

**The Corporation of
The City of Sarnia**

Financial Statements
For the Year Ended December 31, 2017



**THE CORPORATION OF
THE CITY OF SARNIA**

FINANCIAL STATEMENTS

2017

THE CORPORATION OF THE CITY OF SARNIA

2017

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

Chief Administrative Officer	Margaret Misek-Evans
City Clerk	Dianne Gould-Brown
Director of Finance	Lisa Armstrong
City Solicitor	Scott McEachran
Director of Engineering	Mike Berkvens
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

2017

POLICE SERVICES BOARD

Chairperson	Mayor Mike Bradley
Vice Chairperson	Scott Palko
Councillors	David Boushy Bryan Trothen
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, 2017

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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, 2017 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, 2017 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 28, 2018

THE CORPORATION OF THE CITY OF SARNIA

Financial Statements

Consolidated Statement of Financial Position

As at December 31, 2017

	2017	2016
FINANCIAL ASSETS		
Cash and investments (note 4)	\$ 66,305,479	\$ 56,679,430
Taxes receivable	4,348,878	4,966,478
Accounts receivable	17,658,483	16,467,569
Long-term receivables (note 5)	310,136	368,259
Investment in Sarnia Power Corporation (note 6)	<u>55,034,482</u>	<u>53,331,539</u>
Total financial assets	<u>143,657,458</u>	<u>131,813,275</u>
LIABILITIES		
Accounts payable and accrued liabilities	16,499,014	18,808,629
Other current liabilities	8,099,317	8,203,273
Deferred revenue (note 7)	19,010,617	19,366,605
Net long-term liabilities (note 8)	12,389,587	16,479,219
Interest on net long-term liabilities	18,357	49,471
Landfill closure and post-closure liability (note 9)	188,751	206,339
Employee future benefits (note 10)	36,903,862	38,876,148
Accrued tax liabilities (note 12)	<u>2,185,541</u>	<u>2,902,374</u>
Total liabilities	<u>95,295,046</u>	<u>104,892,058</u>
NET FINANCIAL ASSETS	<u>48,362,412</u>	<u>26,921,217</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (note 13)	511,766,793	507,880,494
Inventory	510,023	540,298
Prepaid expenses	432,056	346,290
Land held for sale	<u>4,431,353</u>	<u>4,431,353</u>
Total non-financial assets	<u>517,140,225</u>	<u>513,198,435</u>
Accumulated Surplus (note 14)	<u><u>\$ 565,502,637</u></u>	<u><u>\$ 540,119,652</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, 2017

	2017 Budget (note 17)	2017	2016
REVENUE			
Property taxation (note 12)	\$ 73,256,773	\$ 73,855,013	\$ 71,114,784
User fees and service charges	42,731,364	44,091,666	42,957,521
User fees and service charges-other municipalities	3,115,176	3,341,407	3,280,940
Government transfers-operating (note 18)	3,268,785	3,471,344	3,490,607
Investment income	2,537,197	3,876,147	3,219,881
Penalties and interest on taxes	1,000,000	753,350	771,267
Other	1,230,688	1,681,003	2,253,778
Total revenue	<u>127,139,983</u>	<u>131,069,930</u>	<u>127,088,778</u>
EXPENSES			
General government	10,747,814	9,482,178	13,808,692
Protection services	46,340,886	46,002,617	44,744,260
Transportation services	21,125,391	20,299,298	21,399,973
Health services	73,536	73,536	74,672
Environmental services	33,017,183	33,756,563	30,235,639
Social and family services	362,126	447,752	446,468
Recreation and cultural services	10,556,465	11,047,708	10,650,638
Planning and development	1,480,911	1,368,527	1,924,256
Non-functionalized unfunded liabilities	<u>(2,165,422)</u>	<u>(2,165,422)</u>	<u>(428,903)</u>
Total expenses	<u>121,538,890</u>	<u>120,312,757</u>	<u>122,855,695</u>
Net revenue	<u>5,601,093</u>	<u>10,757,173</u>	<u>4,233,083</u>
OTHER REVENUE/(EXPENSES)			
Government transfers - capital (note 18)	7,137,260	11,354,409	14,105,138
Capital contributions - developers	-	-	46,035
Other related to capital	-	295,315	154,992
Donated assets	-	1,271,734	2,194,690
Share of LAWSS increase/(decrease)	-	1,411	(15,091)
Sarnia Power Corporation, net change in equity	-	1,702,943	1,063,628
	<u>7,137,260</u>	<u>14,625,812</u>	<u>17,549,392</u>
Annual Surplus	<u>\$ 12,738,353</u>	<u>\$ 25,382,985</u>	<u>\$ 21,782,475</u>
Accumulated Surplus, Beginning of Year		540,119,652	518,337,177
Accumulated Surplus, End of Year		<u>\$ 565,502,637</u>	<u>\$ 540,119,652</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, 2017

