

**The Corporation of the City of
Sault Ste. Marie**
Consolidated Financial Statements
For the year ended December 31, 2005

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For the year ended December 31, 2005

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Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Sault Ste. Marie

We have audited the consolidated statement of financial position of The Corporation of the City of Sault Ste. Marie as at December 31, 2005 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and changes in financial position for the year then ended in accordance with the accounting principles disclosed in the summary of significant accounting policies.

BDO Dunwoody LLP

Chartered Accountants

Sault Ste. Marie, Ontario
April 13, 2006

The Corporation of the City of Sault Ste. Marie Consolidated Statement of Financial Position

December 31	2005	2004
Assets		
Cash and temporary investments	\$ 11,512,635	\$ 24,251,217
Taxes receivable	4,944,738	6,272,960
Temporary advances to trust funds	-	63,141
Accounts receivable	33,145,163	21,379,059
Other current assets	645,477	743,500
Investment in PUC Inc. (Note 7)	60,202,301	60,859,571
Inventories	1,987,332	1,883,128
	\$ 112,437,646	\$ 115,452,576
Liabilities and Municipal Position		
Liabilities		
Accounts payable and accrued liabilities	\$ 21,054,642	\$ 11,715,479
Temporary advances from trust funds	116,148	-
Future employee benefit obligations (Note 14)	22,454,061	22,014,849
Deferred revenue - obligatory reserve funds (Note 2)	2,737,522	1,821,898
Landfill closure and post closure liability (Note 15)	11,709,422	9,178,839
Net long term liabilities (Note 3)	23,031,325	26,446,776
	81,103,120	71,177,841
Municipal position		
Current fund (Note 4)	1,967,546	2,659,344
Capital fund	(7,098,795)	1,675,803
Reserves and reserve funds	33,458,281	36,720,481
Investment in PUC Inc.	60,202,301	60,859,571
	88,529,333	101,915,199
Amounts to be recovered (Note 5)	57,194,807	57,640,464
Net municipal position	31,334,526	44,274,735
	\$ 112,437,646	\$ 115,452,576

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie Consolidated Statement of Financial Activities

For the year ended December 31	2005	2004
Revenue		
Property taxation	\$ 74,489,809	\$ 71,856,534
Taxation from other governments	4,431,398	4,347,457
Fees and user charges	40,520,871	37,020,742
Government grants	61,662,179	36,649,967
Investment income	4,760,660	4,956,387
Other	3,720,922	5,426,765
Deferred user charges recognized	1,146,042	-
	<u>190,731,881</u>	<u>160,257,852</u>
Expenditures		
Current		
General government	12,203,037	11,062,348
Protection services	28,202,931	27,268,889
Transportation services	23,247,863	24,740,467
Environmental services	17,810,936	13,431,268
Health services	6,377,135	5,681,777
Social and family services	31,628,666	29,638,557
Social housing	2,015,005	1,848,970
Recreation and cultural services	10,677,003	10,306,291
Planning and development	4,935,341	3,832,825
	<u>137,097,917</u>	<u>127,811,392</u>
Capital		
General government	632,646	113,826
Protection services	1,304,266	591,254
Transportation services	16,564,151	15,699,781
Environmental services	34,735,585	12,489,571
Health services	493,501	137,186
Social and family services	52,746	32,592
Social housing	-	4,424
Recreational and cultural services	11,762,260	837,747
Planning and development	350,846	4,546,943
	<u>65,896,001</u>	<u>34,453,324</u>
Total expenditures	<u>202,993,918</u>	<u>162,264,716</u>
Revenue before government business enterprise	(12,262,037)	(2,006,863)
PUC Inc. operating results	(657,270)	(1,385,319)
Net revenues for the year	<u>(12,919,307)</u>	<u>(3,392,182)</u>
Change in amounts to be recovered		
New debt issued	-	496,950
Debt principal repayments	(3,415,451)	(3,292,915)
Change in liabilities for post employment benefits and landfill closure and post-closure	2,948,892	344,755
	<u>(466,559)</u>	<u>(2,451,210)</u>
Change in fund balances for the year	(13,385,866)	(5,843,392)
Fund balances, beginning of year	<u>101,915,199</u>	<u>107,758,591</u>
Fund balances, end of year	<u>\$ 88,529,333</u>	<u>\$ 101,915,199</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie Consolidated Statement of Changes in Financial Position

