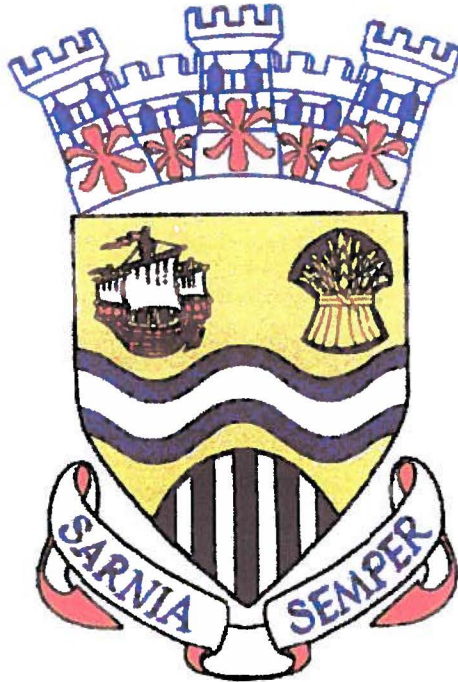


**The Corporation of
The City of Sarnia**

**Financial Statements
For the Year Ended December 31, 2015**



CITY OF SARNIA

THE CORPORATION OF
THE CITY OF SARNIA

FINANCIAL STATEMENTS
2015

THE CORPORATION OF THE CITY OF SARNIA

2015

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 Misk-Evans
City Clerk	Dianne Gould-Brown (acting)
City Solicitor	Scott McEachran
Director of Finance	Lisa Armstrong
City Engineer	Andre Morin
Director of Planning and Building	Alan Shaw (acting)
Director of Parks and Recreation	Beth Gignac
Director of Transit	Jim Stevens
Fire Chief	John Kingyens
Chief of Police	Phil Nelson

THE CORPORATION OF THE CITY OF SARNIA

2015

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, 2015

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BDO Canada LLP
Kenwick Place, 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 consolidated financial statements of the Corporation of the City of Sarnia, which comprise the consolidated statement of financial position as at December 31, 2015 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, 2015 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
June 20, 2016

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Financial Position

As at December 31, 2015

	2015	2014
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 50,523,094	\$ 44,190,194
Taxes receivable	5,570,261	6,424,846
Accounts receivable	12,895,909	13,239,562
Long-term receivables (note 5)	384,201	437,110
Investment in Sarnia Power Corporation (note 6)	52,267,911	52,214,670
Total financial assets	<u>121,641,376</u>	<u>116,506,382</u>
LIABILITIES		
Accounts payable and accrued liabilities	14,009,166	14,741,555
Other current liabilities	7,937,508	6,957,834
Deferred revenue (note 8)	21,873,845	21,175,368
Net long-term liabilities (note 9)	19,162,870	23,921,958
Interest on net long-term liabilities	75,388	110,349
Landfill closure and post-closure liability (note 10)	222,854	238,360
Employee future benefits (note 11)	39,280,841	38,766,043
Accrued tax liabilities (note 13)	3,091,297	3,579,030
Total liabilities	<u>105,653,769</u>	<u>109,490,497</u>
NET FINANCIAL ASSETS	<u>15,987,607</u>	<u>7,015,885</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 14)	497,269,161	503,392,135
Other assets	5,080,409	5,087,075
Total non-financial assets	<u>502,349,570</u>	<u>508,479,210</u>
Accumulated Surplus (note 15)	<u>\$ 518,337,177</u>	<u>\$ 515,495,095</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, 2015