	2017 Budget	2017	2016
Annual Surplus	\$ 12,738,353	\$ 25,382,985	\$ 21,782,475
Amortization of tangible capital assets	16,762,000	17,318,437	17,037,164
Proceeds from sale of tangible capital assets	-	89,608	80,281
Loss on sale of tangible capital assets	-	753,307	335,877
Acquisition of tangible capital assets	(37,315,340)	(22,047,651)	(28,064,655)
Change in inventory	-	30,275	(137,518)
Change in prepaid expenses	-	(85,766)	(136,447)
Change in land held for sale	-	-	36,433
Increase (decrease) in Net Financial Assets	<u>(7,814,987)</u>	<u>21,441,195</u>	<u>10,933,610</u>
Net Financial Assets, Beginning of Year	<u>26,921,217</u>	<u>26,921,217</u>	<u>15,987,607</u>
Net Financial Assets, End of Year	<u>\$ 19,106,230</u>	<u>\$ 48,362,412</u>	<u>\$ 26,921,217</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, 2017

	2017	2016
OPERATING ACTIVITIES		
Annual Surplus	\$ 25,382,985	\$ 21,782,475
Items not involving cash:		
Amortization of tangible capital assets	17,318,437	17,037,164
Loss on sale of tangible capital assets	753,307	335,877
Change in employee future benefits	(1,972,286)	(404,693)
Change in landfill closure and post-closure liability	(17,588)	(16,515)
Change in accrued tax liabilities	(716,833)	(188,923)
Change in non-cash assets and liabilities		
Taxes receivable	617,600	603,783
Accounts receivable	(1,190,914)	(3,571,660)
Accounts payable and accrued liabilities	(2,309,615)	4,799,463
Other current liabilities	(103,956)	265,765
Deferred revenue	(355,988)	(2,507,240)
Inventory, prepaid expenses and land held for sale	(55,491)	(237,532)
	<u>37,349,658</u>	<u>37,897,964</u>
CAPITAL ACTIVITIES		
Proceeds on sale of tangible capital assets	89,608	80,281
Acquisition of tangible capital assets	(22,047,651)	(28,064,655)
Net change in cash from capital activities	<u>(21,958,043)</u>	<u>(27,984,374)</u>
INVESTING ACTIVITIES		
Long-term receivables	58,123	15,942
Investment in Sarnia Power Corporation	(1,702,943)	(1,063,628)
Net change in cash from investing activities	<u>(1,644,820)</u>	<u>(1,047,686)</u>
FINANCING ACTIVITIES		
Interest on net long-term liabilities	(31,114)	(25,917)
Long-term liabilities repaid	(4,411,394)	(4,190,307)
Capital lease	-	34,500
Brownfield tax incentive grant program	-	1,440,171
Acquired debt	350,000	-
Share of LAWSS debt adjustment	(28,238)	31,985
Net decrease in cash from financing	<u>(4,120,746)</u>	<u>(2,709,568)</u>
Net change in cash and equivalents	9,626,049	6,156,336
Cash and cash equivalents, beginning of year	<u>56,679,430</u>	<u>50,523,094</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 66,305,479</u>	<u>\$ 56,679,430</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, 2017

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 2017, the municipality's share of the System was 58.76% (2016 – 59.63%). Material inter-organizational transactions and balances have been eliminated.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

(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.

(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) Employee Future Benefits

The City provides certain benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board (“WSIB”) Act, and life insurance, extended health and dental benefits for early retirees.

The costs of sick leave, benefits under the Workplace Safety and Insurance Board Act and life insurance, extended health and dental benefits are actuarially determined using management’s best estimate of salary escalation, accumulated sick days at retirement, insurance and health care cost trends, long-term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as retirement gratuities, compensated absences and health, dental and life insurance benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group.

Any actuarial gains and losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers’ compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are recognized immediately in the period they arise.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(i) Employee Future Benefits

The costs of multi-employer defined contribution pension plan benefits, such as the Ontario Municipal Employees Retirement System (“OMERS”) pensions, are the employer’s contributions due to the plan in the period.

(ii) Non-Financial Assets

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	15 to 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 amortized.

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 2017, tangible capital assets with a value of \$1,271,734 were contributed by developers to the City (2016 - \$2,194,690). 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.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(ii) Non-Financial Assets

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.

(v) Government Transfers

Government transfers are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Basis of Accounting

(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) 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.

(viii) 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.