For the year ended December 31	2005	2004
Cash provided by (used in)		
Operating activities		
Net revenues for the year	\$ (12,919,307)	\$ (3,392,182)
Items not involving cash		
PUC Inc. operating results adjusted	657,270	1,385,319
Future employee benefit obligations	418,309	594,519
Landfill closure	2,530,583	(249,763)
	<u>(9,313,145)</u>	<u>(1,662,107)</u>
Changes in non-cash working capital balances		
Decrease in taxes receivable	1,328,222	505,106
Increase in accounts receivable	(11,766,104)	(6,076,826)
Decrease in other current assets	98,023	122,430
Decrease in temporary advances from trust funds	179,289	(1,181,932)
Increase in accounts payable and accrued liabilities	9,339,163	3,245,122
Increase in deferred revenue - obligatory reserve funds	915,624	33,928
Decrease (Increase) in inventories	1	(40,686)
	<u>94,218</u>	<u>(3,392,858)</u>
Net change in cash from operations	<u>(9,218,927)</u>	<u>(5,054,965)</u>
Financing activities		
Additions to long term liabilities	-	496,950
Repayment of long term liabilities	(3,415,451)	(3,292,915)
	<u>(3,415,451)</u>	<u>(2,795,965)</u>
Net change in cash and cash equivalents	(12,634,378)	(7,850,930)
Cash and cash equivalents, beginning of year	<u>24,251,217</u>	<u>32,102,147</u>
Cash and cash equivalents, end of year	<u>\$ 11,616,839</u>	<u>\$ 24,251,217</u>

The Corporation of the City of Sault Ste. Marie

Summary of Significant Accounting Policies

December 31, 2005

The City of Sault Ste. Marie is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation. The consolidated financial statements of The Corporation of the City of Sault Ste. Marie (the "City") are prepared by management in accordance with accounting principles generally accepted in Canada for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by The Corporation of The City of Sault Ste. Marie are as follows:

Basis of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the City of Sault Ste. Marie and include the activities of all Committees of Council and the Sault Ste. Marie Police Services Board. These financial statements also include the Sault Ste. Marie Public Library Board and the City of Sault Ste. Marie Public Utilities Commission. All inter-departmental and inter-organizational assets and liabilities and revenues and expenditures have been eliminated on consolidation.

The following local boards and joint local boards have not been consolidated:

Algoma Health Unit
District of Sault Ste. Marie Social Services Administration Board
Board of Management of Queenstown, The Sault Ste. Marie
Central Business District Improvement Area
Board of Management of City Centre Business Improvement
Area

Government business enterprises and partnerships are separate legal entities which do not rely on the municipality for funding. Investments in government business enterprises are accounted for using the modified equity method. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City's investment in PUC Inc. is a government business enterprise, and as such, it is reflected in the consolidated financial statements.

The Corporation of the City of Sault Ste. Marie

Summary of Significant Accounting Policies

December 31, 2005

Basis of Accounting	<p>Revenues and expenditures are reported on the accrual basis of accounting. 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.</p> <p>The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the municipality, and is the difference between its assets and liabilities. This provides information about the municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.</p>
Fund Accounting	<p>Funds within the consolidated financial statements consist of current, capital and reserve funds. Transfers between funds are recorded as adjustments to the appropriate municipal fund balance and interfund balances are eliminated.</p> <p>Trust funds and their related operations administered by the City are not included in these financial statements, but are reported on separately on the Trust Funds Statement of Continuity and the Statement of Financial Position.</p>
Temporary Investments	<p>Temporary investments are recorded at the lower of cost and market value.</p>
Inventories	<p>Inventories held for resale are stated at the lower of cost and net realizable value, while inventories of supplies are stated at lower of cost and replacement value.</p>
Capital Assets	<p>The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as a capital expenditure on the consolidated statement of financial activities in the period of acquisition.</p>
Amounts to be Recovered	<p>Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.</p>
Reserves and Reserve Funds	<p>Certain amounts, as approved by City Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.</p>

The Corporation of the City of Sault Ste. Marie

Summary of Significant Accounting Policies

December 31, 2005

Government Grants

Government grants are recognized in the financial statements as revenues in the period in which events giving rise to the grants occur, providing the grants are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles for local governments in Canada 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 period. Actual results could differ from management's best estimates as additional information becomes available in the future.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

1. Tax Revenues

Property tax billings are prepared by the City based on an assessment roll prepared by the Municipal Property Assessment Corporation ("MPAC"), an agency of the Ontario government. All assessed property values in the City were reviewed and new values established based on a common valuation date which was used by the City in computing the property tax bills from 1998 to 2005. However, the property tax revenue and tax receivables of the City are subject to measurement uncertainty as a significant number of appeals submitted by ratepayers have yet to be heard.

