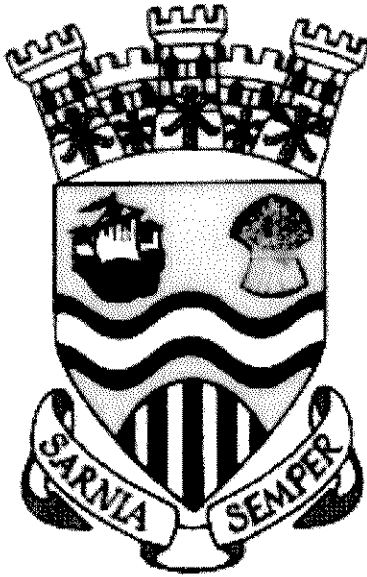


**The Corporation of
The City of Sarnia
Financial Statements
For the year ended December 31, 2010**

City of Sarnia

2010

Financial Statements



CITY OF SARNIA

**THE CORPORATION OF
THE CITY OF SARNIA
FINANCIAL STATEMENTS
2010**

CORPORATION OF THE CITY OF SARNIA

2010

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	D. Fielding
Director of Planning & Building	K. Bresee
Director of Community Services	I. Smith
Director of Transit	J. Stevens
Fire Chief	P. Cayen
Chief of Police	P. Nelson

CORPORATION OF THE CITY OF SARNIA

2010

POLICE SERVICES BOARD

Chairperson - Mayor M. Bradley
Councilor D. Boushy
D. Carpani

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, 2010

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BDO Canada LLP
250 Christina Street N
PO Box 730
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 financial statements of the Corporation of the City of Sarnia, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statements of operations, change in net financial debt and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Sarnia as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for public sector accounting.

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
September 12, 2011

CORPORATION OF THE CITY OF SARNIA

Consolidated Statement of Financial Position as at December 31, 2010

	2010	2009
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 16,648,430	\$ 15,505,966
Taxes receivable	8,133,647	7,301,183
Accounts receivable	19,217,506	20,657,035
Long-term receivables (note 5)	1,027,009	974,758
Investment in Sarnia Power Corporation (note 6)	<u>43,559,854</u>	<u>41,390,524</u>
Total financial assets	<u>88,586,446</u>	<u>85,829,466</u>
LIABILITIES		
Accounts payable and accrued liabilities	13,478,771	13,000,911
Other current liabilities	4,221,926	4,121,951
Deferred revenue (note 8)	10,052,606	9,832,377
Net long-term liabilities (note 9)	46,018,364	54,046,931
Interest on net long-term liabilities (note 10)	240,908	527,502
Landfill closure and post closure costs (note 11)	291,483	302,801
Employee future benefits (note 12)	<u>23,572,264</u>	<u>22,762,999</u>
Total liabilities	<u>97,876,322</u>	<u>104,595,472</u>
NET FINANCIAL DEBT	<u>(9,289,876)</u>	<u>(18,766,006)</u>
NON-FINANCIAL ASSETS		
Tangible Capital Assets (note 14)	506,670,007	501,634,417
Other assets	<u>5,070,581</u>	<u>5,216,816</u>
Total Non-Financial Assets	<u>511,740,588</u>	<u>506,851,233</u>
Accumulated Surplus (note 15)	<u>\$ 502,450,712</u>	<u>\$ 488,085,227</u>

Approved on behalf of City Council

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Consolidated Statement of Operations year ended December 31, 2010