	2015 Budget	2015	2014
REVENUE			
Property taxation (note 13)	\$ 67,870,051	\$ 67,304,025	\$ 62,648,320
User fees and service charges	40,443,220	41,814,251	39,678,423
User fees and service charges-other municipalities	2,978,012	3,417,932	3,325,149
Government transfers-operating (note 21)	3,187,217	2,839,499	2,391,715
Investment income	2,465,984	4,084,065	2,914,764
Penalties and interest on taxes	1,230,000	1,035,139	1,069,782
Contributions - developers	-	-	107,567
Other	1,440,658	2,273,327	2,514,693
Total revenue	119,615,142	122,768,238	114,650,413
EXPENSES			
General government	6,929,720	10,424,496	9,186,772
Protection services	43,287,359	44,160,621	42,363,608
Transportation services	16,553,967	21,336,316	21,183,159
Health services	74,566	77,956	85,000
Environmental services	42,789,199	36,268,360	32,925,620
Social and family services	386,441	387,881	355,365
Recreation and cultural services	9,374,439	11,548,201	12,061,704
Planning and development	1,386,198	1,717,638	1,502,360
Non-functionalized unfunded liabilities	-	364,559	9,130,209
Total expenses	120,781,889	126,286,028	128,793,797
Net expense	(1,166,747)	(3,517,790)	(14,143,384)
OTHER			
Government transfers - capital (note 21)	-	3,776,492	3,553,462
Capital contributions - developers	-	20,700	832,142
Other related to capital	-	470,759	183,652
Donated assets	-	1,923,146	1,842,979
Share of LAWSS	-	115,534	(161,143)
Sarnia Power Corporation, net change in equity	-	53,241	2,353,132
	-	6,359,872	8,604,224
Annual Surplus (Deficit)	\$ (1,166,747)	\$ 2,842,082	\$ (5,539,160)
Accumulated Surplus, Beginning of Year		515,495,095	521,034,255
Accumulated Surplus, End of Year		\$ 518,337,177	\$ 515,495,095

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, 2015

	2015	2014
Annual Surplus (Deficit)	\$ 2,842,082	\$ (5,539,160)
Amortization of tangible capital assets	17,180,698	17,149,225
Proceeds from sale of tangible capital assets	121,796	35,107
Loss on sale of tangible capital assets	724,798	361,921
Acquisition of tangible capital assets	(11,904,318)	(16,738,285)
Change in other assets	6,666	387,035
Increase (Decrease) in Net Financial Assets	<u>8,971,722</u>	<u>(4,344,157)</u>
Net Financial Assets, Beginning of Year	<u>7,015,885</u>	<u>11,360,042</u>
Net Financial Assets, End of Year	<u>\$ 15,987,607</u>	<u>\$ 7,015,885</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, 2015

	2015	2014
OPERATING ACTIVITIES		
Annual Surplus (Deficit)	\$ 2,842,082	\$ (5,539,160)
Items not involving cash:		
Amortization of tangible capital assets	17,180,698	17,149,225
Loss on sale of tangible capital assets	724,798	361,921
Change in employee future benefits	514,798	9,042,518
Change in landfill closure and post-closure liability	(15,506)	(14,560)
Change in accrued tax liabilities	(487,733)	2,466,364
Change in non-cash assets and liabilities		
Taxes receivable	854,585	674,209
Accounts receivable	343,653	(1,386,565)
Accounts payable and accrued liabilities	(732,389)	1,425,503
Other current liabilities	979,674	983,374
Deferred revenue	698,477	8,154,640
Other assets	6,666	387,035
	<u>22,909,803</u>	<u>33,704,504</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	121,796	35,107
Acquisition of tangible capital assets	(11,904,318)	(16,738,285)
Net change in cash from capital activities	<u>(11,782,522)</u>	<u>(16,703,178)</u>
INVESTING ACTIVITIES		
Long-term receivables	52,909	151,044
Investment in Sarnia Power Corporation	(53,241)	(2,353,132)
Net change in cash from investing activities	<u>(332)</u>	<u>(2,202,088)</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(34,961)	(27,744)
Long-term liabilities repaid	(4,573,026)	(5,250,408)
Acquired debt	-	1,668,780
Share of LAWSS debt adjustment	(186,062)	232,922
Net decrease in cash from financing	<u>(4,794,049)</u>	<u>(3,376,450)</u>
Net change in cash and equivalents	6,332,900	11,422,788
Cash and cash equivalents, beginning of year	<u>44,190,194</u>	<u>32,767,406</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 50,523,094</u></u>	<u><u>\$ 44,190,194</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, 2015

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 Professional 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) 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 2015, the municipality's share of the System was 59.12% (2014 – 61.17%). 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, 2015

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, 2015

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 2015, tangible capital assets with a value of \$1,923,146 were contributed by developers to the City (2014 - \$1,842,979). 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(iv) Taxation and Related Revenue

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.