The City has established a reserve for tax appeals in the amount of \$1,750,000 (2004 - \$1,750,000). Any supplementary billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year they are determined.

2. Deferred Revenue - Obligatory Reserve Funds

A requirement of the public sector accounting principles of the Canadian Institute of Chartered Accountants, is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as legislation restricts how these funds may be used and under certain circumstances these funds may possibly be refunded. The balances in the obligatory reserve funds of the City are summarized below:

	2005	2004
Obligatory Reserve Funds:		
Development charges act	\$ 376,189	\$ 365,556
Provincial Gas Tax	577,710	-
Federal Gas Tax	1,453,990	-
Parkland	329,633	365,302
Apartment Sewer		1,091,040
	<hr/>	<hr/>
	\$ 2,737,522	\$ 1,821,898

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

3. Long Term Liabilities

	2005	2004
Total long term obligations incurred by the City including those incurred on behalf of municipal enterprises and utilities and outstanding at the end of the year amount to	\$ 23,031,325	\$ 26,446,776

Principal payments due on net long term obligations for the next five fiscal years and thereafter are as follows:

	2006 To 2010	2011 To 2015	2016 and Thereafter	Total
From general municipal revenues	\$13,530,514	\$5,427,828	\$3,332,320	\$22,290,662
From benefitting landowners	554,125	186,538	-	740,663
	\$14,084,639	\$5,614,366	\$3,332,320	\$23,031,325

The annual principal and interest payments required to service the long term obligations of the municipality are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

The long term obligations issued in the name of the City have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law.

The above long-term debt has various maturity dates and interest rates ranging from due on demand to 2020 and 0% to 8.07% respectively.

Interest paid in the year and included in current expenditures is \$1,219,533 (2004-\$1,393,016).

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

4. Municipal Fund Balances

	2005	2004
Current fund for the reduction of taxation or user charges:		
City of Sault Ste. Marie	\$ 432,011	\$ 1,532,162
Library	45,850	67,144
Public Utilities Commission	1,489,685	1,060,038
	1,967,546	2,659,344
Capital fund for acquisition of fixed assets (or fixed assets not yet financed)	(7,098,795)	1,675,803
Reserves	16,736,714	19,867,621
Reserve funds	16,721,567	16,852,860
Net investment in PUC Inc.	60,202,301	60,859,571
	86,561,787	99,255,855
Total	\$ 88,529,333	\$ 101,915,199

The balance available for the general reduction of taxation for the fiscal year ending December 31, 2005 has been reduced by an amount of \$380,788 (2004 - \$1,109,673) transferred to reserves as authorized by a resolution of Council on April 26, 2006 (2004 - April 25, 2005). Had this reduction not been made, the amount available for general reduction of taxation would have been \$812,799 (2004 - \$2,641,835).

5. Amounts to be Recovered

	2005	2004
Net long term liabilities	23,031,325	26,446,776
Future employee benefits obligations	22,454,060	22,014,849
Landfill closure and post closure liability	11,709,422	9,178,839
	\$ 57,194,807	\$ 57,640,464

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

6. Expenditures by Object

The following is a summary of current and capital expenditures for the year reported on the consolidated statement of financial activities by the object of expenditure:

	<u>2005</u>	<u>2004</u>
Current:		
Salaries, wages and employee benefits	\$ 68,158,031	\$ 65,692,763
Materials	16,870,021	17,380,242
Contracted services	23,789,851	15,648,004
Rents and financial expenses	193,347	149,923
Interest on long term debt	1,219,534	1,393,016
Transfer payments	26,867,133	27,547,444
	<u>\$ 137,097,917</u>	<u>\$ 127,811,392</u>
Capital:		
Materials	\$ 2,590,480	\$ 4,446,311
Contracted services	63,305,521	30,007,013
	<u>\$ 65,896,001</u>	<u>\$ 34,453,324</u>

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

7. Investment in PUC Inc.

PUC Inc. is a business enterprise of the City, and is accounted for on a modified equity basis.

