

**The Corporation of
The City of Sarnia**

Financial Statements
For the Year Ended December 31, 2016



**THE CORPORATION OF
THE CITY OF SARNIA**

**FINANCIAL STATEMENTS
2016**

**THE CORPORATION OF THE CITY OF SARNIA
2016**

CITY COUNCIL

Mayor	Mike Bradley
Councillors	Dave Boushy
	Andy Bruziewicz
	Anne Marie Gillis
	Mike Kelch
	Bev MacDougall
	Matt Mitro
	Cindy Scholten
	Brian White

CITY ADMINISTRATION

City Manager	Margaret Misek-Evans
City Clerk	Dianne Gould-Brown
Director of Finance	Lisa Armstrong
City Solicitor	Scott McEachran
City Engineer	André Morin
Director of Planning and Building	Alan Shaw
Director of Parks and Recreation	Rob Harwood
Fire Chief	John Kingyens
Chief of Police	Phil Nelson

THE CORPORATION OF THE CITY OF SARNIA
2016

POLICE SERVICES BOARD

Chairperson	Mayor Mike Bradley
Vice Chairperson	Sandy Whyte
Councillors	Matt Mitro
	Scott Palko
	John Girard
Secretary	Scott McEachran

SARNIA POWER CORPORATION

Chairperson	Firman Bentley
Vice Chairperson	Richard Grogan
Director	Glenn Jones

AUDITORS

BDO Canada LLP

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements
Year ended December 31, 2016

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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, 2016 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, 2016 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 Professional Accountants, Licensed Public Accountants

Sarnia, Ontario
May 29, 2017

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Financial Position

As at December 31, 2016

	2016	2015
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 56,679,430	\$ 50,523,094
Taxes receivable	4,966,478	5,570,261
Accounts receivable	16,467,569	12,895,909
Long-term receivables (note 5)	368,259	384,201
Investment in Sarnia Power Corporation (note 6)	<u>53,331,539</u>	<u>52,267,911</u>
Total financial assets	<u>131,813,275</u>	<u>121,641,376</u>
LIABILITIES		
Accounts payable and accrued liabilities	18,808,629	14,009,166
Other current liabilities	8,203,273	7,937,508
Deferred revenue (note 8)	19,366,605	21,873,845
Net long-term liabilities (note 9)	16,479,219	19,162,870
Interest on net long-term liabilities	49,471	75,388
Landfill closure and post-closure liability (note 10)	206,339	222,854
Employee future benefits (note 11)	38,876,148	39,280,841
Accrued tax liabilities (note 13)	<u>2,902,374</u>	<u>3,091,297</u>
Total liabilities	<u>104,892,058</u>	<u>105,653,769</u>
NET FINANCIAL ASSETS	<u>26,921,217</u>	<u>15,987,607</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 14)	507,880,494	497,269,161
Other assets	<u>5,317,941</u>	<u>5,080,409</u>
Total non-financial assets	<u>513,198,435</u>	<u>502,349,570</u>
Accumulated Surplus (note 15)	<u><u>\$ 540,119,652</u></u>	<u><u>\$ 518,337,177</u></u>

Approved on behalf of City Council

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Operations

For the year ended December 31, 2016

	2016 Budget	2016	2015
REVENUE			
Property taxation (note 13)	\$ 70,808,462	\$ 71,114,784	\$ 67,304,025
User fees and service charges	41,454,618	42,775,532	41,446,259
User fees and service charges-other municipalities	3,026,712	3,284,279	3,417,932
Government transfers-operating (note 21)	3,855,957	3,490,607	2,839,499
Investment income	2,475,984	3,219,881	4,084,065
Penalties and interest on taxes	1,180,000	771,267	1,035,139
Other	1,382,614	2,278,632	2,273,327
Total revenue	<u>124,184,347</u>	<u>126,934,982</u>	<u>122,400,246</u>
EXPENSES			
General government	8,300,762	13,806,775	10,787,468
Protection services	45,052,928	44,744,260	43,977,070
Transportation services	16,596,881	21,399,973	21,336,316
Health services	72,366	74,672	77,956
Environmental services	41,849,462	30,081,842	36,268,360
Social and family services	364,790	446,468	387,881
Recreation and cultural services	9,200,844	10,652,554	11,000,788
Planning and development	1,369,162	1,924,258	1,717,638
Non-functionalized unfunded liabilities	-	(428,903)	364,559
Total expenses	<u>122,807,195</u>	<u>122,701,899</u>	<u>125,918,036</u>
Net revenue (expense)	<u>1,377,152</u>	<u>4,233,083</u>	<u>(3,517,790)</u>
OTHER			
Government transfers - capital (note 21)	-	14,105,138	3,776,492
Capital contributions - developers	-	46,035	20,700
Other related to capital	-	154,992	470,759
Donated assets	-	2,194,690	1,923,146
Share of LAWSS	-	(15,091)	115,534
Sarnia Power Corporation, net change in equity	-	1,063,628	53,241
	<u>-</u>	<u>17,549,392</u>	<u>6,359,872</u>
Annual Surplus	<u>\$ 1,377,152</u>	<u>\$ 21,782,475</u>	<u>\$ 2,842,082</u>
Accumulated Surplus, Beginning of Year		518,337,177	515,495,095
Accumulated Surplus, End of Year		<u>\$ 540,119,652</u>	<u>\$ 518,337,177</u>

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Change in Net Financial Assets