(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 2015 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 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(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, 2015

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	\$ 26,227,829	\$ 35,386,863	\$ 61,614,692
Share of payments in lieu of taxes	<u>42,306</u>	<u>451,131</u>	<u>493,437</u>
	<u>26,270,135</u>	<u>35,837,994</u>	<u>62,108,129</u>
Share of taxes written off	1,219,513	875,222	2,094,735
Share of tax rebates	<u>227,648</u>	<u>144,079</u>	<u>371,727</u>
	<u>1,447,161</u>	<u>1,019,301</u>	<u>2,466,462</u>
Amounts transferred	<u>\$ 24,822,974</u>	<u>\$ 34,818,693</u>	<u>\$ 59,641,667</u>

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$11,408 (2014 - \$11,275) 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:

	2015	2014
Cemetery Care and Maintenance	<u>\$ 11,408</u>	<u>\$ 11,275</u>

4. CASH AND INVESTMENTS

The balance of cash and investments consists of the following:

	2015	2014
Cash on hand	\$ 19,578	\$ 73,540
Cash in bank	49,356,970	42,988,973
Investments	<u>1,146,546</u>	<u>1,127,681</u>
	<u>\$ 50,523,094</u>	<u>\$ 44,190,194</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 twelve GICs, recorded at cost, with effective interest rates between 1.40% and 1.81% maturing in 2016. The market value of these investments amounted to \$1,146,546 (2014 - \$1,127,681). Interest is receivable on an annual basis.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

5. LONG-TERM RECEIVABLES

	2015	2014
Mortgage receivable, due in annual installments increasing 4.5% each successive installment with a final installment due July 15, 2018. Provided installments are made when due, no interest is payable thereon. The mortgage may be discharged in whole or in part, at the option of the mortgagee at any time in the amount of the present value of the future 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.	\$ 79,945	\$ 104,331
Loan receivable - employees re Ontario Police College, at 0% interest, repayable over 2 years	19,759	6,490
Loan receivable - Bluewater Gymnastics, at 4.50% interest, repayable in monthly installments of \$1,898 with final payment due July 2023	146,137	161,951
Loan receivable - employee purchase plan, at 0% interest, repayable over 1 to 2 years	92,685	82,478
Mortgage receivable, at 0% interest, repayable over 20 years at \$30,000 per year	10,000	40,000
Loan receivable, at 0% interest, repayable over 10 years at \$15,000 per year, forgivable based on continuation of annual Celebration of Lights display	-	15,000
Local improvement drain loan receivable, at 5% interest, repayable over 5 to 10 years	21,540	-
Loan receivable, 1.125% to 2.75%, issued under Municipal Facade Improvement Program, due in quarterly installments including principal and interest of \$9,807 with a final installment due July 1, 2024	<u>184,686</u>	<u>222,153</u>
	554,752	632,403
Accounts receivable - current portion	<u>170,551</u>	<u>195,293</u>
Total long-term receivables	<u>\$ 384,201</u>	<u>\$ 437,110</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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 for the first time for the year ended December 31, 2015 including comparative information. The corporation adjusted the amounts reported previously in accordance with Canadian generally accepted accounting principles.

The City has prospectively included in its December 31, 2015 financial statements its proportionate share of prior period adjustments due to Sarnia Power Corporation's conversion to IFRS.

The investment is composed of the following:

	2015	2014
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>19,971,649</u>	<u>19,918,408</u>
	<u>\$ 52,267,911</u>	<u>\$ 52,214,670</u>

The notes receivable are unsecured and bear interest at the rate of 6.39%. Interest received from these notes receivable amounted to \$1,069,024 (2014 - \$1,069,024) and is reported in the Consolidated Statement of Operations.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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:

	2015	2014 (Restated)
Financial Position		
Assets		
Current assets	\$ 32,798,683	\$ 34,085,653
Non-current assets	63,054,937	60,370,123
Total assets	95,853,620	94,455,776
Regulatory balances	6,660,625	4,784,683
Total assets and regulatory balances	<u>\$ 102,514,245</u>	<u>\$ 99,240,459</u>
Liabilities		
Current liabilities	\$ 22,046,594	\$ 20,028,677
Long-term liabilities	35,592,704	34,878,498
Total liabilities	57,639,298	54,907,175
Equity		
Share Capital	15,566,626	15,566,626
Retained earnings	20,931,837	19,949,301
Accumulated other comprehensive loss	(960,188)	(928,572)
Non-controlling interest	5,761,286	5,607,127
Total equity	41,299,561	40,194,482
Total liabilities and equity	98,938,859	95,101,657
Regulatory balances	3,575,386	4,138,802
Total liabilities, equity and regulatory balances	<u>\$ 102,514,245</u>	<u>\$ 99,240,459</u>
Results of Operations		
Revenues	\$ 136,533,346	\$ 124,971,126
Operating expenses	135,122,602	124,310,688
Income from operating activities	1,410,744	660,438
Regulatory balances	2,449,358	3,538,557
Other comprehensive income	(36,741)	(1,079,108)
Total comprehensive income	3,823,361	3,119,887
Non-controlling interest	(533,359)	(435,224)
Net income	<u>\$ 3,290,002</u>	<u>\$ 2,684,663</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