	2010 Budget	2010	2009
REVENUE			
Property taxation	\$ 58,500,591	\$ 58,479,194	\$ 57,712,651
User fees and service charges	36,322,141	37,776,623	33,358,970
User fees and service charges - other municipalities	2,729,379	3,215,504	3,427,554
Government transfers-operating (Note 20)	1,073,170	1,000,206	1,400,757
Investment income	1,964,899	2,779,536	2,449,368
Penalty and interest on taxes	850,000	1,071,921	999,190
Gaming and casino revenues	1,500,000	1,494,493	1,592,496
Contributions - developers	-	168,531	142,332
Other	700,529	1,439,512	3,528,435
Total revenue	<u>103,640,709</u>	<u>107,425,520</u>	<u>104,611,753</u>
EXPENSES			
General government	7,810,010	10,158,627	9,076,162
Protection services	35,465,441	36,569,621	35,727,504
Transportation services	16,540,360	20,167,472	19,162,109
Environmental services	20,307,752	35,234,299	32,573,369
Health services	76,888	77,200	77,414
Social and family services	329,791	381,874	353,582
Recreation and cultural services	7,016,186	8,378,721	8,617,308
Planning and development	1,219,767	1,747,740	1,981,858
Non-functionalized unfunded liability	-	715,753	1,167,973
Total expenses	<u>88,766,195</u>	<u>113,431,307</u>	<u>108,737,279</u>
Net expenses	<u>14,874,514</u>	<u>(6,005,787)</u>	<u>(4,125,526)</u>
OTHER			
Government transfers - capital (Note 20)	-	13,176,717	15,235,149
Capital contributions - developers	-	2,152,505	593,467
Other related to capital	-	87,435	176,842
Donated assets	-	1,806,998	834,324
Share of LAWSS	-	978,287	316,229
Sarnia Power Corporation, net change in equity	-	2,169,330	(865,785)
	<u>-</u>	<u>20,371,272</u>	<u>16,290,226</u>
Annual Surplus	<u>\$ 14,874,514</u>	<u>\$ 14,365,485</u>	<u>\$ 12,164,700</u>
Accumulated Surplus, Beginning of Year		488,085,227	475,920,527
Accumulated Surplus, End of Year		<u>\$ 502,450,712</u>	<u>\$ 488,085,227</u>

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Consolidated Statement of Change in Net Financial Debt year ended December 31, 2010

	2010	2009
Annual Surplus	\$ 14,365,485	\$ 12,164,700
Amortization of tangible capital assets	14,953,331	14,720,549
Proceeds on disposal of tangible capital assets	72,753	97,725
Loss on sale of tangible capital assets	4,126,197	2,513,340
Acquisition of tangible capital assets	(24,187,871)	(29,125,618)
Change in other assets	<u>146,235</u>	<u>332,069</u>
Increase in Net Financial Assets	<u>9,476,130</u>	<u>702,765</u>
Net Financial Assets, Beginning of Year	<u>(18,766,006)</u>	<u>(19,468,771)</u>
Net Financial Assets, End of Year	\$ <u>(9,289,876)</u>	\$ <u>(18,766,006)</u>

The accompanying notes are an integral part of this financial statement

CORPORATION OF THE CITY OF SARNIA

Consolidated Statement of Cash Flow year ended December 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Annual Surplus	\$ 14,365,485	\$ 12,164,700
Items not involving cash:		
Amortization of tangible capital assets	14,953,331	14,720,549
Loss on sale of tangible capital assets	4,126,197	2,513,340
Change in employee future benefits	809,265	1,054,630
Change in landfill closure and post closure costs	(11,318)	(10,627)
Change in non-cash assets and liabilities		
Taxes receivable	(832,464)	(999,741)
Accounts receivable	1,439,529	(5,853,576)
Accounts payable and accrued liabilities	477,860	1,211,277
Other current liabilities	99,975	(135,052)
Deferred revenue	220,229	(227,530)
Other assets	146,235	332,069
	<u>35,794,324</u>	<u>24,770,039</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	72,753	97,725
Acquisition of tangible capital assets	<u>(24,187,871)</u>	<u>(29,125,618)</u>
Net change in cash from capital activities	<u>(24,115,118)</u>	<u>(29,027,893)</u>
INVESTING ACTIVITIES		
Long term receivables	(52,251)	101,115
Investment in Sarnia Power Corporation	<u>(2,169,330)</u>	<u>865,785</u>
Net change in cash from investing activities	<u>(2,221,581)</u>	<u>966,900</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(286,594)	(46,279)
Long-term debt issued	6,552,000	-
Long-term debt repaid	(13,429,500)	(6,394,004)
Share of LAWSS debt adjustment	<u>(1,151,067)</u>	<u>(410,893)</u>
Net decrease in cash from financing	<u>(8,315,161)</u>	<u>(6,851,176)</u>
Net change in cash and equivalents	1,142,464	(10,142,130)
Cash and cash equivalents, beginning of year	<u>15,505,966</u>	<u>25,648,096</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,648,430</u>	<u>\$ 15,505,966</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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Consolidation