PUC Inc. is incorporated under the laws of the Province of Ontario and provides municipal electrical distribution and other services to the residents of Sault Ste. Marie. The City owns 100% of the outstanding shares of PUC Inc. The note payable of \$15,240,000 is unsecured, bears interest at 8.5% per annum, and is payable one year after demand. The note payable of \$25,000,000 is unsecured, bears interest at rates negotiated periodically, and is payable one year after demand.

	2005	2004
<u>Financial Position:</u>		
Current assets	\$ 30,891,393	\$ 22,441,693
Future income tax assets	671,782	698,532
Capital assets	43,387,291	44,358,437
Regulatory assets	3,807,614	4,651,321
	\$ 78,758,080	\$ 72,149,983
Current liabilities	\$ 17,590,629	\$ 10,108,705
Employee future benefit obligations	965,150	901,707
Notes payable	40,240,000	40,520,000
	58,795,779	51,530,412
Total liabilities		
Shareholder's equity	19,962,301	20,619,571
	\$ 78,758,080	\$ 72,149,983
<u>Results of Operations:</u>		
Revenues	\$ 70,587,325	\$ 64,772,694
Expenditures	71,195,645	66,130,543
Provision for payment in lieu of taxes	(48,950)	(27,470)
	\$ (657,270)	\$ (1,385,319)
Net income (loss) for the year		
 <u>The City's investment in PUC Inc. is comprised of:</u>		
Common shares	\$ 6,098,248	\$ 6,098,248
Special shares	14,620,000	14,620,000
Retained earnings (deficit)	(755,947)	(98,677)
	19,962,301	20,619,571
Equity, end of year		
Notes receivable	40,240,000	40,240,000
	\$ 60,202,301	\$ 60,859,571
Net Investment in PUC Inc.		

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

8. Pension Agreements

The City makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2005 was \$3,208,138 (2004 - \$3,118,110).

9. Budget Amounts

Under accounting principles generally accepted for local governments in Canada, budget amounts are to be reported on the consolidated statement of financial activities for comparative purposes. The 2005 budget amounts for the City, approved by Council, have been restated to conform to the basis of preparation of the revenues and expenditures on the Consolidated Schedule of Current Fund Operations.

City Council completes separate budget reviews for its operating and capital budgets each year. The approved operating budget for 2005 is reflected on the Consolidated Schedule of Current Fund Operations. For capital spending, budgets are set for individual projects and funding for these activities is determined annually and made by transfers from reserve funds and by the application of applicable grants or other funds available to apply to capital projects. During 2005, Council approved, net transfers totalling \$7,915,806 (2004 - \$3,872,492) from reserves and reserve funds for capital projects. As many capital projects are carried out over one or more years, it is not practical to present annualized budget information on the Consolidated Schedule of Capital Fund Operations.

10. Operations of School Boards

During 2005, the City collected and transferred property taxes totalling \$25,037,869 (2004 - \$25,121,038) on behalf of area school boards.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

11. Trust Funds

The trust funds administered by the City amounting to \$5,645,582 (2004 - \$5,306,943) are presented in a separate financial statement of trust fund balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's financial position or financial activities. At December 31, 2005, the trusts fund balances are comprised of:

	2005	2004
Cemetery care and maintenance	\$ 3,732,814	\$ 3,537,007
Pre-need assurance	1,190,220	1,033,247
Transit employees pension	559,256	583,370
Historic Sites	27,975	45,275
Heritage SSM	50,957	-
Ontario Home Renewal Program	75,741	98,314
Ontario Home Renewal Plan (Rental)	8,619	9,730
	<u>\$ 5,645,582</u>	<u>\$ 5,306,943</u>

12. Commitments

The City has committed to providing funding of \$27,500,000, as of 2008, to a proposed new hospital for Sault Ste. Marie. A reserve fund has been designated to accumulate \$2,100,000 per year plus investment income. Of the annual contribution to the reserve fund, \$1,100,000 is to be levied upon the taxpayers of Sault Ste. Marie, while the other \$1,000,000 is derived from the City's share of Charity Casino revenues.

The City has entered into a ten year lease ending May 14, 2010 for premises rental at base annual amounts of \$709,560 plus additional rent designed to offset landlord costs. A sub-lease to a commercial sub-tenant is structured to provide sufficient funds to meet the City's obligation under the head lease.