For the year ended December 31, 2016

	2016	2015
Annual Surplus	\$ 21,782,475	\$ 2,842,082
Amortization of tangible capital assets	17,037,164	17,180,698
Proceeds from sale of tangible capital assets	80,281	121,796
Loss on sale of tangible capital assets	335,877	724,798
Acquisition of tangible capital assets	(28,064,655)	(11,904,318)
Change in other assets	(237,532)	6,666
Increase in Net Financial Assets	<u>10,933,610</u>	<u>8,971,722</u>
Net Financial Assets, Beginning of Year	<u>15,987,607</u>	<u>7,015,885</u>
Net Financial Assets, End of Year	<u><u>\$ 26,921,217</u></u>	<u><u>\$ 15,987,607</u></u>

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Cash Flow

For the year ended December 31, 2016

	2016	2015
OPERATING ACTIVITIES		
Annual Surplus	\$ 21,782,475	\$ 2,842,082
Items not involving cash:		
Amortization of tangible capital assets	17,037,164	17,180,698
Loss on sale of tangible capital assets	335,877	724,798
Change in employee future benefits	(404,693)	514,798
Change in landfill closure and post-closure liability	(16,515)	(15,506)
Change in accrued tax liabilities	(188,923)	(487,733)
Change in non-cash assets and liabilities		
Taxes receivable	603,783	854,585
Accounts receivable	(3,571,660)	343,653
Accounts payable and accrued liabilities	4,799,463	(732,389)
Other current liabilities	265,765	979,674
Deferred revenue	(2,507,240)	698,477
Other assets	(237,532)	6,666
	<u>37,897,964</u>	<u>22,909,803</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	80,281	121,796
Acquisition of tangible capital assets	(28,064,655)	(11,904,318)
Net change in cash from capital activities	<u>(27,984,374)</u>	<u>(11,782,522)</u>
INVESTING ACTIVITIES		
Long-term receivables	15,942	52,909
Investment in Sarnia Power Corporation	(1,063,628)	(53,241)
Net change in cash from investing activities	<u>(1,047,686)</u>	<u>(332)</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(25,917)	(34,961)
Long-term liabilities repaid	(4,190,307)	(4,573,026)
Solar Equipment Loan	34,500	-
Brownfield Tax Incentive Grant Program	1,440,171	-
Share of LAWSS debt adjustment	31,985	(186,062)
Net decrease in cash from financing	<u>(2,709,568)</u>	<u>(4,794,049)</u>
Net change in cash and equivalents	6,156,336	6,332,900
Cash and cash equivalents, beginning of year	<u>50,523,094</u>	<u>44,190,194</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 56,679,430</u></u>	<u><u>\$ 50,523,094</u></u>

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

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 CPA Canada. 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) Consolidated Financial Statements

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 2016, the municipality's share of the System was 59.63% (2015 – 59.12%). 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Consolidation**

(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 straightline basis over their estimated useful lives as follows:

Land Improvements	5 to 40 years
Buildings	9 to 80 years
Machinery & Equipment	5 to 25 years
Vehicles	3 to 20 years
Computers	3 to 20 years
Roads	15 to 50 years
Water Distribution	60 years
Sanitary Sewer	50 to 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(ii) Non-Financial Assets

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 2016, tangible capital assets with a value of \$2,194,690 were contributed by developers to the City (2015 - \$1,923,146). 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 bylaws. 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(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 are 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 and items expensed for the capital budget for 2016 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, 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 public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting periods. Actual results could differ from these estimates.

(ix) Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the organization is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

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	\$ 26,129,561	\$ 36,093,848	\$ 62,223,409
Share of payments in lieu of taxes	<u>39,276</u>	<u>459,328</u>	<u>498,604</u>
	<u>26,168,837</u>	<u>36,553,176</u>	<u>62,722,013</u>
Share of taxes written off	553,164	401,506	954,670
Share of tax rebates	<u>254,922</u>	<u>167,236</u>	<u>422,158</u>
	<u>808,086</u>	<u>568,742</u>	<u>1,376,828</u>
Amounts transferred	<u><u>\$ 25,360,751</u></u>	<u><u>\$ 35,984,434</u></u>	<u><u>\$ 61,345,185</u></u>

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$11,552 (2015 - \$11,408) 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:

	2016	2015
Cemetery Care and Maintenance	<u><u>\$ 11,552</u></u>	<u><u>\$ 11,408</u></u>

4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2016	2015
Cash on hand	\$ 25,809	\$ 19,578
Cash in bank	55,602,212	49,356,970
Investments	<u>1,051,409</u>	<u>1,146,546</u>
	<u><u>\$ 56,679,430</u></u>	<u><u>\$ 50,523,094</u></u>

The cash in bank is held at a Canadian chartered bank and earns interest at average monthly Prime Rate less a percentage based on the outstanding balance.