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	\$ 25,437,799	\$ 36,587,199	\$ 62,024,998
Share of payments in lieu of taxes	37,863	443,162	481,025
	<u>25,475,662</u>	<u>37,030,361</u>	<u>62,506,023</u>
Share of taxes written off	1,128,167	946,878	2,075,045
Share of tax rebates	205,232	126,259	331,491
	<u>1,333,399</u>	<u>1,073,137</u>	<u>2,406,536</u>
Amounts transferred	<u>\$ 24,142,263</u>	<u>\$ 35,957,224</u>	<u>\$ 60,099,487</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

3. TRUST FUNDS

Trust funds administered by the municipality amounting to \$11,718 (2016 - \$11,552) 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:

	2017	2016
Cemetery Care and Maintenance	\$ 11,718	\$ 11,552

4. CASH AND INVESTMENTS

An operating line of credit was available by way of bank overdraft in the amount of \$8,000,000 as at December 31, 2017. 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, 2017.

The balance of cash and investments consists of the following:

	2017	2016
Cash on hand	\$ 15,236	\$ 25,809
Cash in bank	65,248,556	55,602,212
Investments	<u>1,041,687</u>	<u>1,051,409</u>
	<u>\$ 66,305,479</u>	<u>\$ 56,679,430</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 daily outstanding balance.

The investments are comprised of ten GICs, recorded at cost, with effective interest rates between 1.20% and 1.62% maturing in 2018. The market value of these investments amounted to \$1,041,687 (2016 - \$1,051,409). Interest is receivable on an annual basis.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

5. LONG-TERM RECEIVABLES

	2017	2016
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.	\$ 27,829	\$ 54,460
Loan receivable - employees re Ontario Police College, at 0% interest, repayable over 2 years	58,304	27,237
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	112,296	129,597
Loan receivable - employee purchase plan	-	23,692
Loan receivable - Local Improvement Drain, at 4.7% - 5.0% interest, repayable in annual installments including principal and interest over 5 to 10 years	69,440	78,161
Loan receivable - Municipal Facade Improvement Program, at 1.125% to 2.75% interest, repayable in quarterly installments including principal and interest of \$9,662 with a final payment due June 2027	<u>163,844</u>	<u>193,861</u>
	431,713	507,008
Accounts receivable - current portion	<u>121,577</u>	<u>138,749</u>
Total long-term receivables	<u><u>\$ 310,136</u></u>	<u><u>\$ 368,259</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

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:

	2017	2016
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>22,738,220</u>	<u>21,035,277</u>
	<u>\$ 55,034,482</u>	<u>\$ 53,331,539</u>

The notes receivable are unsecured and bear interest at the rate of 6.73%. Interest received from these notes receivable amounted to \$1,163,980 (2016 - \$1,069,024) and is reported in the Consolidated Statement of Operations.

Continuity of Investment

	2017	2016
Balance, beginning of year	\$ 53,331,539	\$ 52,267,911
Net income for the year	3,154,201	2,440,423
Dividends received during the year	<u>(1,451,258)</u>	<u>(1,376,795)</u>
Net increase in equity during the year	<u>1,702,943</u>	<u>1,063,628</u>
Balance, end of year	<u>\$ 55,034,482</u>	<u>\$ 53,331,539</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

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:

	2017	2016
Financial Position		
Assets		
Current assets	\$ 39,400,753	\$ 33,630,344
Non-current assets	<u>72,265,546</u>	<u>68,108,376</u>
Total assets	111,666,299	101,738,720
Regulatory balances	<u>2,314,833</u>	<u>2,572,446</u>
Total assets and regulatory balances	<u><u>\$ 113,981,132</u></u>	<u><u>\$ 104,311,166</u></u>
Liabilities		
Current liabilities	\$ 26,623,854	\$ 20,466,249
Long-term liabilities	<u>38,974,758</u>	<u>37,797,675</u>
Total liabilities	<u>65,598,612</u>	<u>58,263,924</u>
Equity		
Share capital	15,566,626	15,566,626
Retained earnings	26,354,271	23,699,659
Accumulated other comprehensive loss	(3,616,051)	(2,664,382)
Non-controlling interest	<u>6,209,788</u>	<u>5,933,716</u>
Total equity	<u>44,514,634</u>	<u>42,535,619</u>
Total liabilities and equity	<u>110,113,246</u>	<u>100,799,543</u>
Regulatory balances	<u>3,867,886</u>	<u>3,511,623</u>
Total liabilities, equity and regulatory balances	<u><u>\$ 113,981,132</u></u>	<u><u>\$ 104,311,166</u></u>
Results of Operations		
Revenues	\$ 132,202,296	\$ 148,783,279
Operating expenses	<u>126,880,646</u>	<u>140,443,341</u>
Income from operating activities	5,321,650	8,339,938
Regulatory balances	(550,157)	(3,523,416)
Other comprehensive income	<u>(1,105,949)</u>	<u>(1,980,470)</u>
Total comprehensive income	3,665,544	2,836,052
Non-controlling interest	<u>(511,343)</u>	<u>(395,629)</u>
Net income	<u><u>\$ 3,154,201</u></u>	<u><u>\$ 2,440,423</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