The City has entered into contracts for upgrading the East End Sewage Treatment Plant at an estimated cost of \$52,794,000 and the construction of a Sports and Entertainment Centre at an estimated cost of \$25,040,400. The East End Sewage Treatment Plant funding is approximately 40% by the City, of which \$8,500,000 will be funded by debt issue. The remaining 60% will be funded by grants from the Province. The Sports and Entertainment Centre funding is approximately 70% by the City, of which \$13,000,000 will be funded by debt issue. The remaining 30% is funded by federal and provincial grants.

13. Contingent Liabilities

The City has been named in litigation matters, the outcome of which is not determinable and accordingly, no provision has been made for them in these financial statements. Should any loss result from these claims, such loss would be charged to operations in the year of resolution.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

14. Future Employee Benefit Obligations

Employee future benefits are liabilities of the City to its employees and early retirees for the following benefits earned but not taken as at December 31, 2005:

	2005	2004
Future payments required to W.S.I.B.	\$ 9,792,835	\$ 10,026,051
Post employment and post retirement benefits	6,517,131	6,148,287
Vacation pay	5,201,549	4,945,811
Sick leave benefits	942,546	894,700
	\$ 22,454,061	\$ 22,014,849

Post employment and post retirement benefits

The City provides non-pension benefits to employees and retirees until they reach 65 years of age. The values that follow have been estimated based upon employee data available during the actuarial review which was completed as at December 31, 2005.

The benefit liability continuity is as follows:

	2005	2004
Accrued benefit obligation, January 1	\$ 6,148,287	\$ 5,819,490
Expense	673,177	629,316
Payments	304,333	300,519
	\$ 6,517,131	\$ 6,148,287

Significant assumptions

Discount rate 5.25% (previously 6%)

Health cost increase 5%-8%

It is estimated that a 1% increase in assumed trend rates would increase this liability by approximately \$748,000, while a 1% decrease would reduce the liability by \$657,000.

Accrued sick leave

Sick leave benefits accrue to City employees at a rate of one and a half days per month. Unused sick days are banked and may be used in the future if sick leave is beyond yearly allocation. No cash payments are made for unused sick time upon termination or retirement.

Accrued vacation pay

Accrued vacation pay represents the liability for vacation entitlements earned by employees but not taken as at December 31, 2005.

Future payments for Worker's Safety and Insurance Board (WSIB)

Under the provisions of the Workplace Safety and Insurance Board Act the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund current disability payments. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability.

The Corporation of the City of Sault Ste. Marie

Notes to Consolidated Financial Statements

December 31, 2005

15. Landfill Closure and Post Closure Liability

The Environmental Protection Act sets out the 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. This requirement is to be provided for over the estimated life of the landfill site based on usage.

Landfill closure and post closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a sixty year period using the best information available to management. Future events may result in significant changes to the estimated total expenditures, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

The City operates one primary landfill site, the 5th Line Landfill. The site has capacity of approximately 3,000,000 metric tons with approximately 698,000 metric tons of remaining capacity. At current average fill rates, the site has a remaining operating life of approximately 10 years (extended one year from previous estimates).

It is estimated that the total net present value of the cost to close and maintain the 5th Line Landfill site is approximately \$15,260,000 (2004 - \$11,808,000). The City has established a reserve to contribute to the cost of closing and maintaining the landfill site.

The City is currently reviewing future solid waste disposal options which may extend the operating life of the landfill.

16. Change in Accounting Policy and Comparative Figures

In accordance with recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, the City now records the liability for post employment and post retirement benefits entitlement as it is earned. The method used to calculate the future payments to the Workplace Safety Insurance Board was changed from previous years. This change in accounting policy has been applied on a retroactive basis and accordingly, comparative figures have been restated to conform to the current year's presentation.

This revised method of accounting has increased future employee benefits payable, as well as the related "amount to be recovered in future years", by \$3,313,755 as at December 31, 2004 to reflect the above.