The investments are comprised of ten GICs, recorded at cost, with effective interest rates between 1.30% and 1.46% maturing in 2017. The market value of these investments amounted to \$1,051,409 (2015 - \$1,146,546). Interest is receivable on an annual basis.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

5. LONG-TERM RECEIVABLES

	2016	2015
Mortgage receivable - Seaway Centre, 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 installments 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.	\$ 54,460	\$ 79,945
Loan receivable - employees re Ontario Police College, at 0% interest, repayable over 2 years	27,237	19,759
Loan receivable - Bluewater Gymnastics, at 4.50% interest, repayable in monthly installments including principal and interest of \$1,898 with final payment due July 2023	129,597	146,137
Loan receivable - employee purchase plan, at 0% interest, repayable over 1 to 2 years	23,692	92,685
Mortgage receivable - Sarnia Little Theatre	-	10,000
Loan Receivable - local improvement drain, at 5% interest, repayable in annually installments including principal and interest over 5 to 10 years	78,161	21,540
Loan receivable - issued under Municipal Facade Improvement Program, at 1.125% to 2.75%, repayable in quarterly installments including principal and interest of \$11,111 with a final payment due May 2026	<u>193,861</u>	<u>184,686</u>
	507,008	554,752
Accounts receivable - current portion	<u>138,749</u>	<u>170,551</u>
Total long-term receivables	<u><u>\$ 368,259</u></u>	<u><u>\$ 384,201</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

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 financial statements of Sarnia Power Corporation were prepared in accordance with IFRS.

The investment is composed of the following:

	2016	2015
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>21,035,277</u>	<u>19,971,649</u>
	<u>\$ 53,331,539</u>	<u>\$ 52,267,911</u>

The notes receivable are unsecured and bear interest at the rate of 6.73% effective May 1, 2016 (in 2015 6.39%). Interest received from these notes receivable amounted to \$1,069,024 (2015 - \$1,069,024) and is reported in the Consolidated Statement of Operations.

Continuity of Investment

	2016	2015
Balance, beginning of year	\$ 52,267,911	\$ 52,214,670
Net income for the year	2,440,423	3,290,002
Dividends received during the year	(1,376,795)	(2,339,082)
Adjustment to equity due to policy change	<u>-</u>	<u>(897,679)</u>
Net increase in equity during the year	<u>1,063,628</u>	<u>53,241</u>
Balance, end of year	<u>\$ 53,331,539</u>	<u>\$ 52,267,911</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

6. INVESTMENT IN SARNIA POWER CORPORATION

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

	2016	2015
Financial Position		
Assets		
Current assets	\$ 33,630,344	\$ 32,798,683
Non-current assets	<u>68,108,376</u>	<u>63,054,937</u>
Total assets	101,738,720	95,853,620
Regulatory balances	<u>2,572,446</u>	<u>6,660,625</u>
Total assets and regulatory balances	<u><u>\$ 104,311,166</u></u>	<u><u>\$ 102,514,245</u></u>
Liabilities		
Current liabilities	\$ 20,466,249	\$ 22,046,594
Long-term liabilities	<u>37,797,675</u>	<u>35,592,704</u>
Total liabilities	<u>58,263,924</u>	<u>57,639,298</u>
Equity		
Share Capital	15,566,626	15,566,626
Retained earnings	23,699,659	20,931,837
Accumulated other comprehensive loss	(2,664,382)	(960,188)
Non-controlling interest	<u>5,933,716</u>	<u>5,761,286</u>
Total equity	<u>42,535,619</u>	<u>41,299,561</u>
Total liabilities and equity	<u>100,799,543</u>	<u>98,938,859</u>
Regulatory balances	<u>3,511,623</u>	<u>3,575,386</u>
Total liabilities, equity and regulatory balances	<u><u>\$ 104,311,166</u></u>	<u><u>\$ 102,514,245</u></u>
Results of Operations		
Revenues	\$ 148,783,279	\$ 136,533,346
Operating expenses	<u>140,443,341</u>	<u>135,122,602</u>
Income from operating activities	8,339,938	1,410,744
Regulatory balances	(3,523,416)	2,449,358
Other comprehensive income	<u>(1,980,470)</u>	<u>(36,741)</u>
Total comprehensive income	2,836,052	3,823,361
Non-controlling interest	<u>(395,629)</u>	<u>(533,359)</u>
Net income	<u><u>\$ 2,440,423</u></u>	<u><u>\$ 3,290,002</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

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, 2016. Amounts obtained under this credit are due on demand and bear interest at the bank's prime rate less 0.65%, calculated and payable monthly. NIL has been drawn on this line as of December 31, 2016.

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.

	2016	2015
Development Charges Act	\$ 10,552,479	\$ 9,169,417
Recreational land (The Planning Act)	289,819	270,933
Gasoline Tax - Canada	1,741,584	3,297,424
Gasoline Tax - Ontario	1,401,117	1,677,257
Building Permit (Building Code Act)	339,459	-
Federal Harbour Reserve	<u>5,042,147</u>	<u>7,458,814</u>
Total	<u><u>\$ 19,366,605</u></u>	<u><u>\$ 21,873,845</u></u>

Total activities for the above items is summarized as follows:

	2016	2015
Balance, beginning of the year	<u>\$ 21,873,845</u>	<u>\$ 21,175,368</u>
Developer contributions received	1,301,161	1,096,659
Canada grants	2,210,157	2,105,387
Ontario grants	930,725	940,922
Interest earned	201,952	172,373
Provincial Gasoline Tax funding utilized	(1,230,085)	(1,341,563)
Funds earned by municipality	<u>(5,921,150)</u>	<u>(2,275,301)</u>
Net increase / (decrease)	<u>(2,507,240)</u>	<u>698,477</u>
Balance, end of the year	<u><u>\$ 19,366,605</u></u>	<u><u>\$ 21,873,845</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2016

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:

	2016	2015
Total long-term liabilities incurred by the municipality including those incurred on behalf of municipal enterprises issued at various interest rates ranging from 0% to 8% and outstanding at the end of the year amount to	\$ 16,480,742	\$ 19,165,832
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>(1,523)</u>	<u>(2,962)</u>
Net long-term liabilities, end of the year	<u>\$ 16,479,219</u>	<u>\$ 19,162,870</u>