7. DEFERRED REVENUE

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

	2017	2016
Development Charges Act	\$ 11,534,908	\$ 10,552,479
Recreational land (The Planning Act)	354,266	289,819
Gasoline Tax - Canada	1,869,541	1,741,584
Gasoline Tax - Ontario	1,251,827	1,401,117
Building Permit (Building Code Act)	851,565	339,459
OCIF Reserve	191,835	-
Federal Harbour Reserve	<u>2,956,675</u>	<u>5,042,147</u>
Total	<u>\$ 19,010,617</u>	<u>\$ 19,366,605</u>

Total activities for the above items is summarized as follows:

	2017	2016
Balance, beginning of the year	<u>\$ 19,366,605</u>	<u>\$ 21,873,845</u>
Developer contributions received	1,505,523	1,640,619
Canada grants	2,239,107	2,210,157
Ontario grants	2,311,037	1,698,161
Interest earned	191,691	201,952
Provincial Gasoline Tax funding utilized	(1,122,152)	(1,230,085)
Funds utilized by municipality	<u>(5,481,194)</u>	<u>(7,028,044)</u>
Net decrease	<u>(355,988)</u>	<u>(2,507,240)</u>
Balance, end of the year	<u>\$ 19,010,617</u>	<u>\$ 19,366,605</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

8. 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:

	2017	2016
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	\$12,389,587	\$16,480,742
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>-</u>	<u>(1,523)</u>
Net long-term liabilities, end of the year	<u>\$12,389,587</u>	<u>\$16,479,219</u>

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

2018	\$ 2,532,680
2019	2,217,093
2020	1,952,685
2021	1,288,878
2022	515,272
2023 to 2027	2,389,839
2028 onwards	<u>1,493,140</u>
	<u>\$ 12,389,587</u>

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

	2017	2016
Installment (serial) debentures	\$ 304,000	\$ 2,533,003
Long-term bank loans	11,173,048	12,752,611
Capital lease	31,050	32,775
Brownfield tax incentive grant program	<u>881,489</u>	<u>1,160,830</u>
Net long-term liabilities, end of year	<u>\$ 12,389,587</u>	<u>\$ 16,479,219</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, 2017

8. 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 is \$881,489 (2016 - \$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, 2017 is NIL (2016 - \$1,523).
- (g) Total activity for the year for net long-term liabilities which are reported on the Consolidated Statement of Operations are as follows:

	2017	2016
Balance, beginning of year	\$ 16,479,219	\$ 19,162,870
Principal payments	(4,411,394)	(4,190,307)
Acquired debt	350,000	-
Capital lease	-	34,500
Brownfield tax incentive grant program	-	1,440,171
Adjustment to City share of LAWSS debt	<u>(28,238)</u>	<u>31,985</u>
Balance, end of year	<u><u>\$ 12,389,587</u></u>	<u><u>\$ 16,479,219</u></u>

Actual interest payments related to net long-term liabilities in the current year were \$520,332 (2016 - \$769,545).

- (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.

9. 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 CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

9. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

The estimated liability of \$188,751 (2016 - \$206,339) for the closed landfill sites, 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%.

10. EMPLOYEE FUTURE BENEFITS

	2017	2016
Sick leave benefit plan	\$ 3,468,200	\$ 3,182,800
Future payments required to WSIB	15,756,739	15,412,861
Post employment benefits	16,088,100	18,882,800
Accrued vacation pay	1,200,102	1,064,120
Accrued overtime pay	390,721	333,567
Total	<u>\$ 36,903,862</u>	<u>\$ 38,876,148</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, 2017	\$ 3,182,800
Current service cost	199,200
Interest on accrued benefit obligation	112,400
Benefit payments	<u>(26,200)</u>
Estimated benefit liability as at December 31, 2017	<u>\$ 3,468,200</u>

Reserve funds amounting to \$32,554 (2016 - \$32,092) have been established to provide for a portion of this past service liability. Possible payments over the next four years to employees who are eligible to retire are:

2018	\$ 1,027,470
2019	192,455
2020	114,207
2021	<u>208,363</u>
Total	<u>\$ 1,542,495</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

10. 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 \$1,520,958 (2016 - \$2,757,035). The estimate of the future benefit costs of \$15,756,739 (2016 - \$15,412,861) for WSIB claims was determined based on benefits currently in force with provision for benefits not yet awarded as follows:

Accidents prior to 1990 and Survivors' Pensions	17.43 %
Accidents from 1990 to 1997 and Non Economic Loss Pensions	31.29 %
Accidents after 1997	14.98 %

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 \$942,281 (2016 - \$561,731).