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

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

(ii) Government Business Enterprises

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

(iii) Joint Local Board

The Lambton Area Water Supply System (LAWSS) has been consolidated on a proportionate basis based upon the water flow of the municipality in proportion to the entire flows provided by the joint board for the previous year. Under the proportionate basis, the municipality's pro rata share of each of the assets, liabilities, revenues and expenditures of the board are consolidated with similar items in the municipality's financial statements. For 2010, the municipality's share of the System was 58.93% (2009 – 64.600%). 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, 2010

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, 2010

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 2010, tangible capital assets with a value of \$1,806,998 were contributed by developers to the City (2009 - \$834,324). 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, 2010

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 2010 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, 2010

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	\$ 29,000,518	\$ 32,734,355	\$ 61,734,873
Share of payments in lieu of taxes	<u>50,421</u>	<u>456,081</u>	<u>506,502</u>
	<u>29,050,939</u>	<u>33,190,436</u>	<u>62,241,375</u>
Share of taxes written off	356,508	314,508	671,016
Share of tax rebates	<u>227,636</u>	<u>116,348</u>	<u>343,984</u>
	<u>584,144</u>	<u>430,856</u>	<u>1,015,000</u>
Amounts transferred	<u>\$ 28,466,795</u>	<u>\$ 32,759,580</u>	<u>\$ 61,226,375</u>

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$83,524 (2009 - \$85,886) 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:

	2010	2009
Cemetery Care and Maintenance	\$ 10,783	\$ 10,728
Boarding Home Program	72,741	72,373
Election Candidate Surplus	<u>-</u>	<u>2,785</u>
	<u>\$ 83,524</u>	<u>\$ 85,886</u>

4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2010	2009
Cash on hand	\$ 122,785	\$ 55,203
Cash in bank	15,394,822	13,894,676
Investments	<u>1,130,823</u>	<u>1,556,087</u>
	<u>\$ 16,648,430</u>	<u>\$ 15,505,966</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 1.00% and 1.70% maturing in 2011. The market value of these investments amounted to \$1,130,823 (2009 - \$1,556,087). Interest is receivable on an annual basis.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

5. LONG-TERM RECEIVABLES

	2010	2009
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 mortgagor 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 shown in the accompanying Consolidated Statement of Financial Position at actual amount of future installments.	\$ 191,820	\$ 211,389
Loans receivable – employees re Ontario Police College, repayable over 2 years with no interest	21,635	21,490
Loan receivable, at 4.50%, repayable in monthly installments of \$1,898 with final payment due July 2023	218,549	231,178
Loans receivable - employee purchase plan, repayable over one or two years with no interest	90,824	97,079
Long-term mortgage receivable, at 0% interest, repayable over 20 years at \$30,000 per year	160,000	190,000
Loan receivable, at 0% interest, repayable over 10 years at \$15,000 per year, forgivable based on continuation of annual Celebration of Lights display	75,000	90,000
Final lease payment, due December 31, 2030	51,286	51,286
Loans receivable, 1.125% to 3.75%, issued under Municipal Facade Improvement Program, due in quarterly installments including principal and interest of \$19,611 with a final installment due December 1, 2020	<u>434,381</u>	<u>307,407</u>
	1,243,495	1,199,829
Current portion included in accounts receivable	<u>216,486</u>	<u>225,071</u>
Total long-term receivables	<u>\$ 1,027,009</u>	<u>\$ 974,758</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

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 new 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:

	2010	2009
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>11,263,592</u>	<u>9,094,262</u>
	<u>\$ 43,559,854</u>	<u>\$ 41,390,524</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 (2009 - \$1,254,165) 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, 2010

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:

	2010	2009
Financial Position		
Assets		
Current assets	\$ 32,323,774	\$ 28,746,920
Long-term assets	<u>62,776,071</u>	<u>53,519,205</u>
Total assets	<u>\$ 95,099,845</u>	<u>\$ 82,266,125</u>
Liabilities		
Current liabilities	\$ 26,036,464	\$ 18,996,900
Long-term liabilities	37,883,581	34,610,436
Non-controlling interest	<u>4,349,581</u>	<u>3,997,901</u>
Total liabilities	<u>68,269,626</u>	<u>57,605,237</u>
Equity		
Share capital	15,566,626	15,566,626
Retained earnings	<u>11,263,593</u>	<u>9,094,262</u>
Total equity	<u>26,830,219</u>	<u>24,660,888</u>
Total liabilities and equity	<u>\$ 95,099,845</u>	<u>\$ 82,266,125</u>
Results of Operations		
Revenues	\$ 90,731,554	\$ 79,198,846
Operating expenses	<u>86,770,352</u>	<u>76,212,819</u>
Net income before non-controlling interest	3,961,202	2,986,027
Non-controlling interest	<u>552,588</u>	<u>416,551</u>
Net income	<u>\$ 3,408,614</u>	<u>\$ 2,569,476</u>
(a) Continuity of Investment		
	2010	2009
Balance, beginning of year	\$ <u>41,390,524</u>	\$ <u>42,256,309</u>
Net income for the year	3,408,614	2,569,476
Adjustment to regulatory taxes payable	-	(2,422,308)
Dividends received during the year	<u>(1,239,284)</u>	<u>(1,012,953)</u>
Net increase in equity during the year	<u>2,169,330</u>	<u>(865,785)</u>
Balance, end of year	<u>\$ 43,559,854</u>	<u>\$ 41,390,524</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

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, 2010. Amounts obtained under this credit are due on demand and bear interest at the bank's prime rate less .65%, calculated and payable monthly.

8. DEFERRED REVENUE

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

	2010	2009
Development Charges Act	\$ 6,891,000	\$ 7,037,345
Recreational land (The Planning Act)	280,738	232,705
Gasoline Tax - Canada	815,091	513,706
Gasoline Tax - Ontario	986,721	822,321
Building Permit (Building Code Act)	<u>1,079,056</u>	<u>1,226,300</u>
Total	<u>\$ 10,052,606</u>	<u>\$ 9,832,377</u>

Total activities for the above items is summarized as follows:

	2010	2009
Balance, beginning of the year	\$ <u>9,832,377</u>	\$ <u>10,059,907</u>
Developer contributions received	1,423,481	1,015,517
Canada grants	2,198,165	2,302,983
Ontario grants	914,493	928,500
Interest earned	55,538	24,665
Provincial Gasoline Tax funding utilized	(676,021)	(679,029)
Funds earned by municipality	(3,698,427)	(3,823,166)
Contribution from revenue fund	<u>3,000</u>	<u>3,000</u>
Net increase (decrease)	<u>220,229</u>	<u>(227,530)</u>
Balance, end of year	<u>\$ 10,052,606</u>	<u>\$ 9,832,377</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

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:

	2010	2009
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	\$ 46,058,984	\$ 54,093,435
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>(40,620)</u>	<u>(46,504)</u>
Net long-term liabilities, end of year	<u>\$ 46,018,364</u>	<u>\$ 54,046,931</u>

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

2011	\$ 6,414,054
2012	6,209,060
2013	6,085,349
2014	5,137,240
2015	4,481,383
2016 to 2020	13,241,973
2021 onwards	<u>4,449,305</u>
	<u>\$ 46,018,364</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:

	2010	2009
Installment (serial) debentures	\$ 12,831,589	\$ 22,962,638
Long term bank loans	33,019,596	30,894,260
Ontario Clean Water Agency (OCWA)	<u>167,179</u>	<u>190,033</u>
Net long-term liabilities end of year	<u>\$ 46,018,364</u>	<u>\$ 54,046,931</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, 2010

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, 2010 is \$40,620 (2009 - \$46,504) 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:

	2010	2009
Balance, beginning of year	\$ 54,046,931	\$ 60,851,828
Debt issued	6,552,000	-
Principal payments	(6,877,500)	(6,394,004)
Adjustment to City share of LAWSS debt	(1,151,067)	(410,893)
Payout of Final WPCC debenture	<u>(6,552,000)</u>	<u>-</u>
Balance end of year	<u>\$ 46,018,364</u>	<u>\$ 54,046,931</u>

Interest payments related to net long-term liabilities in the current year were \$3,174,192 (2009 - \$3,513,021).