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

2017	\$ 4,439,259
2018	2,502,185
2019	2,185,673
2020	1,920,313
2021	1,255,526
2022 to 2026	2,222,548
2027 onwards	<u>1,953,715</u>
	<u>\$ 16,479,219</u>

- (c) The following is an analysis of the net-long term liabilities by debt instrument:

	2016	2015
Installment (serial) debentures	\$ 2,533,003	\$ 4,570,919
Long-term bank loans	12,785,386	14,581,789
Ontario Clean Water Agency (OCWA)	-	10,162
Brownfield Tax Incentive Grant Program	<u>1,160,830</u>	<u>-</u>
Net long-term liabilities, end of year	<u>\$ 16,479,219</u>	<u>\$ 19,162,870</u>

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

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

9. NET LONG-TERM LIABILITIES

- (d) 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.
- (e) The municipality created a brownfield tax incentive based grant program to promote redevelopment of Brownfields. Under this program the City reimburses a portion of the municipal taxes (City's portion only) to the developer in the form of an annual grant. The total amount outstanding as at December 31, 2016 is \$1,160,830 and is non interest bearing.
- (f) The municipality is contingently liable for long-term liabilities with respect to tile drainage loans. The total amount outstanding as at December 31, 2016 is \$1,523 (2015 - \$2,962) 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:

	2016	2015
Balance, beginning of year	\$ 19,162,870	\$ 23,921,958
Principal payments	(4,190,307)	(4,573,026)
Solar Equipment Loan	34,500	-
Brownfield Tax Incentive Grant Program	1,440,171	-
Adjustment to City share of LAWSS debt	<u>31,985</u>	<u>(186,062)</u>
Balance, end of year	<u><u>\$ 16,479,219</u></u>	<u><u>\$ 19,162,870</u></u>

Actual interest payments related to net long-term liabilities in the current year were \$769,545 (2015 - \$1,168,717).

- (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 loans, are not recorded in these financial statements.

10. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

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 \$206,339 (2015 - \$222,854) 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 6.50%.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

11. 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.

	2016	2015
Sick leave benefits plan	\$ 3,182,800	\$ 2,959,400
Future payments required to WSIB	15,412,861	16,956,064
Post employment benefits	18,882,800	17,991,900
Accrued vacation pay	1,064,120	1,039,643
Accrued overtime pay	<u>333,567</u>	<u>333,834</u>
Total	<u>\$ 38,876,148</u>	<u>\$ 39,280,841</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, 2016	\$ 2,959,400
Current service cost	192,700
Interest on accrued benefit obligation	103,800
Benefit payments	<u>(73,100)</u>
Estimated benefit liability as at December 31, 2016	<u>\$ 3,182,800</u>

Reserve funds amounting to \$32,092 (2015 - \$31,693) at year-end have been established to provide for a portion of this past service liability.

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

2017	\$ 560,614
2018	535,142
2019	118,927
2020	63,184
2021	<u>165,900</u>
Total	<u>\$ 1,443,767</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

11. EMPLOYEE FUTURE BENEFITS

(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 payment made for the year was \$2,757,035 (2015 - \$1,619,005). The estimate of the future benefit costs of \$ 15,412,861 (2015 - \$16,956,064) 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 Survivors' Pensions	16.50 %
Accidents from 1990 to 1997 and Non Economic Loss Pensions	27.06 %
Accidents after 1997	12.72 %
Health Care & Non-income Benefits and ILAs	21.29 %
Administrative loading	6.10 %

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 \$561,731 (2015 - nil).

(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, 2016	\$ 17,991,900
Current service cost	820,700
Interest cost	677,100
Amortization of actuarial experience loss	305,700
Estimated benefits paid	<u>(912,600)</u>
Estimated benefit liability as at December 31, 2016	<u>\$ 18,882,800</u>

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

Accrued benefit obligation as at December 31, 2016	\$ 18,276,200
Less unamortized gains	<u>606,600</u>
Post-retirement benefit liability as at December 31, 2016	<u>\$ 18,882,800</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

11. EMPLOYEE FUTURE BENEFITS

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 4.00% to 7.00%. No reserve fund has been established to provide for this liability. The date of the most recent actuarial valuation was December 31, 2015.

(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, 2016 is \$1,064,121 (2015 - \$1,039,643).

(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, 2016 is \$333,567 (2015 - \$333,834).

12. 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 470,000 active and retired members and approximately 1,000 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, 2016. The results of this valuation disclosed total actuarial liabilities of \$86,959 million in respect of benefits accrued for service with actuarial assets at that date of \$81,239 million indicating an actuarial deficit of \$5,720 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 2016 was \$5,335,383 (2015 - \$5,209,254) for current service. The OMERS Board rate was 9.00% to 14.60% depending on income level for 2016 (2015 - 9.00% to 14.60% depending on income level).