(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, 2017	\$ 18,882,800
Current service cost	851,500
Interest cost	696,700
Amortization of actuarial experience loss	77,700
Amortize plan improvements	(3,323,300)
Estimated benefits paid	<u>(1,097,300)</u>
Estimated benefit liability as at December 31, 2017	<u>\$ 16,088,100</u>

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

Accrued benefit obligation as at December 31, 2017	\$ 16,369,400
Unamortized losses	<u>(281,300)</u>
Post-retirement benefit liability as at December 31, 2017	<u>\$ 16,088,100</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

10. EMPLOYEE FUTURE BENEFITS

The actuarial valuation was done on December 31, 2015 for the sick leave benefits as well as the post retirement benefits. The actuarial estimate assumes a discount rate of 3.25% and inflation rates for benefit premiums of 4.00% to 7.00%. No reserve fund has been established to provide for this liability.

(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 is \$1,200,102 (2016 - \$1,064,121).

(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 is \$390,721 (2016 - \$333,567).

11. 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 482,000 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, 2017. The results of this valuation disclosed total actuarial liabilities of \$93,614 million in respect of benefits accrued for service with actuarial assets at that date of \$88,211 million indicating an actuarial deficit of \$5,403 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 2017 was \$5,380,731 (2016 - \$5,335,383) for current service. The OMERS Board rate was 9.00% to 14.60% depending on income level for 2017 (2016 - 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, 2017

12. ACCRUED TAX LIABILITIES

	2017	2016
Taxation Revenue - General Levy	\$ 68,823,617	\$ 66,547,956
Taxation Revenue - Supplementary Tax Levy	431,764	725,551
Payment in Lieu Taxation Revenue	1,192,538	1,225,212
Other Taxation Revenue - Local Improvement	171,351	243,429
Taxation Revenue - Transit Levy	3,838,062	3,833,819
Taxation Revenue - Supplementary Transit Tax Levy	<u>19,344</u>	<u>44,311</u>
Subtotal of Taxation Revenue	74,476,676	72,620,278
Tax Write - offs	(1,214,756)	(1,370,484)
Tax Rebates and Exemptions	(123,739)	(323,933)
Accrued Tax Liability	<u>716,832</u>	<u>188,923</u>
Subtotal of Tax Write - off's, Rebates and Exemptions	<u>621,663</u>	<u>1,505,494</u>
Total Property Taxation	<u><u>\$ 73,855,013</u></u>	<u><u>\$ 71,114,784</u></u>

Reconciliation of Assessment Appeal Provision and Accrued Tax Liability

	2017	2016
Estimate of expected appeals	\$ 2,517,700	\$ 3,366,219
Estimate of expected supplementary taxes	(604,784)	(932,108)
Other adjustments	<u>272,625</u>	<u>468,263</u>
Potential Future Tax Liability	<u><u>\$ 2,185,541</u></u>	<u><u>\$ 2,902,374</u></u>

The potential future tax liability includes an estimate of 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, 2017

13. TANGIBLE CAPITAL ASSETS

2017	Land	Land Improvements	Buildings	Machinery & Equipment	Vehicles	Computers	Roads	Water Distribution	Sanitary Sewer	Storm Sewer	Assets Under Construction	2017	2016
Cost													
Balance, Beginning 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
Add: additions during the year	3,909	5,247,963	13,328,046	1,884,850	1,694,823	184,535	1,727,745	3,655,466	481,761	408,023	10,754,388	39,371,509	35,088,429
Less: disposals during the year	(222,900)	(303,500)	(1,158,972)	(270,447)	(1,163,743)	-	(106,469)	(279,182)	-	(1,705,900)	(16,554,781)	(21,765,894)	(8,851,407)
LAWSS adjustment	(11,068)	(5,874)	(383,291)	(324)	-	-	-	(735,272)	-	-	(12,684)	(1,148,513)	663,350
Balance, end of year	125,068,127	34,859,729	100,700,803	77,200,771	30,930,544	3,975,722	229,722,368	130,056,825	49,631,052	77,492,488	15,384,014	875,022,443	858,565,341
Accumulated Amortization													
Balance, beginning 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
Add: amortization	-	1,266,674	2,160,849	3,037,701	1,693,939	233,125	4,881,190	1,856,774	827,374	1,360,811	-	17,318,437	17,037,164
Less: accumulated amortization on disposals	-	(275,023)	(950,728)	(245,601)	(953,543)	-	(83,647)	(256,913)	-	(1,602,743)	-	(4,368,198)	(961,071)
LAWSS adjustment	-	(5,303)	(170,218)	(297)	-	-	-	(203,618)	-	-	-	(379,436)	212,946
Balance, end of year	-	25,257,595	42,161,706	49,815,365	16,886,302	3,343,340	120,080,948	49,490,234	20,284,227	35,935,933	-	363,255,650	350,684,847
Net book value of tangible capital assets	\$125,068,127	\$ 9,602,134	\$ 58,539,097	\$ 27,385,406	\$14,044,242	\$ 632,382	\$109,641,420	\$ 80,566,591	\$29,346,825	\$ 41,556,555	\$ 15,384,014	\$511,766,793	\$507,880,494