6. INVESTMENT IN SARNIA POWER CORPORATION

Continuity of Investment

	2015	2014
Balance, beginning of year	\$ 52,214,670	\$ 49,861,538
Net income for the year	3,290,002	3,543,527
Dividends received during the year	(2,339,082)	(1,190,395)
Adjustment to equity due to policy change	<u>(897,679)</u>	<u>-</u>
Net increase in equity during the year	<u>53,241</u>	<u>2,353,132</u>
Balance, end of year	<u><u>\$ 52,267,911</u></u>	<u><u>\$ 52,214,670</u></u>

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, 2015. 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, 2015.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2015

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.

	2015	2014
Development Charges Act	\$ 9,169,417	\$ 8,082,919
Recreational land (The Planning Act)	270,933	210,380
Gasoline Tax - Canada	3,297,424	2,773,950
Gasoline Tax - Ontario	1,677,257	2,051,685
Federal Harbour Reserve	<u>7,458,814</u>	<u>8,056,434</u>
Total	<u>\$ 21,873,845</u>	<u>\$ 21,175,368</u>

Total activities for the above items is summarized as follows:

	2015	2014
Balance, beginning of the year	\$ <u>21,175,368</u>	\$ <u>13,020,728</u>
Developer contributions received	1,096,659	1,304,969
Canada grants	2,105,387	10,719,870
Ontario grants	940,922	935,273
Interest earned	172,373	163,916
Provincial Gasoline Tax funding utilized	(1,341,563)	(1,032,206)
Funds earned by municipality	<u>(2,275,301)</u>	<u>(3,937,182)</u>
Net increase	<u>698,477</u>	<u>8,154,640</u>
Balance, end of the year	<u>\$ 21,873,845</u>	<u>\$ 21,175,368</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2015

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:

	2015	2014
Total long-term liabilities incurred by the municipality including those incurred on behalf of municipal enterprises issued at various interest rates ranging from 2.83% to 10.52% and outstanding at the end of the year amount to	\$19,165,832	\$23,926,277
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>(2,962)</u>	<u>(4,319)</u>
Net long-term liabilities, end of the year	<u>\$19,162,870</u>	<u>\$23,921,958</u>

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

2016	\$ 3,894,004
2017	4,141,592
2018	2,221,122
2019	1,904,610
2020	1,639,251
2021 to 2025	2,975,993
2026 onwards	<u>2,386,298</u>
	<u>\$ 19,162,870</u>

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

	2015	2014
Installment (serial) debentures	\$ 4,570,919	\$ 6,665,856
Long-term bank loans	14,581,789	17,207,797
Ontario Clean Water Agency (OCWA)	<u>10,162</u>	<u>48,305</u>
Net long-term liabilities, end of year	<u>\$ 19,162,870</u>	<u>\$ 23,921,958</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, 2015

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 is contingently liable for long-term liabilities with respect to tile drainage loans. The total amount outstanding as at December 31, 2015 is \$2,962 (2014 - \$4,319) and is not recorded on the Consolidated Statement of Financial Position.
- (f) Total activity for the year for net long-term liabilities which are reported on the Consolidated Statement of Operations are as follows:

	2015	2014
Balance, beginning of year	\$ 23,921,958	\$ 27,270,664
Principal payments	(4,573,026)	(5,250,408)
Acquired debt	-	1,668,780
Adjustment to City share of LAWSS debt	<u>(186,062)</u>	<u>232,922</u>
Balance, end of year	<u>\$ 19,162,870</u>	<u>\$ 23,921,958</u>

Actual interest payments related to net long-term liabilities in the current year were \$1,168,717 (2014 - \$1,412,689).

- (g) 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 \$222,854 (2014 - \$238,360) 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, 2015**

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.