- (h) Interest charges are reflected 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 reflected 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 \$5,759,593 (2009 - \$5,933,387) 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 \$240,908 (2009 - \$527,502) 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, 2010

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 \$291,483 (2009 - \$302,801) 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.

	2010	2009
Sick leave benefit plan	\$ 2,428,900	\$ 2,240,800
Future payments required to WSIB	7,666,139	7,423,486
Post retirement benefits	12,387,500	12,102,500
Accrued vacation pay	844,177	750,910
Accrued overtime pay	<u>245,548</u>	<u>245,303</u>
Total	<u>\$ 23,572,264</u>	<u>\$ 22,762,999</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, 2010	\$ 2,240,800
Current service cost	141,200
Interest on accrued benefit obligation	134,400
Benefit payments	<u>(87,500)</u>
Estimated benefit liability as at December 31, 2010	<u>\$ 2,428,900</u>

Reserve funds amounting to \$29,954 (2009 - \$29,802) at year-end have been established to provide for a portion of this past service liability and are reported on the Consolidated Statement of Financial Position.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

12. EMPLOYEE FUTURE BENEFITS - continued

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

2011	\$	620,247
2012		52,777
2013		187,386
2014		201,371
2015		<u>57,944</u>
Total	\$	<u>1,119,725</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 \$867,888 (2009 - \$842,267). 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	21.76%

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 deficit of \$1,285,591 (2009 - \$(1,178,638)).

(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, 2010	\$	12,102,500
Current service cost		547,900
Interest cost		872,400
Amortization of actuarial experience loss		409,400
Estimated benefits paid		<u>(1,544,700)</u>
Estimated benefit liability as at December 31, 2010	\$	<u>12,387,500</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

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, 2010	\$ <u>17,143,700</u>
Less unamortized amounts:	
Experience losses	<u>4,756,200</u>
Total	<u>4,756,200</u>
Post-retirement benefit liability as at December 31, 2010	\$ <u>12,387,500</u>

The actuarial estimate of the future liability for post-retirement benefits assumes a discount rate of 4.75% 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, 2010 is \$844,177 (2009 - \$750,910).

(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, 2010 is \$245,548 (2009 - \$245,303).

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 409,000 active and retired members and approximately 931 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, 2010. The results of this valuation disclosed total actuarial liabilities of \$60,035 million in respect of benefits accrued for service with actuarial assets at that date of \$55,568 million indicating an actuarial deficit of \$4,467 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 2010 was \$3,559,395 (2009 - \$3,448,893) for current service. The OMERS Board rate was 6.4% to 13.1% depending on income level for 2010 (2009 - 6.3% to 12.8% depending on income level).

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements
year ended December 31, 2010

14. TANGIBLE CAPITAL ASSETS

2010

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

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements
year ended December 31, 2010