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

13. ACCRUED TAX LIABILITIES

	2016	2015
Taxation Revenue - General Levy	\$ 66,547,956	\$ 63,065,113
Taxation Revenue - Supplementary Tax Levy	725,551	583,846
Payment in Lieu Taxation Revenue	1,225,212	1,173,528
Other Taxation Revenue - Local Improvement	243,429	434,352
Taxation Revenue - Transit Levy	3,833,819	3,753,226
Taxation Revenue - Supplementary Transit Tax Levy	<u>44,311</u>	<u>22,157</u>
Subtotal of Taxation Revenue	72,620,278	69,032,222
Tax Write - offs	(1,370,484)	(1,630,398)
Tax Rebates and Exemptions	(323,933)	(272,866)
Accrued Tax Liability	<u>188,923</u>	<u>175,067</u>
Subtotal of Tax Write - off's, Rebates and Exemptions	<u>1,505,494</u>	<u>1,728,197</u>
Total Property Taxation	<u>\$ 71,114,784</u>	<u>\$ 67,304,025</u>

Reconciliation of Assessment Appeal Provision and Accrued Tax Liability

	2016	2015
Estimate of expected appeals	\$ 3,366,219	\$ 3,417,044
Estimate of expected supplementary taxes	(932,108)	(664,246)
Other adjustments	<u>468,263</u>	<u>338,499</u>
Potential Future Tax Liability	<u>\$ 2,902,374</u>	<u>\$ 3,091,297</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 Assessment 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 CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
Year Ended December 31, 2016**

14. TANGIBLE CAPITAL ASSETS

2016	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2016	2015
Cost													
Balance, Beginning of year	\$125,149,550	\$ 28,517,438	\$87,029,303	\$ 74,413,011	\$29,050,978	\$ 3,341,292	\$224,678,434	\$125,187,768	\$48,089,169	\$ 76,488,381	\$ 9,719,645	\$831,664,969	\$823,957,037
Add: additions during the year	145,248	1,400,259	1,697,104	1,509,331	1,698,275	473,815	3,958,715	1,884,555	1,071,299	2,305,257	18,944,571	35,088,429	15,849,862
Less: disposals during the year	(3,100)	-	(30,400)	(335,840)	(349,789)	(23,920)	(536,057)	(83,673)	(11,177)	(3,273)	(7,474,178)	(8,851,407)	(5,498,066)
Other	6,488	3,443	219,013	190	-	-	-	427,163	-	-	7,053	663,350	(2,643,864)
Balance, end of year	125,298,186	29,921,140	88,915,020	75,586,692	30,399,464	3,791,187	228,101,092	127,415,813	49,149,291	78,790,365	21,197,091	858,565,341	831,664,969
Accumulated Amortization													
Balance, beginning of year	-	22,975,576	39,101,677	44,268,334	14,672,647	2,872,139	110,788,811	46,228,662	18,655,801	34,832,161	-	334,395,808	320,564,902
Add: amortization	-	1,292,634	1,955,918	2,976,215	1,747,663	261,996	4,824,709	1,817,708	812,229	1,348,092	-	17,037,164	17,180,698
Less: accumulated amortization on disposals	-	-	(30,400)	(221,150)	(274,404)	(23,920)	(330,115)	(67,517)	(11,177)	(2,388)	-	(961,071)	(2,533,569)
Other	-	3,037	94,608	163	-	-	-	115,138	-	-	-	212,946	(816,223)
Balance, end of year	-	24,271,247	41,121,803	47,023,562	16,145,906	3,110,215	115,283,405	48,093,991	19,456,853	36,177,865	-	350,684,847	334,395,808
Net book value of tangible capital assets	\$125,298,186	\$ 5,649,893	\$47,793,217	\$ 28,563,130	\$14,253,558	\$ 680,972	\$112,817,687	\$ 79,321,822	\$29,692,438	\$ 42,612,500	\$ 21,197,091	\$507,880,494	\$497,269,161

THE CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
Year Ended December 31, 2016**

14. TANGIBLE CAPITAL ASSETS

2015	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2015	2014
Cost													
Balance, beginning of year	\$125,163,630	\$ 28,302,969	\$86,642,389	\$ 73,230,612	\$28,655,724	\$ 3,331,197	\$222,132,999	\$126,479,547	\$47,366,888	\$ 75,893,901	\$ 6,757,181	\$823,957,037	\$807,518,552
Add: additions during the year	12,000	236,909	1,326,939	1,436,563	2,578,165	10,095	3,109,973	433,926	906,190	703,205	5,095,897	15,849,862	16,320,323
Less: disposals during the year	-	(8,600)	(69,400)	(253,400)	(2,182,911)	-	(564,538)	(8,679)	(183,909)	(108,725)	(2,117,904)	(5,498,066)	(2,435,534)
Other	(26,080)	(13,840)	(870,625)	(764)	-	-	-	(1,717,026)	-	-	(15,529)	(2,643,864)	2,553,696
Balance, end of year	125,149,550	28,517,438	87,029,303	74,413,011	29,050,978	3,341,292	224,678,434	125,187,768	48,089,169	76,488,381	9,719,645	831,664,969	823,957,037
Accumulated Amortization													
Balance, beginning of year	-	21,719,126	37,559,154	41,486,883	14,802,613	2,605,489	106,098,777	44,868,311	17,906,731	33,517,818	-	320,564,902	303,318,449
Add: amortization	-	1,275,893	1,952,580	2,946,316	1,678,209	266,650	5,115,175	1,810,365	793,515	1,341,995	-	17,180,698	17,149,225
Less: accumulated amortization on disposals	-	(7,526)	(52,050)	(164,258)	(1,808,175)	-	(425,141)	(4,322)	(44,445)	(27,652)	-	(2,533,569)	(664,346)
Other	-	(11,917)	(358,007)	(607)	-	-	-	(445,692)	-	-	-	(816,223)	761,574
Balance, end of year	-	22,975,576	39,101,677	44,268,334	14,672,647	2,872,139	110,788,811	46,228,662	18,655,801	34,832,161	-	334,395,808	320,564,902
Net book value of tangible capital assets	\$125,149,550	\$ 5,541,862	\$47,927,626	\$ 30,144,677	\$14,378,331	\$ 469,153	\$113,889,623	\$ 78,959,106	\$29,433,368	\$ 41,656,220	\$ 9,719,645	\$497,269,161	\$503,392,135