THE CORPORATION OF THE CITY OF SARNIA

**Notes to the Consolidated Financial Statements
Year Ended December 31, 2017**

13. 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)
LAWSS adjustment	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)
LAWSS adjustment	-	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, 2017

14. ACCUMULATED SURPLUS

The accumulated surplus consists of the following balances:

	2017	2016
Surplus		
Investment in tangible capital assets	\$ 511,766,793	\$ 507,880,494
Land held for sale	4,431,353	4,431,353
Capital fund	(264,761)	(258,078)
Equity in Sarnia Power Corporation	55,034,482	53,331,539
Unfunded		
Net long-term liabilities	(12,389,587)	(16,479,219)
Interest on net long-term liabilities	(18,357)	(49,471)
Landfill closure and post-closure liability	(188,751)	(206,339)
Employee future benefits	(36,903,862)	(38,876,148)
Accrued tax liabilities	<u>(2,185,541)</u>	<u>(2,902,374)</u>
Total Surplus	<u>519,281,769</u>	<u>506,871,757</u>
Reserves Set Aside for Specific Purpose by Council		
Working fund	5,979,270	3,489,743
Replacement of equipment	6,067,313	4,197,794
Capital projects	22,868,869	16,911,387
Other programs	<u>1,667,064</u>	<u>812,118</u>
Total Reserves	<u>36,582,516</u>	<u>25,411,042</u>
Discretionary Reserve Funds Set Aside for Specific Purpose by Council		
Insurance	1,873,819	1,189,005
Waterfront development	464,593	362,403
Sarnia Bay improvements	154,589	172,391
Harbour operations	1,977,255	1,390,797
Capital projects	3,026,776	2,564,672
Special projects	1,971,751	2,000,317
Other programs	<u>169,569</u>	<u>157,268</u>
Total Reserve Funds	<u>9,638,352</u>	<u>7,836,853</u>
Total Accumulated Surplus	<u>\$ 565,502,637</u>	<u>\$ 540,119,652</u>

The municipality is committed to pay the interest earned on \$600,000 (2016 - \$624,767) of the reserve funds to outside agencies.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

15. JOINT LOCAL BOARD CONSOLIDATION - LAWSS

The following summarizes the financial position and operations of Lambton Area Water Supply System (LAWSS) which has been reported in these financial statements using the proportionate consolidation method.

The consolidated financial statements include the municipality's 58.76% (2016 - 59.63%) proportionate interest of the following:

	2017	2016
Statement of Financial Position		
Financial Assets	<u>\$ 4,448,028</u>	<u>\$ 4,321,618</u>
Liabilities		
Current liabilities	\$ 1,287,755	\$ 1,238,820
Long-term liabilities	<u>-</u>	<u>3,257,000</u>
Total liabilities	<u>1,287,755</u>	<u>4,495,820</u>
Net Financial Assets (Debt)	<u>3,160,273</u>	<u>(174,202)</u>
Non-Financial Assets		
Tangible capital assets	<u>88,183,862</u>	<u>88,399,593</u>
Accumulated Surplus	<u><u>\$ 91,344,135</u></u>	<u><u>\$ 88,225,391</u></u>
Statement of Operations		
Revenues	\$ 10,636,699	\$ 10,276,298
Expenses - excluding amortization	5,601,757	5,538,552
Amortization	<u>1,916,199</u>	<u>1,865,614</u>
Net revenues	<u><u>\$ 3,118,743</u></u>	<u><u>\$ 2,872,132</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

16. CONTRACTUAL OBLIGATIONS

(a) Ontario Clean Water Agency

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.

OCWA is contracted to operate the water treatment plant on behalf of the LAWSS. Included in the Consolidated Statement of Operations for 2017 are charges for the operation of the water treatment plant in the amount of \$2,518,057 (2016 - \$2,455,183).