14. TANGIBLE CAPITAL ASSETS

2009

	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2009	2008
Cost													
Balance, beginning of year	\$ 124,571,882	\$ 28,525,804	\$ 74,926,253	\$ 64,412,278	\$ 23,249,031	\$ 1,998,490	\$ 190,762,814	\$ 118,834,838	\$ 34,012,477	\$ 61,667,031	\$ 11,793,004	\$ 734,753,902	\$ 713,065,372
Add: additions during the year	-	88,620	1,649,335	512,723	2,682,160	38,987	10,694,551	3,165,023	3,258,232	3,227,004	12,697,668	38,014,303	23,378,882
Less: disposals during the year	-	(11,613)	-	(336,700)	(2,689,237)	-	(2,769,277)	(667,993)	(239,901)	(322,782)	(7,047,725)	(14,085,228)	(1,477,116)
Other	(23,739)	(12,598)	(703,830)	(695)	-	-	-	(1,554,560)	-	-	(88,067)	(2,383,489)	(213,236)
Balance, end of year	124,548,143	28,590,213	75,871,758	64,587,606	23,241,954	2,037,477	198,688,088	119,777,308	37,030,808	64,571,253	17,354,880	756,299,488	734,753,902
Accumulated Amortization													
Balance, beginning of year	-	16,196,399	27,653,560	26,119,418	11,665,605	1,606,126	84,379,273	36,243,085	14,296,961	26,753,062	-	244,913,489	231,426,464
Add: amortization	-	1,412,504	1,618,405	2,606,934	1,336,279	166,277	4,228,401	1,640,007	580,913	1,130,829	-	14,720,549	14,490,456
Less: accumulated amortization on disposals	-	(6,677)	-	(123,011)	(2,238,045)	-	(1,462,018)	(277,538)	(142,994)	(176,155)	-	(4,426,438)	(1,003,431)
Other	-	(8,665)	(220,884)	(288)	-	-	-	(312,692)	-	-	-	(542,529)	-
Balance, end of year	-	17,593,561	29,051,081	28,603,053	10,763,839	1,772,403	87,145,656	37,292,862	14,734,880	27,707,736	-	254,665,071	244,913,489
Net book value of tangible capital assets	\$ 124,548,143	\$ 10,996,652	\$ 46,820,677	\$ 35,984,553	\$ 12,478,115	\$ 265,074	\$ 111,542,432	\$ 82,484,446	\$ 22,295,928	\$ 36,863,517	\$ 17,354,880	\$ 501,634,417	\$ 489,840,413

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

15. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2010	2009
Investment in tangible capital assets	\$ 506,670,007	\$ 501,634,417
Investment in land inventories held for sale	4,560,540	4,560,540
Current fund	-	(797,047)
Capital fund	492,801	238,304
Reserves and reserve funds	17,290,529	18,698,722
Equity in Sarnia Power Corporation	43,559,854	41,390,524
Less: unfunded liabilities	<u>(70,123,019)</u>	<u>(77,640,233)</u>
Accumulated Surplus	<u>\$ 502,450,712</u>	<u>\$ 488,085,227</u>

16. RESERVES AND RESERVE FUNDS

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

	2010	2009
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 2,626,738	\$ 1,586,720
replacement of equipment	4,214,532	3,757,452
capital projects	5,006,624	4,660,606
other	<u>284,865</u>	<u>353,372</u>
Total reserves	<u>\$ 12,132,759</u>	<u>\$ 10,358,150</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 29,954	\$ 29,802
self-insurance	120,165	311,419
Workplace Safety and Insurance Board	(1,285,591)	(1,178,638)
sub-division development	45,173	45,173
parking revenues	13,608	581
watermain construction	262,055	248,730
waterfront development	69,615	29,572
Sarnia Bay improvements	186,117	221,481
operation of Airport	360,841	497,858
capital projects	3,858,743	6,639,638
special projects	1,379,353	1,390,199
legacy	66,263	62,914
other current purposes	<u>51,474</u>	<u>41,843</u>
Total discretionary reserve funds	<u>\$ 5,157,770</u>	<u>\$ 8,340,572</u>
Total reserves and reserve fund balances, end of year	<u>\$ 17,290,529</u>	<u>\$ 18,698,722</u>

The municipality is committed to pay the interest earned on approximately \$960,000 of the reserve funds to outside agencies.

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

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 58.930% (2009 - 64.600%) proportionate interest of the following:

	2010	2009
Statement of Financial Position		
Financial Assets	\$ <u>3,146,546</u>	\$ <u>4,068,453</u>
Liabilities		
Current liabilities	\$ 271,165	\$ 1,021,203
Long-term liabilities	<u>18,375,000</u>	<u>20,301,000</u>
Total liabilities	<u>18,646,165</u>	<u>21,322,203</u>
Net Financial Debt	(15,499,619)	(17,253,750)
Non-Financial Assets		
Tangible Capital Assets	<u>93,018,512</u>	<u>94,282,187</u>
Accumulated Surplus	\$ <u>77,518,893</u>	\$ <u>77,028,437</u>
Statement of Operations		
Revenues	\$ 9,451,926	\$ 9,003,700
Expenses - excluding amortization	7,123,655	7,272,063
Amortization	<u>1,837,815</u>	<u>1,756,248</u>
Net revenues	\$ <u>490,456</u>	\$ <u>(24,611)</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 \$108,628 (2009 - \$123,365). The Consolidated Statement of Financial Position also reflects long term liabilities due to the Agency for the water project in the amount of \$58,551 (2009 - \$66,668).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2010 are charges for the operation of the water treatment plant in the amount of \$2,790,906 (2009 - \$2,719,389).

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

19. EXPENDITURE BY OBJECT

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

	2010	2009
Salaries, wages and employee benefits	\$ 58,187,039	\$ 54,771,733
Net long-term debt interest charges	2,887,597	3,513,021
Materials and supplies	22,709,364	25,643,686
Contracted services	9,117,270	11,021,124
Amortization	<u>14,953,332</u>	<u>14,720,548</u>
Total	<u>\$ 107,854,602</u>	<u>\$ 109,670,112</u>

20. GOVERNMENT TRANSFERS

	2010	2009
Operating		
Province of Ontario		
OMPF - Unconditional	\$ 182,400	\$ 228,000
Program Support	409,171	479,236
Provincial Gas Tax	<u>384,135</u>	<u>658,021</u>
	975,706	1,365,257
Government of Canada		
Program Support	<u>24,500</u>	<u>35,500</u>
Total Operating	<u>1,000,206</u>	<u>1,400,757</u>
Capital		
Province of Ontario		
Provincial Gas Tax	365,959	21,007
Investing in Ontario Act	-	-
Municipal Road and Bridge Fund	-	-
Ministry of Transportation	332,742	289,283
Ministry of Finance - JEPP	4,327	-
ISF	2,264,576	524,642
RinC	246,704	143,520
COMRIF	70,610	134,453
CSIF	582,584	3,942,246
Ministry of Finance - MIII funding	-	-
Drainage Grants	<u>105,037</u>	<u>60,389</u>
	3,972,539	5,115,540
Government of Canada		
Federal Gas Tax	1,896,780	3,063,844
ACAP	241,707	286,972
ISF	2,264,576	524,642
RinC	246,704	143,520
COMRIF	70,610	134,453
CSIF	<u>4,483,801</u>	<u>5,966,178</u>
	<u>9,204,178</u>	<u>10,119,609</u>
Total Capital	<u>13,176,717</u>	<u>15,235,149</u>
Total Government Transfers	<u>\$ 14,176,923</u>	<u>\$ 16,635,906</u>

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

21. SEGMENTED REPORTING

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

General Government

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

Protection Services

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

Transportation Services

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

Environmental Services

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

Health Services

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

CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements year ended December 31, 2010

21. 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.

22. 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.

23. 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. The City has retained ownership to the remaining 43.96 acres. The net proceeds on disposition of the 43.64 acres was recorded in the Land Purchase Reserve 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, 2010 was \$1,871,288 (2009 - \$1,922,674). 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, 2010

24. 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, 2010 amounted to \$120,165 (2009 - \$311,419) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$550,649 (2009 - \$469,049), have been provided for from the reserve fund and are accordingly reported as an expenditure on the Consolidated Statement of Operations.

25. 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 2010 (2009 - 10%). The total amount of protection for these properties amounted to \$283,848 (2009 - \$293,680).

