNIA HARBOUR

The Sarnia Harbour was divested to the City of Sarnia from Transport Canada on March 31, 2014. The Harbour lands that were transferred from the Crown to the City of Sarnia are comprised of both the northerly harbour and the southerly harbour. The northerly harbour includes water lots and lands generally described as the Government Dock Warehouse Complex, the east dock face and the north slip. The Southerly Harbour is comprised of lands and water lots located along the length of the City's waterfront extending from George Street south to Mission Park. The harbour is intended to be operated and maintained as a public harbour on a long term break even basis. The harbour will be included in the annual city budget process which is applicable to all City owned and operated assets. Upon divestiture the City of Sarnia received Federal funding in the amount of \$8,565,950. This funding was placed in Reserve to be used for the operation and maintenance of the harbour.

CORPORATION OF THE CITY OF SARNIA

Schedule A

**Schedule of Segment Disclosure
year ended December 31, 2013**

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2013 Total
REVENUES									
Taxation	\$ 58,099,019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,099,019
Fees and service charges	920,395	1,765,868	6,999,500	29,918,738	-	171,334	2,359,332	607,763	42,742,930
Grants	382,235	260,121	732,740	2,092,828	-	55,512	22,930	65,774	3,612,140
Rents and financial	2,988,398	4,198	28,997	62,745	-	-	27,901	92,433	3,204,672
Other municipal	-	1,402,057	810,076	144,651	-	-	490,292	-	2,847,076
Other	4,464,481	80,766	44,965	1,461,211	-	3,804	672,449	857	6,728,533
	<u>66,854,528</u>	<u>3,513,010</u>	<u>8,616,278</u>	<u>33,680,173</u>	<u>-</u>	<u>230,650</u>	<u>3,572,904</u>	<u>766,827</u>	<u>117,234,370</u>
EXPENSES									
Salaries and benefits	7,736,059	37,001,875	7,762,080	8,771,113	-	328,114	4,592,650	763,686	66,955,577
Materials	2,358,533	3,331,624	5,826,378	8,179,815	-	164,496	2,924,193	520,114	23,305,153
Contracted services	559,597	142,584	489,638	11,735,606	-	-	-	17,241	12,944,666
Long-term debt - interest	1,281	5,925	14,337	1,189,949	-	-	344,064	98,822	1,654,378
Amortization	1,151,897	777,468	6,187,086	7,342,199	-	-	1,185,311	-	16,643,961
Other	-	637,969	218,191	102,797	87,625	6,000	247,890	200	1,300,672
	<u>11,807,367</u>	<u>41,897,445</u>	<u>20,497,710</u>	<u>37,321,479</u>	<u>87,625</u>	<u>498,610</u>	<u>9,294,108</u>	<u>1,400,063</u>	<u>122,804,407</u>
NET SURPLUS (DEFICIT)	<u>\$ 55,047,161</u>	<u>\$ (38,384,435)</u>	<u>\$ (11,881,432)</u>	<u>\$ (3,641,306)</u>	<u>\$ (87,625)</u>	<u>\$ (267,960)</u>	<u>\$ (5,721,204)</u>	<u>\$ (633,236)</u>	<u>\$ (5,570,037)</u>

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>



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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, 2013 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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2013 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
May 5, 2014

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

**Statement of Continuity of Trust Funds
year ended December 31, 2013**

	Cemetery Care and Maintenance	2013 Total	2012 Total
FUND BALANCES, BEGINNING OF YEAR	\$ <u>11,023</u>	\$ <u>11,023</u>	\$ <u>84,447</u>
REVENUES			
Interest earned			
Investment income	<u>124</u>	<u>124</u>	<u>942</u>
Total revenues	<u>124</u>	<u>124</u>	<u>942</u>
EXPENDITURES			
Contribution to operations	<u>-</u>	<u>-</u>	<u>74,366</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>74,366</u>
FUND BALANCES, END OF YEAR	\$ <u><u>11,147</u></u>	\$ <u><u>11,147</u></u>	\$ <u><u>11,023</u></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, 2013**

	Cemetery Care and Maintenance	2013 Total	2012 Total
ASSETS			
Due from municipality	\$ <u>11,147</u>	\$ <u>11,147</u>	\$ <u>11,023</u>
Total assets	\$ <u>11,147</u>	\$ <u>11,147</u>	\$ <u>11,023</u>
FUND BALANCES	\$ <u>11,147</u>	\$ <u>11,147</u>	\$ <u>11,023</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, 2013

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.