

Consolidated Financial Statements

**CORPORATION OF THE
CITY OF NORTH BAY**

Year ended December 31, 2013

CORPORATION OF THE CITY OF NORTH BAY

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Year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of
the Corporation of the City of North Bay

We have audited the accompanying consolidated financial statements of The Corporation of the City of North Bay which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of North Bay as at December 31, 2013 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

June 2, 2014
North Bay, Canada

CORPORATION OF THE CITY OF NORTH BAY

Consolidated Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
FINANCIAL ASSETS:		
Cash and cash equivalents	\$ 14,263,969	17,501,288
Investments (note 2)	19,688,909	23,287,127
Taxes receivable	3,843,012	3,572,349
Accounts receivable (note 3(a)(viii))	15,486,645	8,369,153
Other assets	399,820	260,279
Loans receivable from government business enterprises (note 3(a)(vi))	3,853,798	3,977,125
Notes receivable from government business enterprises (note 3(a)(v))	20,844,551	20,844,551
Investment in government business enterprises (note 3(b))	32,364,957	30,652,772
	<u>110,745,661</u>	<u>108,464,644</u>
LIABILITIES:		
Accounts payable and accrued liabilities	20,624,828	14,037,996
Deferred revenue - general	887,096	1,200,873
Deferred revenue - obligatory reserve funds (note 4)	3,737,051	3,394,592
Post employment benefits payable (note 5)	13,729,206	13,233,153
Solid waste landfill closure and post-closure care liability (note 6)	2,266,443	2,166,417
Net long-term liabilities (note 7)	67,361,425	61,941,801
	<u>108,606,049</u>	<u>95,974,832</u>
NET FINANCIAL ASSETS	2,139,612	12,489,812
NON-FINANCIAL ASSETS:		
Tangible capital assets (note 18)	524,175,705	502,351,397
Other assets	2,404,898	2,824,755
Commitments (note 11)		
Contingent liabilities (note 12)		
Environmental indemnities (note 13)		
Accumulated surplus (note 9)	\$ 528,720,215	517,665,964

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of Council:

Mayor

Chief Financial Officer

CORPORATION OF THE CITY OF NORTH BAY

Consolidated Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	2013 Budget (note 16)	2013 Total	2012 Total
Revenues:			
Property taxation	\$ 72,402,702	72,401,427	70,834,493
Taxation from other governments	3,930,319	4,063,758	3,945,532
User charges	30,034,476	31,273,603	31,091,327
Government transfers and grants	21,543,140	22,062,773	20,782,615
Licenses, permit fees and rents	2,644,920	2,162,265	2,087,579
Investment income	2,161,333	2,494,910	2,448,557
Provincial Offences Act (note 15)	1,759,383	1,718,858	1,714,495
Other	9,982,313	7,173,988	6,923,674
Equity earnings of government business enterprises (note 3)	-	2,410,734	2,416,623
	144,458,586	145,762,316	142,244,895
Expenses:			
General government	5,067,020	6,385,534	6,376,909
Protection services	34,468,881	36,045,483	35,218,666
Transportation services	22,167,810	36,749,637	33,592,860
Engineering and environmental services	17,309,489	24,080,569	24,513,424
Community services	15,079,419	15,637,118	15,865,419
Recreation and cultural services	10,924,788	13,930,851	13,436,729
Planning and development	1,558,166	1,878,873	2,273,912
	106,575,573	134,708,065	131,277,919
Annual surplus	37,883,013	11,054,251	10,966,976
Accumulated surplus, beginning of year	517,665,964	517,665,964	506,698,988
Accumulated surplus, end of year (note 9)	\$ 555,548,977	528,720,215	517,665,964