The Corporation of the City of Sault Ste. Marie Consolidated Schedule of Current Fund Operations

For the year ended December 31	2005 Budget (Unaudited)	2005 Actual	2004 Actual
Revenue			
Property taxation	\$ 73,701,031	\$ 74,489,809	\$ 71,856,534
Taxation from other governments	4,356,870	4,431,398	4,347,457
Fees and user charges	37,597,728	40,520,871	37,020,742
Government grants	28,966,540	29,405,676	26,347,405
Investment income	4,083,525	4,294,788	4,676,318
Other	1,472,421	2,859,649	4,163,794
	<u>150,178,115</u>	<u>156,002,191</u>	<u>148,412,250</u>
Expenditures			
General government	10,594,525	12,203,037	11,062,348
Protection services	27,804,807	28,202,931	27,268,889
Transportation services	23,471,912	23,247,863	24,740,467
Environmental services	14,682,956	17,810,936	13,431,268
Health services	5,952,700	6,377,135	5,681,777
Social and family services	31,002,508	31,628,666	29,638,557
Social Housing	2,008,130	2,015,005	1,848,970
Recreation and cultural services	10,221,505	10,677,003	10,306,291
Planning and development	2,412,125	4,935,341	3,832,825
	<u>128,151,168</u>	<u>137,097,917</u>	<u>127,811,392</u>
Net revenues for the year	<u>22,026,947</u>	<u>18,904,274</u>	<u>20,600,858</u>
Financing and transfers			
Debt principal repayments	2,631,028	3,415,451	3,292,915
Change in landfill closure liability	-	(2,530,583)	249,763
Change in future employee benefit obligation	-	(418,309)	(594,518)
Transfers to capital fund operations	14,600,985	14,921,307	14,355,871
Transfers to reserves and reserve funds	6,174,902	4,208,206	4,466,714
	<u>23,406,915</u>	<u>19,596,072</u>	<u>21,770,745</u>
Change in fund balance for the year	(1,379,968)	(691,798)	(1,169,887)
Current fund, beginning of the year	<u>2,659,344</u>	<u>2,659,344</u>	<u>3,829,231</u>
Current fund, end of the year	<u>\$ 1,279,376</u>	<u>\$ 1,967,546</u>	<u>\$ 2,659,344</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie Consolidated Schedule of Capital Fund Operations

For the year ended December 31	2005	2004
Revenue		
Government grants	\$ 32,256,503	\$ 10,302,562
Other	861,273	1,262,971
Deferred user charges recognized	1,166,514	-
	<u>34,284,290</u>	<u>11,565,533</u>
Expenditures		
General government	632,646	113,826
Protection services	1,304,266	591,254
Transportation services	16,564,151	15,699,781
Environmental services	34,735,585	12,489,571
Health services	493,501	137,186
Social and family services	52,746	32,592
Social Housing	-	4,424
Recreation and cultural services	11,762,260	837,747
Planning and development	350,846	4,546,943
	<u>65,896,001</u>	<u>34,453,324</u>
Net revenues (expenditures) for the year	<u>(31,611,711)</u>	<u>(22,887,791)</u>
Financing and transfers		
New debt issued	-	496,950
Transfers from current fund operations	14,921,307	14,355,871
Transfers from reserves and reserve funds	7,915,806	3,872,492
	<u>22,837,113</u>	<u>18,725,313</u>
Change in fund balance for the year	<u>(8,774,598)</u>	<u>(4,162,478)</u>
Capital fund, beginning of the year	<u>1,675,803</u>	<u>5,838,281</u>
Capital fund, end of the year	<u>\$ (7,098,795)</u>	<u>\$ 1,675,803</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the City of Sault Ste. Marie Consolidated Schedule of Reserves and Reserve Funds

For the year ended December 31	2005	2004
Revenue		
Investment income	\$ 465,872	\$ 280,070
Transfer to obligatory reserve fund	(20,472)	-
	<u>445,400</u>	<u>280,070</u>
Net transfers from (to) other funds		
Transfer from current fund operations	4,208,206	4,466,714
Transfer from (to) capital fund operations	(7,915,806)	(3,872,492)
	<u>(3,707,600)</u>	<u>594,222</u>
Change in balance for the year	(3,262,200)	874,292
Reserves and reserve funds, beginning of year	<u>36,720,481</u>	<u>35,846,189</u>
Reserves and reserve funds, end of the year	<u>\$ 33,458,281</u>	<u>\$ 36,720,481</u>
Analyzed as follows:		
Reserves set aside for specific purpose by Council:		
Working capital	\$ 2,161,007	\$ 2,161,007
Acquisition of fixed assets	2,766,545	3,914,061
Construction projects	191,689	283,292
Planning and development	962,433	1,877,181
Parking facilities	232,121	852,016
Other programs	5,384,404	6,829,691
Waste disposal site	5,038,515	3,950,373
	<u>16,736,714</u>	<u>19,867,621</u>
Reserve funds set aside for specific purpose by Council:		
Sewage plants	1,072,644	3,510,488
Cemetery development	1,916,032	1,923,780
Industrial land	38,191	37,000
Property purchases	635,804	527,051
Hospital development	12,970,275	10,564,650
Other programs	88,621	289,891
	<u>16,721,567</u>	<u>16,852,860</u>
Reserves and reserve funds, end of the year	<u>\$ 33,458,281</u>	<u>\$ 36,720,481</u>