	2015	2014
Sick leave benefits plan	\$ 2,959,400	\$ 2,727,500
Future payments required to WSIB	16,956,064	17,818,504
Post employment benefits	17,991,900	16,996,800
Accrued vacation pay	1,039,643	884,101
Accrued overtime pay	<u>333,834</u>	<u>339,138</u>
Total	<u>\$ 39,280,841</u>	<u>\$ 38,766,043</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, 2015	\$2,727,500
Current service cost	246,300
Interest on accrued benefit obligation	107,300
Benefit payments	<u>(121,700)</u>
Estimated benefit liability as at December 31, 2015	<u>\$2,959,400</u>

Reserve funds amounting to \$31,693 (2014 - \$31,323) 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:

2016	\$ 256,078
2017	300,692
2018	519,487
2019	115,436
2020	<u>107,986</u>
Total	<u>\$1,299,679</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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 \$1,619,005 (2014 - \$985,666). The estimate of the future benefit costs of \$16,956,064 (2014 - \$17,818,504) 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	14.79 %
Accidents from 1990 to 1997	23.57 %
Accidents after 1997	15.90 %
Health care and non-income benefits	20.67 %
Administrative loading	34.30 %

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 nil (2014 - \$100,765).

(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, 2015	\$ 16,996,800
Current service cost	902,600
Interest cost	696,600
Amortization of actuarial experience loss	519,000
Estimated benefits paid	<u>(1,123,100)</u>
Estimated benefit liability as at December 31, 2015	<u>\$ 17,991,900</u>

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

Accrued benefit obligation as at December 31, 2015	\$ 17,691,000
Less unamortized gains	<u>300,900</u>
Post-retirement benefit liability as at December 31, 2015	<u>\$ 17,991,900</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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, 2015 is \$1,039,643 (2014 - \$884,101).

(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, 2015 is \$333,834 (2014 - \$339,138).

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 461,000 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, 2015. The results of this valuation disclosed total actuarial liabilities of \$81,924 million in respect of benefits accrued for service with actuarial assets at that date of \$74,947 million indicating an actuarial deficit of \$6,977 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 2015 was \$5,209,254 (2014 - \$5,045,578) for current service. The OMERS Board rate was 9.00% to 14.60% depending on income level for 2015 (2014 - 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, 2015

13. ACCRUED TAX LIABILITIES

	2015	2014
Taxation Revenue - General Levy	\$ 63,065,113	\$ 60,707,980
Taxation Revenue - Supplementary Tax Levy	583,846	271,620
Payment in Lieu Taxation Revenue	1,173,528	1,138,489
Other Taxation Revenue - Local Improvement	434,352	347,371
Taxation Revenue - Transit Levy	3,753,226	3,490,058
Taxation Revenue - Supplementary Transit Tax Levy	<u>22,157</u>	<u>14,740</u>
Subtotal of Taxation Revenue	69,032,222	65,970,258
Tax Write - offs	(1,630,398)	(561,608)
Tax Rebates and Exemptions	(272,866)	(293,966)
Accrued Tax Liability	<u>175,067</u>	<u>(2,466,364)</u>
Subtotal of Tax Write - off's, Rebates and Exemptions	<u>1,728,197</u>	<u>3,321,938</u>
Total Property Taxation	<u>\$ 67,304,025</u>	<u>\$ 62,648,320</u>

Reconciliation of assessment Appeal Provision and Accrued Tax Liability

	2015	2014
Estimate of expected appeals	\$ 3,417,044	\$ 3,447,268
Estimate of expected supplementary taxes	(664,246)	(364,964)
Other adjustments	<u>338,499</u>	<u>496,726</u>
Potential Future Tax Liability	<u>\$ 3,091,297</u>	<u>\$ 3,579,030</u>

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

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

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements
Year Ended December 31, 2015

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	1,436,561	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	74,413,009	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	\$ 30,144,675	\$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, 2015

14. TANGIBLE CAPITAL ASSETS

2014	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2014	2013
Cost													
Balance, beginning of year	\$124,974,508	\$ 27,271,171	\$ 84,528,311	\$ 71,329,681	\$28,275,205	\$ 3,104,997	\$219,667,402	\$124,064,126	\$46,974,125	\$ 75,518,124	\$ 1,810,902	\$807,518,552	\$799,365,750
Add: additions during the year	163,678	1,018,295	1,411,071	1,915,386	675,923	230,600	3,020,509	793,043	396,436	387,484	6,307,898	16,320,323	16,686,213
Less: disposals during the year	-	-	(127,942)	(15,200)	(295,404)	(4,400)	(554,912)	(48,135)	(3,673)	(11,707)	(1,374,161)	(2,435,534)	(3,911,317)
Other	25,444	13,503	830,949	745	-	-	-	1,670,513	-	-	12,542	2,553,696	(4,622,094)
Balance, end 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
Accumulated Amortization													
Balance, beginning of year	-	20,444,132	35,390,756	38,567,314	13,312,388	2,356,604	101,296,030	42,656,290	17,125,450	32,169,485	-	303,318,449	290,322,133
Add: amortization	-	1,263,650	1,913,653	2,931,558	1,688,665	253,285	5,131,000	1,827,454	784,954	1,355,006	-	17,149,225	16,643,961
Less: accumulated amortization on disposals	-	-	(76,765)	(12,540)	(198,440)	(4,400)	(328,253)	(33,602)	(3,673)	(6,673)	-	(664,346)	(2,329,310)
Other	-	11,344	331,510	551	-	-	-	418,169	-	-	-	761,574	(1,318,335)
Balance, end 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
Net book value of tangible capital assets	\$125,163,630	\$ 6,583,843	\$ 49,083,235	\$ 31,743,729	\$13,853,111	\$ 725,708	\$116,034,222	\$ 81,611,236	\$29,460,157	\$ 42,376,083	\$ 6,757,181	\$503,392,135	\$504,200,103