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

26. 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 \$826,401 (2009 - \$879,244)

CORPORATION OF THE CITY OF SARNIA

Schedule A

Schedule of Segment Disclosure
year ended December 31, 2010

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

CORPORATION OF THE CITY OF SARNIA

Schedule A

Schedule of Segment Disclosure
year ended December 31, 2009

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2009 Total
REVENUES									
Taxation	\$ 54,851,581	\$ -	\$ 2,793,207	\$ 67,863	\$ -	\$ -	\$ -	\$ -	\$ 57,712,651
Fees and service charges	948,083	788,721	3,413,444	24,991,866	-	158,110	2,385,593	1,408,951	34,094,768
Grants	272,295	344,970	1,248,557	14,387,468	-	78,427	297,463	-	16,629,180
Rents and financial	3,363,521	3,247	16,040	16,855	-	-	29,392	19,503	3,448,558
Other municipal	-	1,292,200	939,136	273,564	-	-	13,000	909,653	3,427,553
Other	1,977,193	8,821	2,644,479	4,623,960	-	8,272	669,851	2,233,731	12,166,307
	61,412,673	2,437,959	11,054,863	44,361,576	-	244,809	3,395,299	4,571,838	127,479,017
EXPENSES									
Salaries and benefits	4,929,449	31,221,796	9,455,978	4,121,886	-	178,977	4,256,292	607,355	54,771,733
Materials	2,922,565	3,028,479	5,348,987	10,780,987	526	149,977	2,551,843	860,322	25,643,686
Contracted services	359,519	165,633	367,137	9,996,101	-	-	-	132,734	11,021,124
Long-term debt - interest	29,578	103,339	104,135	2,492,530	-	-	464,726	318,713	3,513,021
Amortization	1,191,030	900,946	5,005,047	6,489,375	-	-	1,134,150	-	14,720,548
Other	5,100	343,166	1,517,388	2,227,468	76,888	13,000	348,837	114,635	4,646,482
Unfunded liabilities	1,139,744	(32,192)	(4,864)	(45,933)	-	11,628	(64,260)	(6,400)	997,723
	10,576,985	35,731,167	21,793,808	36,062,414	77,414	353,582	8,691,588	2,027,359	115,314,317
NET SURPLUS (DEFICIT)	\$ 50,835,688	\$ (33,293,208)	\$ (10,738,945)	\$ 8,299,162	\$ (77,414)	\$ (108,773)	\$ (5,296,289)	\$ 2,544,479	\$ 12,164,700



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the trust funds of the City of Sarnia, which comprise the statement of financial position as at December 31, 2010 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 accounting standards for public sector accounting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2010 and the continuity of the trust funds for the year then ended in accordance with Canadian accounting standards for public sector accounting.

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
September 12, 2011

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

**Statement of Continuity of Trust Funds
year ended December 31, 2010**

	Cemetery Care and Maintenance	Boarding Home Program	Election Candidate Surplus	2010 Total	2009 Total
FUND BALANCES, BEGINNING OF YEAR	\$ <u>10,728</u>	\$ <u>72,373</u>	\$ <u>2,785</u>	\$ <u>85,886</u>	\$ <u>85,665</u>
REVENUES					
Interest earned					
Investment income	<u>55</u>	<u>368</u>	<u>5</u>	<u>428</u>	<u>221</u>
Total revenues	<u>55</u>	<u>368</u>	<u>5</u>	<u>428</u>	<u>221</u>
EXPENDITURES					
Surplus returned	<u>-</u>	<u>-</u>	<u>2,790</u>	<u>2,790</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>2,790</u>	<u>2,790</u>	<u>-</u>
FUND BALANCES, END OF YEAR	\$ <u>10,783</u>	\$ <u>72,741</u>	\$ <u>-</u>	\$ <u>83,524</u>	\$ <u>85,886</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, 2010**

	Cemetery Care and Maintenance	Boarding Home Program	Election Candidate Surplus	2010 Total	2009 Total
ASSETS					
Due from municipality	<u>10,783</u>	<u>72,741</u>	<u>-</u>	<u>\$ 83,524</u>	<u>\$ 85,886</u>
Total assets	<u>\$ 10,783</u>	<u>\$ 72,741</u>	<u>\$ -</u>	<u>\$ 83,524</u>	<u>\$ 85,886</u>
FUND BALANCES	<u>\$ 10,783</u>	<u>\$ 72,741</u>	<u>\$ -</u>	<u>\$ 83,524</u>	<u>\$ 85,886</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, 2010**

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.

The Election Candidate Surplus trust fund was established in accordance with the Municipal Elections Act to hold surplus municipal election campaign funds on behalf of candidates.