**The Corporation of the City of
Sault Ste. Marie
Trust Funds
Financial Statements
For the year ended December 31, 2005**



BDO Dunwoody LLP
Chartered Accountants
and Advisors

Driving growth

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Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Sault Ste. Marie

We have audited the statement of financial position of the Trust Funds of The Corporation of the City of Sault Ste. Marie as at December 31, 2005 and the statement of continuity for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust Funds as at December 31, 2005 and the continuity of the trust funds for the year then ended in accordance with Canadian generally accepted accounting principles for local governments.



Chartered Accountants

Sault Ste. Marie, Ontario
April 13, 2006

**The Corporation of the City of Sault Ste. Marie
Trust Funds
Statement of Financial Position**

	December 31, 2005		2004	
	2005	2004	2005	2004
Assets				
Cash and investments	\$3,695,506	\$1,059,469	\$ 48,284	\$5,272,466
Receivable from other funds	37,308	130,751	-	66,534
Loans receivable (Note 2)	-	-	-	97,603
	\$3,732,814	\$1,190,220	\$ 48,284	\$5,436,603
Liabilities				
Payable to other funds	\$ -	\$ -	\$ -	\$ 129,660
Fund Balance				
	3,732,814	1,190,220	27,975	5,306,943
	\$3,732,814	\$1,190,220	\$ 48,284	\$5,697,526

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**The Corporation of the City of Sault Ste. Marie
Trust Funds
Statement of Continuity**

	2005		2004				
For the year ended December 31, 2005	2005	2004	2005	2004			
	Care and Maintenance	Pre-need Assurance	Ontario Home Renewal Plan (Rental)	Historic Sites	Heritage SSM	Transit Employees Pension	Total
Balance, beginning of the year	\$3,537,007	\$1,033,247	\$ 98,314	\$ 45,275	\$ -	\$583,370	\$5,190,704
Revenue:							
Capital receipts	195,807	130,751	-	1,156	50,671	-	209,261
Interest earned	147,684	26,222	1,245	1,853	938	10,753	168,629
	343,491	156,973	1,245	3,009	51,609	10,753	377,890
Expenditures:							
Contributions to revenue fund	147,684	-	536	-	-	-	148,333
Transfer to Province of Ontario	-	-	22,011	1,422	-	-	23,433
Transfer to capital project	-	-	-	20,309	-	-	20,309
Administration charges	-	-	1,271	-	652	34,867	36,925
	147,684	-	23,818	20,309	652	34,867	229,000
Balance, end of the year	\$3,732,814	\$1,190,220	\$ 75,741	\$ 27,975	\$ 50,957	\$ 559,256	\$5,306,943

The Corporation of the City of Sault Ste. Marie

Trust Funds

Notes to Financial Statements

December 31, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

Capital receipts and income are reported on the cash basis of accounting.

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses which are reported on the accrual basis of accounting, which recognizes expenditures as they are incurred and measurable as a result of the receipt of goods and services and the creation of a legal obligation to pay.

2. Ontario Home Renewal Program

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans were limited to \$7,500, of which the maximum deferred portion was \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 2005 comprise repayable loans of \$26,439 (2004 - \$31,736), forgivable loans of \$- (2004 - \$750), and deferred loans of \$59,199 (2004 - \$65,117). Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continuous ownership and occupancy. The deferred portion of the loan is deferred for a five year period. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balance of the loans immediately become due and payable by the homeowner.

The Province of Ontario legislated an end to the OHRP program in 1993. As of July 16, 1993 no new loans were issued. All funds collected on outstanding OHRP loans will be remitted to the Province by March 1 of the following year. However, municipalities will be provided an administration fee of five per cent of the balances collected after December 31, 1993 and are permitted to retain the interest earned on unremitted OHRP trust account balances.

3. Investments

Total investments by the trust funds of \$3,232,328 (2004 - \$2,600,129) included in cash and investments on the Statement of Financial Position at cost, have a market value of \$3,278,864 (2004 - \$2,694,267) at the end of the year.