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

15. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2015	2014
Investment in tangible capital assets	\$ 497,269,161	\$ 503,392,135
Investment in land inventories held for sale	4,467,786	4,467,786
Capital fund	(635,111)	(250,304)
Reserves and reserve funds	29,800,680	25,286,548
Equity in Sarnia Power Corporation	52,267,911	52,214,670
Less: unfunded liabilities	<u>(64,833,250)</u>	<u>(69,615,740)</u>
Accumulated Surplus	<u>\$ 518,337,177</u>	<u>\$ 515,495,095</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2015

16. RESERVES AND RESERVE FUNDS

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

	2015	2014
Reserves		
Set aside for specific purpose by Council for		
working funds	\$ 1,071,537	\$ 1,194,790
replacement of equipment	4,625,088	4,508,224
capital projects	16,696,692	13,403,394
other	988,166	647,911
Total reserves	<u>\$ 23,381,483</u>	<u>\$ 19,754,319</u>
Discretionary Reserve Funds		
Set aside for specific purpose by Council for		
sick leave	\$ 31,693	\$ 31,323
self-insurance	600,691	671,087
Workplace Safety and Insurance Board	-	100,765
sub-division development	45,173	45,173
parking revenues	-	1,791
waterfront development	550,815	422,245
Sarnia Bay improvements	190,295	183,772
operation of Airport	55,107	76,248
operation of Harbour	873,802	300,422
capital projects	1,972,069	1,584,868
special projects	2,045,002	1,912,425
legacy	54,550	58,811
other current purposes	-	143,299
Total discretionary reserve funds	<u>\$ 6,419,197</u>	<u>\$ 5,532,229</u>
Total reserves and reserve fund balances, end of year	<u><u>\$ 29,800,680</u></u>	<u><u>\$ 25,286,548</u></u>

The municipality is committed to pay the interest earned on approximately \$655,107 (2014 - \$676,248) of the reserve funds to outside agencies.

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 CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

17. JOINT LOCAL BOARD CONSOLIDATION - LAWSS

The consolidated financial statements include the municipality's 59.12% (2014 - 61.17%) proportionate interest of the following:

	2015	2014
Statement of Financial Position		
Financial Assets	\$ 4,218,515	\$ 3,549,197
Liabilities		
Current liabilities	\$ 905,869	\$ 108,802
Long-term liabilities	6,274,000	9,070,000
Total liabilities	7,179,869	9,178,802
Net Financial Debt	(2,961,354)	(5,629,605)
Non-Financial Assets		
Tangible capital assets	88,314,614	89,153,218
Accumulated Surplus	\$ 85,353,260	\$ 83,523,613
Statement of Operations		
Revenues	\$ 10,369,169	\$ 9,924,818
Expenses - excluding amortization	6,601,152	6,070,648
Amortization	1,938,370	1,862,545
Net revenues	\$ 1,829,647	\$ 1,991,625

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 \$6,635 (2014 - \$31,512). The Consolidated Statement of Financial Position also reflects long-term liabilities due to the Agency for the water project in the amount of \$3,527 (2014 - \$16,793).

- (b) OCWA has contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2015 are charges for the operation of the water treatment plant in the amount of \$2,409,777 (2014 - \$2,443,134).