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

15. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2016	2015
Investment in tangible capital assets	\$ 507,880,494	\$ 497,269,161
Investment in land inventories held for sale	4,431,353	4,467,786
Capital fund	(258,078)	(635,111)
Reserves and reserve funds	33,247,895	29,800,680
Equity in Sarnia Power Corporation	53,331,539	52,267,911
Less: unfunded liabilities	<u>(58,513,551)</u>	<u>(64,833,250)</u>
Accumulated Surplus	<u><u>\$ 540,119,652</u></u>	<u><u>\$ 518,337,177</u></u>

16. EXPENDITURE BY OBJECT

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

	2016	2015
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	\$ 70,723,412	\$ 68,999,779
Materials	21,488,333	26,307,137
Contracted services	11,864,682	11,073,249
Net long-term liability interest charges	743,450	1,133,756
Amortization of tangible capital assets	17,037,164	17,180,698
Other	<u>844,858</u>	<u>1,223,417</u>
Total	<u><u>\$ 122,701,899</u></u>	<u><u>\$ 125,918,036</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

17. RESERVES AND RESERVE FUNDS

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

	2016	2015
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 3,489,743	\$ 1,071,537
replacement of equipment	4,197,794	4,625,088
capital projects	16,911,387	16,696,692
other	<u>812,118</u>	<u>988,166</u>
Total reserves	<u>\$ 25,411,042</u>	<u>\$ 23,381,483</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 32,092	\$ 31,693
self-insurance	627,274	600,691
Workplace Safety and Insurance Board	561,731	-
sub-division development	45,173	45,173
waterfront development	362,403	550,815
Sarnia Bay improvements	172,391	190,295
operation of Airport	24,767	55,107
operation of Harbour	1,390,797	873,802
capital projects	2,564,672	1,972,069
special projects	2,000,317	2,045,002
legacy	<u>55,236</u>	<u>54,550</u>
Total discretionary reserve funds	<u>\$ 7,836,853</u>	<u>\$ 6,419,197</u>
Total reserves and reserve fund balances, end of year	<u><u>\$ 33,247,895</u></u>	<u><u>\$ 29,800,680</u></u>

The municipality is committed to pay the interest earned on approximately \$624,767 (2015 - \$665,107) of the reserve funds to outside agencies.

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 CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

18. JOINT LOCAL BOARD CONSOLIDATION - LAWSS

The consolidated financial statements include the municipality's 59.63% (2015 - 59.12%) proportionate interest of the following:

	2016	2015
Statement of Financial Position		
Financial Assets	<u>\$ 4,321,618</u>	<u>\$ 4,218,515</u>
Liabilities		
Current liabilities	\$ 1,238,820	\$ 905,869
Long-term liabilities	<u>3,257,000</u>	<u>6,274,000</u>
Total liabilities	<u>4,495,820</u>	<u>7,179,869</u>
Net Financial Debt	<u>(174,202)</u>	<u>(2,961,354)</u>
Non-Financial Assets		
Tangible capital assets	<u>88,399,593</u>	<u>88,314,614</u>
Accumulated Surplus	<u>\$ 88,225,391</u>	<u>\$ 85,353,260</u>
Statement of Operations		
Revenues	\$ 10,276,298	\$ 10,369,169
Expenses - excluding amortization	5,538,552	6,601,152
Amortization	<u>1,865,614</u>	<u>1,938,370</u>
Net revenues	<u>\$ 2,872,132</u>	<u>\$ 1,829,647</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 nil (2015 - \$6,635). The Consolidated Statement of Financial Position also reflects long-term liabilities due to the Agency for the water project in the amount of nil (2015 - \$3,527).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2016 are charges for the operation of the water treatment plant in the amount of \$2,455,183 (2015 - \$2,409,777).

THE CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
Year Ended December 31, 2016**

20. BUDGET VARIANCE

The following chart reconciles the 2016 budget with the 2016 actuals found in the consolidated statement of operations:

	2016 Budget	LAWSS adjusting entries	Addition, Deletion and Amortization entries	Other Reconciling items	2016 Revised budget	2016 Actual	Variance Favourable / (Unfavourable)
REVENUE							
Property taxation	\$ 70,808,462	\$ -	\$ -	\$ 958,785 ¹	\$ 71,767,247	\$ 71,114,784	\$ (652,463)
User fees and service charges	41,454,618	-	-	375,869 ^{1,2}	41,830,487	42,775,532	945,045
User fees and service charges-other municipalities	3,026,712	106,512	-	-	3,133,224	3,284,279	151,055
Government transfers-operating	3,855,957	-	-	-	3,855,957	3,490,607	(365,350)
Investment income	2,475,984	28,632	-	410,060 ¹	2,914,676	3,219,881	305,205
Penalties and interest on taxes	1,180,000	-	-	-	1,180,000	771,267	(408,733)
Other	1,382,614	-	-	558,317 ¹	1,940,931	2,278,632	337,701
Total revenue	\$ 124,184,347	\$ 135,144	\$ -	\$ 2,303,031	\$ 126,622,522	\$ 126,934,982	\$ 312,460
EXPENSES							
General government	\$ 8,300,762	\$ -	\$ 1,170,032	\$ 4,564,172 ¹	\$ 14,034,966	\$ 13,806,775	\$ 228,191
Protection services	45,052,928	-	976,817	(669,554) ²	45,360,191	44,744,260	615,931
Transportation services	16,596,881	-	6,294,521	(1,641,828) ^{1,2}	21,249,574	21,399,973	(150,399)
Environmental services	41,849,462	(228,876)	6,502,915	(18,322,860) ^{1,2}	29,800,641	30,081,842	(281,201)
Health services	72,366	-	-	-	72,366	74,672	(2,306)
Social and family services	364,790	-	-	-	364,790	446,468	(81,678)
Recreation and cultural services	9,200,844	-	1,324,824	-	10,525,668	10,652,554	(126,886)
Planning and development	1,369,162	-	-	-	1,369,162	1,924,258	(555,096)
Non-functionalized unfunded liabilities	-	-	-	(428,903) ¹	(428,903)	(428,903)	-
Total expenses	\$ 122,807,195	\$ (228,876)	\$ 16,269,109	\$ (16,498,973)	\$ 122,348,455	\$ 122,701,899	\$ (353,444)
NET REVENUE	\$ 1,377,152	\$ 364,020	\$ (16,269,109)	\$ 18,802,004	\$ 4,274,067	\$ 4,233,083	\$ (40,984)

1. These reconciling items were not budgeted;

2. The actual amount has been eliminated due to the internal allocation.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

21. GOVERNMENT TRANSFERS

	2016	2015
Operating		
Province of Ontario		
Unconditional	\$ 2,421,699	\$ 1,674,799
Program Support	338,562	369,701
Provincial Gas Tax	459,273	479,048
	<u>3,219,534</u>	<u>2,523,548</u>
Government of Canada		
Program Support	23,237	25,425
Harbour	247,836	290,526
	<u>271,073</u>	<u>315,951</u>
Total Operating	<u>3,490,607</u>	<u>2,839,499</u>
Capital		
Province of Ontario		
Provincial Gas Tax	747,593	757,185
Ministry of Environment	-	24,310
AFC	-	32,546
Drainage Grants	56,460	47,592
OCIF	765,745	765,745
CISO	-	8,000
SCF	6,307,703	-
	<u>7,877,501</u>	<u>1,635,378</u>
Government of Canada		
Federal Gas Tax	3,925,937	1,571,914
CIP 150	107,869	-
Enabling Assessibility Fund	25,000	157,106
Harbour	2,168,831	317,094
GLSF	-	95,000
	<u>6,227,637</u>	<u>2,141,114</u>
Total Capital	<u>14,105,138</u>	<u>3,776,492</u>
Total Government Transfers	<u>\$17,595,745</u>	<u>\$ 6,615,991</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

22. SEGMENTED REPORTING

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

General Government

General Government is comprised of various departments including the Clerk's, Finance, 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, Fire Services and By-law enforcement 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. By-law enforcement department includes parking, building permits and animal control.

Transportation Services

Transportation Services consists of road maintenance and construction as well as Sarnia Transit, winter control, 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

22. SEGMENTED REPORTING

Health Services

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

Social and Family Services

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

Recreation and Cultural Services

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

Planning and Development

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

23. OUTSTANDING LITIGATION

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

24. CONTAMINATED SITES

Centennial Park – The Municipality is faced with the remediation of Centennial Park due to contaminants found in the top soil and subsoil/fill. A liability of \$152,912 (2015 - \$3 million) was accrued for the remaining remediation of Centennial Park. The City engaged Golder Associates to investigate a tar-like substance breaking out at ground level at random locations in the park. Both a Phase I and Phase II Environmental Site Assessment (ESA) was carried out to review historical ownership and land uses of the site, and to determine potential contaminants. During the Phase II ESA, contaminants such as lead, hydrocarbons, asbestos, etc. were discovered and on December 2, 2013, Council approved the proceeding of a Remedial Action Plan (RAP) for Centennial Park. The RAP was formally approved by Council on June 30, 2014 and the staff's intention to portion the remediation work in three main phases in 2014, 2015 and 2016. The remaining remediation is expected to be completed in 2017.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2016

25. PUBLIC LIABILITY INSURANCE

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

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

The municipality has made provision for a reserve fund for self-insurance which at December 31, 2016 amounted to \$627,274 (2015 - \$600,691) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$541,135 (2015 - \$641,999), have been provided for from the reserve fund and are accordingly reported as an expenditure on the Consolidated Statement of Operations

26. PROPERTY TAX CAPPING

The province has required municipalities to limit assessment related tax increases for individual, commercial, industrial and multi-residential properties to 10% for 2016 (2015 - 10%). The total amount of protection for these properties amounted to \$17,943 (2015 - \$16,018).

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

27. RELATED PARTY TRANSACTIONS

The municipality has contracted with Bluewater Power Distribution Corporation to provide billing and collection services for water and sewer charges on a cost recovery basis. The municipality has also contracted with Bluewater Power Distribution Corporation to provide water meter management, repair and replacement services. Charges for the year were \$2,998,338 (2015 - \$2,870,352)

28. COMPARATIVE AMOUNTS

Certain comparative amounts presented in the financial statements have been restated to conform with the current year's presentation.