(b) GFIVE Inc – Purchase and Sale Agreement

The municipality entered into a purchase and sale agreement on July 4, 2017 with GFIVE Inc. Municipal properties 220 Mitton Street North and a portion of 327 George Street were sold and obligations of the Municipality after closing is to pay up to \$5,350,000 upon completion of 7 milestone phases for the decommissioning and demolition of buildings located on these properties. As of December 31, 2017, total remaining obligation is \$5,050,000. This agreement expires two years from date of closing or upon completion of all 7 phases.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

17. BUDGET FIGURES

Budget data presented in these consolidated financial statements are based upon the 2017 operating budget as approved by Council and adopted by the City on December 6, 2016. Adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting.

The chart below reconciles the approved budget with the budget figures as presented in these consolidated statements.

	Budget Amount \$
Revenues	
Approved Operating Budget	\$ 135,465,569
Adjustments:	
Net contribution from reserve and reserve funds	(1,143,293)
Proceeds on debt issuance	(3,703,893)
Internal allocation elimination entries	(3,648,689)
LAWSS consolidated adjustment	<u>170,289</u>
Adjusted Operating Budget per Statement of Operations	127,139,983
Expenses	
Approved Operating Budget	135,465,569
Adjustments:	
Net contribution to reserve, reserve funds and capital	(17,187,065)
Debt principal repayments	(8,333,354)
Internal allocation elimination entries	(4,084,689)
Unfunded liability adjustment	(2,141,991)
LAWSS consolidated adjustment	1,020,605
Amortization, addition and deletions	<u>16,799,815</u>
Adjusted Operating Budget per Statement of Operations	<u>121,538,890</u>
Total Net Revenue (Expense)	<u><u>\$ 5,601,093</u></u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

18. GOVERNMENT TRANSFERS

	2017	2016
Operating		
Province of Ontario		
OMPF	\$ 2,491,201	\$ 2,421,699
Program Support	400,074	322,792
Provincial Gas Tax	306,362	459,273
	<u>3,197,637</u>	<u>3,203,764</u>
Government of Canada		
Program Support	50,567	39,007
Federal Harbour	223,140	247,836
	<u>273,707</u>	<u>286,843</u>
Total Operating	<u>3,471,344</u>	<u>3,490,607</u>
Capital		
Province of Ontario		
Provincial Gas Tax	802,334	747,593
PTIF	759,014	-
CWWF	1,184,401	-
Canada 150	124,585	-
Drainage Grants	36,210	56,460
OCIF	1,159,796	765,745
CISO	8,000	-
SCF	720,092	6,307,703
	<u>4,794,432</u>	<u>7,877,501</u>
Government of Canada		
Federal Gas Tax	2,193,213	3,925,937
CIP 150	2,131	107,869
CWWF	2,368,802	-
Enabling Assessibility Fund	43,500	-
MAMP	50,000	-
Federal Harbour	1,902,331	2,168,831
GLSF	-	25,000
	<u>6,559,977</u>	<u>6,227,637</u>
Total Capital	<u>11,354,409</u>	<u>14,105,138</u>
Total Government Transfers	<u>\$14,825,753</u>	<u>\$17,595,745</u>

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

19. 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 approximate 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 2 wastewater treatment plants.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

19. 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.

20. 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.

21. 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 the balance at the end of the year is \$931,538 (2016 - \$627,274) and is reported on the Consolidated Statement of Financial Position.

THE CORPORATION OF THE CITY OF SARNIA

Notes to the Consolidated Financial Statements

Year Ended December 31, 2017

21. PUBLIC LIABILITY INSURANCE

Claims settled during the year, amounting to \$261,565 (2016 - \$541,135), have been provided for from the reserve fund and are accordingly reported as an expenditure on the Consolidated Statement of Operations.

22. PROPERTY TAX CAPPING

The province has required municipalities to limit assessment related tax increases for individual, commercial, industrial and multi-residential properties to 10% (2016 - 10%). The total amount of protection for these properties amounted to \$1,585 (2016 - \$17,943).