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements
Year Ended December 31, 2015

19. BUDGET VARIANCE

The following chart reconciles the 2015 budget with the 2015 actuals found in the consolidated statement of operations:

	2015 Budget	LAWSS adjusting entries	Addition, Deletion and Amortization entries	Other Reconciling items	2015 Revised budget	2015 Actual	Variance Favourable / (Unfavourable)
REVENUE							
Property taxation	\$ 67,870,051	\$ -	\$ -	\$ -	\$ 67,870,051	\$ 67,304,025	\$ (566,026)
User fees and service charges	40,443,220	-	-	1,180,402 ¹	41,623,622	41,814,251	190,629
User fees and service charges-other municipalities	2,978,012	263,054	-	-	3,241,066	3,417,932	176,866
Government transfers-operating	3,187,217	-	-	-	3,187,217	2,839,499	(347,718)
Investment income	2,465,984	26,843	-	860,500 ¹	3,353,327	4,084,065	730,738
Penalties and interest on taxes	1,230,000	-	-	-	1,230,000	1,035,139	(194,861)
Other	1,440,658	-	-	440,937 ¹	1,881,595	2,273,327	391,732
Total revenue	\$ 119,615,142	\$ 289,897	\$ -	\$ 2,481,839	\$ 122,386,878	\$ 122,768,238	\$ 381,360
EXPENSES							
General government	\$ 6,929,720	\$ -	\$ 1,206,857	\$ 2,234,611 ¹	\$ 10,371,188	\$ 10,424,496	\$ (53,308)
Protection services	43,287,359	-	928,749	-	44,216,108	44,155,031	61,077
Transportation services	16,553,967	-	6,540,498	(1,619,151) ²	21,475,314	21,336,316	138,998
Environmental services	42,789,199	2,688,845	6,588,294	(17,219,275) ²	34,847,063	36,268,360	(1,421,297)
Health services	74,566	-	-	-	74,566	83,546	(8,980)
Social and family services	386,441	-	-	-	386,441	387,881	(1,440)
Recreation and cultural services	9,374,439	-	1,294,346	778,524 ¹	11,447,309	11,548,201	(100,892)
Planning and development	1,386,198	-	-	-	1,386,198	1,717,638	(331,440)
Non-functionalized unfunded liabilities	-	-	-	-	-	364,559	(364,559)
Total expenses	\$ 120,781,889	\$ 2,688,845	\$ 16,558,744	\$ (15,825,291)	\$ 124,204,187	\$ 126,286,028	\$ (2,081,841)
NET REVENUE	\$ (1,166,747)	\$ (2,398,948)	\$ (16,558,744)	\$ 18,307,130	\$ (1,817,309)	\$ (3,517,790)	\$ (1,700,481)

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, 2015

20. EXPENDITURE BY OBJECT

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

	2015	2014
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	\$ 68,999,779	\$ 74,680,085
Net long-term liabilities interest charges	1,133,756	1,390,778
Materials	26,307,137	18,298,362
Contracted services	11,073,249	14,558,452
Amortization of tangible capital assets	17,180,698	17,149,225
Other	<u>1,591,409</u>	<u>2,716,895</u>
Total	<u>\$ 126,286,028</u>	<u>\$ 128,793,797</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2015

21. GOVERNMENT TRANSFERS

	2015	2014
Operating		
Province of Ontario		
Unconditional	\$ 1,674,799	\$ 1,248,900
Program Support	369,701	375,343
Provincial Gas Tax	479,048	550,945
	<u>2,523,548</u>	<u>2,175,188</u>
Government of Canada		
Program Support	25,425	58,435
Harbour	290,526	158,092
Total Operating	<u>2,839,499</u>	<u>2,391,715</u>
Capital		
Province of Ontario		
Provincial Gas Tax	757,185	456,652
Ministry of Environment	24,310	52,941
Ministry of Finance - JEPP	-	5,302
AFC	32,546	-
Drainage Grants	47,592	58,002
OCIF	765,745	-
CISO	8,000	-
	<u>1,635,378</u>	<u>572,897</u>
Government of Canada		
Federal Gas Tax	1,571,914	2,389,454
Enabling Accessibility Fund	157,106	-
CIIF	-	2,548
MASAS	-	16,998
Harbour	317,094	509,565
GLSF	95,000	20,000
Green Municipal Fund	-	42,000
	<u>2,141,114</u>	<u>2,980,565</u>
Total Capital	<u>3,776,492</u>	<u>3,553,462</u>
Total Government Transfers	<u>\$ 6,615,991</u>	<u>\$ 5,945,177</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2015

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, 2015

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 \$3 million (2014 - \$3 million) was accrued for the 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 liability to address the contamination is based on estimates provided by experienced professionals.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements Year Ended December 31, 2015

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, 2015 amounted to \$600,691 (2014 - \$671,087) and is reported on the Consolidated Statement of Financial Position.