The Corporation of the City of Sarnia Schedule A

Schedule of Segment Disclosure

For the Year Ended December 31, 2016

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2016 Total
REVENUES									
Property taxation	\$ 67,296,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,296,523
User fees and service charges	719,526	1,743,314	7,694,257	32,612,875	-	258,170	3,126,955	484,731	46,639,828
Grants	2,437,470	218,502	4,559,217	10,088,700	-	53,188	127,869	110,799	17,595,745
Rents and financial	3,685,745	398	164,749	82,018	-	-	27,449	30,788	3,991,147
Other municipalities	1,899	1,455,162	841,800	210,063	-	-	-	775,355	3,284,279
Other	3,471,360	79,776	137,877	1,287,538	-	3,816	616,122	80,363	5,676,852
	<u>77,612,523</u>	<u>3,497,152</u>	<u>13,397,900</u>	<u>44,281,194</u>	<u>-</u>	<u>315,174</u>	<u>3,898,395</u>	<u>1,482,036</u>	<u>144,484,374</u>
EXPENSES									
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	6,436,617	40,572,531	8,197,006	9,145,209	-	196,135	5,296,447	879,467	70,723,412
Materials	3,752,677	3,410,905	5,635,157	3,807,308	-	215,394	3,733,422	933,470	21,488,333
Contracted services	931,579	144,253	1,430,077	9,035,523	-	32,500	172,719	118,031	11,864,682
Net long-term liability interest charges	-	-	122	541,477	-	-	196,692	5,159	743,450
Amortization of tangible capital assets	1,202,991	928,404	6,088,580	7,492,366	-	-	1,324,823	-	17,037,164
Other	3,225	410,160	205,942	138,159	74,672	6,000	6,500	200	844,858
	<u>12,327,089</u>	<u>45,466,253</u>	<u>21,556,884</u>	<u>30,160,042</u>	<u>74,672</u>	<u>450,029</u>	<u>10,730,603</u>	<u>1,936,327</u>	<u>122,701,899</u>
NET SURPLUS (DEFICIT)	<u>\$ 65,285,434</u>	<u>\$ (41,969,101)</u>	<u>\$ (8,158,984)</u>	<u>\$ 14,121,152</u>	<u>\$ (74,672)</u>	<u>\$ (134,855)</u>	<u>\$ (6,832,208)</u>	<u>\$ (454,291)</u>	<u>\$ 21,782,475</u>

The Corporation of the City of Sarnia Schedule A

Schedule of Segment Disclosure

For the Year Ended December 31, 2015

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2015 Total
REVENUES									
Property taxation	\$ 63,600,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,600,736
User fees and service charges	822,214	1,893,678	7,532,792	31,363,056	-	179,048	2,887,858	491,602	45,170,248
Grants	1,729,530	263,203	2,636,501	1,756,913	-	75,246	84,310	70,287	6,615,990
Rents and Financial	4,829,366	371	146,863	72,545	-	-	27,173	42,888	5,119,206
Other municipal	4,138	1,507,402	806,134	347,486	-	-	-	752,772	3,417,932
Other	2,504,277	33,200	342,437	1,423,169	-	1,894	523,964	7,065	4,836,006
	<u>73,490,261</u>	<u>3,697,854</u>	<u>11,464,727</u>	<u>34,963,169</u>	<u>-</u>	<u>256,188</u>	<u>3,523,305</u>	<u>1,364,614</u>	<u>128,760,118</u>
EXPENSES									
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	5,724,599	39,701,301	7,939,108	9,312,219	-	213,227	5,238,286	871,039	68,999,779
Materials	2,355,565	3,431,340	6,361,952	8,924,109	-	178,070	4,283,964	772,137	26,307,137
Contracted services	705,640	119,151	489,553	9,608,957	-	-	77,892	72,056	11,073,249
Net long-term liabilities interest charges	-	1,166	1,623	747,596	-	-	368,884	14,487	1,133,756
Amortization of tangible capital assets	1,206,858	917,338	6,308,271	7,454,212	-	-	1,294,019	-	17,180,698
Other	-	438,291	398,533	308,682	77,956	-	(245)	200	1,223,417
	<u>9,992,662</u>	<u>44,608,587</u>	<u>21,499,040</u>	<u>36,355,775</u>	<u>77,956</u>	<u>391,297</u>	<u>11,262,800</u>	<u>1,729,919</u>	<u>125,918,036</u>
NET SURPLUS (DEFICIT)	<u>\$ 63,497,599</u>	<u>\$ (40,910,733)</u>	<u>\$ (10,034,313)</u>	<u>\$ (1,392,606)</u>	<u>\$ (77,956)</u>	<u>\$ (135,109)</u>	<u>\$ (7,739,495)</u>	<u>\$ (365,305)</u>	<u>\$ 2,842,082</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, 2016 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, 2016 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Sarnia, Ontario
May 29, 2017

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

**Statement of Continuity of Trust Funds
Year ended December 31, 2016**

	2016 Total	2015 Total
FUND BALANCES, BEGINNING OF YEAR	\$ 11,408	\$ 11,275
REVENUES		
Interest earned	144	133
FUND BALANCES, END OF YEAR	<u>\$ 11,552</u>	<u>\$ 11,408</u>

**Statement of Financial Position
as at December 31, 2016**

	2016 Total	2015 Total
ASSETS		
Trust fund	<u>\$ 11,552</u>	<u>\$ 11,408</u>
FUND BALANCES	<u>\$ 11,552</u>	<u>\$ 11,408</u>

The accompanying notes are an integral part of this financial statement.

THE CORPORATION OF THE CITY OF SARNIA TRUST FUNDS

Notes to the Financial Statements

For the Year Ended December 31, 2016

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 CPA Canada. 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.