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

23. INTER - ENTITY 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 \$2,172,756 (2016 - \$2,998,338)

24. COMPARATIVE AMOUNTS

Certain comparative amounts presented in the financial statements have been reclassified 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, 2017

	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	2017 Total
REVENUES									
Property taxation	\$ 70,036,966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	70,036,966
User fees and service charges	1,029,818	2,028,675	7,644,802	33,500,548	-	296,136	3,059,973	349,759	47,909,711
Grants	2,511,963	247,393	8,711,090	2,963,305	-	61,348	239,864	90,790	14,825,753
Rents and financial	4,318,333	462	121,577	53,278	-	2,180	21,439	112,227	4,629,496
Other municipalities	1,889	1,428,232	868,919	285,544	-	-	-	756,823	3,341,407
Other	3,093,277	71,420	222,621	1,175,638	-	1,531	381,652	6,270	4,952,409
	<u>80,992,246</u>	<u>3,776,182</u>	<u>17,569,009</u>	<u>37,978,313</u>	<u>-</u>	<u>361,195</u>	<u>3,702,928</u>	<u>1,315,869</u>	<u>145,695,742</u>
EXPENSES									
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	5,946,982	39,927,906	7,656,622	9,255,812	-	187,837	5,194,786	737,882	68,907,827
Materials	1,787,807	3,269,262	4,787,802	3,759,914	-	225,951	3,201,492	364,514	17,396,742
Contracted services	597,794	133,943	1,081,634	12,238,594	-	18,922	809,639	228,905	15,109,431
Net long-term liability interest charges	573	-	58	319,295	-	-	166,801	2,480	489,207
Amortization of tangible capital assets	1,123,083	908,189	6,167,635	7,701,740	-	-	1,417,790	-	17,318,437
Other	201,919	450,117	144,256	208,585	73,536	6,000	6,500	200	1,091,113
	<u>9,658,158</u>	<u>44,689,417</u>	<u>19,838,007</u>	<u>33,483,940</u>	<u>73,536</u>	<u>438,710</u>	<u>10,797,008</u>	<u>1,333,981</u>	<u>120,312,757</u>
NET SURPLUS (DEFICIT)	<u>\$ 71,334,088</u>	<u>\$ (40,913,235)</u>	<u>\$ (2,268,998)</u>	<u>\$ 4,494,373</u>	<u>\$ (73,536)</u>	<u>\$ (77,515)</u>	<u>\$ (7,094,080)</u>	<u>\$ (18,112)</u>	<u>\$ 25,382,985</u>

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	729,649	1,743,335	7,702,121	32,771,672	-	258,170	3,132,138	484,731	46,821,816
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	-	1,959	25,490	30,788	3,991,147
Other municipal	1,899	1,455,162	838,461	210,063	-	-	-	775,355	3,280,940
Other	3,461,237	79,755	133,352	1,282,538	-	3,816	610,938	80,363	5,651,999
	<u>77,612,523</u>	<u>3,497,152</u>	<u>13,397,900</u>	<u>44,434,991</u>	<u>-</u>	<u>317,133</u>	<u>3,896,435</u>	<u>1,482,036</u>	<u>144,638,170</u>
EXPENSES									
Salaries, wages, employee benefits & non-functionalized unfunded liabilities	6,438,468	40,739,137	8,253,445	9,079,103	-	196,135	5,304,893	880,036	70,891,217
Materials	3,905,658	3,229,904	5,154,672	3,263,205	-	196,354	3,097,420	932,897	19,780,110
Contracted services	774,503	158,649	1,854,123	9,799,529	-	51,540	798,359	118,031	13,554,734
Net long-term liabilities 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	7,387	410,160	205,942	138,159	74,672	6,000	6,500	200	849,020
	<u>12,329,007</u>	<u>45,466,254</u>	<u>21,556,884</u>	<u>30,313,839</u>	<u>74,672</u>	<u>450,029</u>	<u>10,728,687</u>	<u>1,936,323</u>	<u>122,855,695</u>
NET SURPLUS (DEFICIT)	<u>\$ 65,283,516</u>	<u>\$ (41,969,102)</u>	<u>\$ (8,158,984)</u>	<u>\$ 14,121,152</u>	<u>\$ (74,672)</u>	<u>\$ (132,896)</u>	<u>\$ (6,832,252)</u>	<u>\$ (454,287)</u>	<u>\$ 21,782,475</u>



Tel: (519)336-9900
Fax: (519)332-4828
www.bdo.ca

BDO Canada LLP
Kenwick Place, 250 Christina Street North
P O Box 730
Sarnia, Ontario N7T 7J7

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, 2017 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, 2017 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 28, 2018

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

**Statement of Continuity of Trust Funds
Year ended December 31, 2017**

	2017 Total	2016 Total
FUND BALANCES, BEGINNING OF YEAR	\$ 11,552	\$ 11,408
REVENUES		
Interest earned	166	144
FUND BALANCES, END OF YEAR	<u>\$ 11,718</u>	<u>\$ 11,552</u>

**Statement of Financial Position
as at December 31, 2017**

	2017 Total	2016 Total
ASSETS		
Trust fund	<u>\$ 11,718</u>	<u>\$ 11,552</u>
FUND BALANCES	<u>\$ 11,718</u>	<u>\$ 11,552</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, 2017

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.