Claims settled during the year, amounting to \$641,999 (2014 - \$450,457), 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 2015 (2014 - 10%). The total amount of protection for these properties amounted to \$16,018 (2014 - \$10,690).

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 \$1,022,990 (2014 - \$987,504)

28. COMPARATIVE AMOUNTS

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

29. SUBSEQUENT EVENTS

In May 2016, the City received a court ruling from the Ontario Superior Court regarding the ownership of the former Sarnia General Hospital site on Mitton Street. The ruling states that the City owns the property. The City has the option of appealing the ruling. The financial implications of the ruling are indeterminable and therefore no adjustments have been made to the statement of financial position or statement of operations as at December 31, 2015.

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	3,255,850	491,602	45,538,240
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 municipalities	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>3,891,297</u>	<u>1,364,614</u>	<u>129,128,110</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	1,992,593	3,794,312	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 liability 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	-	367,747	200	1,591,409
	<u>9,629,690</u>	<u>44,971,559</u>	<u>21,499,040</u>	<u>36,355,775</u>	<u>77,956</u>	<u>391,297</u>	<u>11,630,792</u>	<u>1,729,919</u>	<u>126,286,028</u>
NET SURPLUS (DEFICIT)	<u>\$ 63,860,571</u>	<u>\$ (41,273,705)</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>

The Corporation of the City of Sarnia Schedule A

**Schedule of Segment Disclosure
For the Year Ended December 31, 2014**

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2014 Total
REVENUES									
Property taxation	\$ 59,147,962	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,147,962
User fees and service charges	945,835	1,829,790	6,733,373	30,282,246	-	159,576	2,622,169	1,545,501	44,118,490
Grants	1,307,210	269,594	1,517,117	2,489,395	-	56,250	42,548	263,063	5,945,177
Rents and Financial	3,671,276	1,853	114,880	70,640	-	-	21,508	104,390	3,984,547
Other municipal	1,888	1,403,818	913,524	270,522	-	-	-	735,397	3,325,149
Other	4,940,674	71,881	203,268	1,058,209	-	916	260,597	197,767	6,733,312
	<u>70,014,845</u>	<u>3,576,936</u>	<u>9,482,162</u>	<u>34,171,012</u>	<u>-</u>	<u>216,742</u>	<u>2,946,822</u>	<u>2,846,118</u>	<u>123,254,637</u>
EXPENSES									
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	14,467,777	37,808,798	7,518,536	8,922,781	-	192,913	4,987,114	782,166	74,680,085
Materials	1,492,759	3,563,836	6,134,233	3,143,476	-	167,128	3,355,427	441,503	18,298,362
Contracted services	524,761	105,452	1,081,474	12,520,937	-	-	90,317	235,511	14,558,452
Net long-term liabilities interest charges	-	4,130	5,729	934,067	-	-	411,111	35,741	1,390,778
Amortization of tangible capital assets	1,186,320	883,255	6,356,483	7,451,933	-	-	1,271,234	-	17,149,225
Other	-	341,194	229,319	26,512	85,000	-	2,016,743	18,127	2,716,895
	<u>17,671,617</u>	<u>42,706,665</u>	<u>21,325,774</u>	<u>32,999,706</u>	<u>85,000</u>	<u>360,041</u>	<u>12,131,946</u>	<u>1,513,048</u>	<u>128,793,797</u>
NET SURPLUS (DEFICIT)	<u>\$ 52,343,228</u>	<u>\$ (39,129,729)</u>	<u>\$ (11,843,612)</u>	<u>\$ 1,171,306</u>	<u>\$ (85,000)</u>	<u>\$ (143,299)</u>	<u>\$ (9,185,124)</u>	<u>\$ 1,333,070</u>	<u>\$ (5,539,160)</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, 2015 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, 2015 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
June 20, 2016

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

**Statement of Continuity of Trust Funds
year ended December 31, 2015**

	2015 Total	2014 Total
FUND BALANCES, BEGINNING OF YEAR	\$ 11,275	\$ 11,147
REVENUES		
Interest earned	133	128
FUND BALANCES, END OF YEAR	<u>\$ 11,408</u>	<u>\$ 11,275</u>

**Statement of Financial Position
as at December 31, 2015**

	2015 Total	2014 Total
ASSETS		
Trust fund	<u>\$ 11,408</u>	<u>\$ 11,275</u>
FUND BALANCES	<u>\$ 11,408</u>	<u>\$ 11,275</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, 2015

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 Professional 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.