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE CITY OF NORTH BAY

Consolidated Statement of Changes in Net Financial Assets

Year ended December 31, 2013, with comparative information for 2012

	2013 Budget (note 16) (Unaudited)	2013 Total	2012 Total
Annual surplus	\$ 37,883,013	11,054,251	10,966,976
Acquisition of tangible capital assets	(32,169,421)	(44,062,531)	(31,833,646)
Amortization of tangible capital assets	-	21,371,283	21,199,166
Disposal of tangible capital assets	-	866,940	607,855
	(32,169,421)	(21,824,308)	(10,026,625)
Increase in other assets	-	419,857	(251,519)
Change in net financial assets	5,713,592	(10,350,200)	688,832
Net financial assets, beginning of year	12,489,812	12,489,812	11,800,980
Net financial assets, end of year	\$ 18,203,404	2,139,612	12,489,812

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE CITY OF NORTH BAY

Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Operating transactions:		
Annual surplus	\$ 11,054,251	10,966,976
Items not involving cash:		
Amortization of tangible capital assets	21,371,283	21,199,166
Equity earnings of government business enterprises	(2,410,734)	(2,416,623)
Increase in post employment benefits payable and other liabilities	496,053	364,398
Increase in solid waste landfill closure and post-closure care liability	100,026	21,890
	30,610,879	30,135,807
Changes in non-cash operating balances (note 20)	(492,325)	2,075,333
	30,118,554	32,211,140
Capital transactions:		
Disposal of tangible capital assets	866,940	607,855
Acquisition of tangible capital assets	(44,062,531)	(31,833,646)
	(43,195,591)	(31,225,791)
Investing transactions:		
Change in portfolio investments	3,598,218	(11,036,868)
Loan receivable advanced	123,327	(2,671,080)
Cash dividend received from government business enterprises	698,549	618,674
	4,420,094	(13,089,274)
Financing transactions:		
Proceeds from debt issues	13,468,225	9,800,000
Debt repayments	(8,048,601)	(7,762,898)
	5,419,624	2,037,102
Net change in cash and cash equivalents	(3,237,319)	(10,066,823)
Cash and cash equivalents, beginning of year	17,501,288	27,568,111
Cash and cash equivalents, end of year	\$ 14,263,969	17,501,288

The accompanying notes are an integral part of these consolidated financial statements.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

The City of North Bay 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 2001, Provincial Offences Act and other related legislation.

1. Significant accounting policies:

The consolidated financial statements of the Corporation of the City of North Bay (the "City") are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant aspects of the accounting policies adopted by the City are as follows:

a) Reporting entity:

i) Consolidated entities:

These consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City. These boards and entities include:

- North Bay Public Library Board
- North Bay Police Services Board
- Board of Management For The Downtown Improvement Area ("DIA")
- North Bay Hydro Holdings Limited ("Holdco")
- North Bay Jack Garland Airport Corporation ("Airport")

All interfund assets and liabilities and sources of financing and expenses have been eliminated.

ii) Investment in Government Business Enterprises:

Government business enterprises are accounted for by the modified equity method. Under this method the business enterprises' accounting principles are not adjusted to conform with those of the City and inter-organizational transactions and balances are not eliminated. The government business enterprises included during the year and summarized in note 3 are:

- North Bay Hydro Distribution Limited
- North Bay Hydro Services Inc.

iii) Related entities:

The following joint local boards are not consolidated:

- East Nipissing District Home For The Aged ("Cassellholme")
- North Bay Parry Sound District Health Unit
- District of Nipissing Social Services Administration Board ("DNSSAB")

iv) Accounting for school board transactions:

The taxation, other revenues, expenses, assets and liabilities of Near North District School Board, Nipissing-Parry Sound Catholic District School Board, Conseil Scolaire du District du Nord-Est de L'Ontario, and Conseil Scolaire Catholique Franco-Nord are not reflected in these consolidated financial statements.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

1. Significant accounting policies (continued):

b) Basis of accounting:

Sources of financing and expenses are reported on the accrual basis of accounting. This method recognizes revenues as they become available and measurable; expenses 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.

c) Cash and cash equivalents:

Cash consists of balances held at financial institutions and all cash equivalents consist of highly liquid financial instruments with maturity of three months or less at acquisition.

d) Investments:

Investments are recorded at cost. Temporary declines in the market value of the long-term investments are not adjusted.

e) Inventories:

Inventories of goods and supplies are priced at average cost on the same basis as the preceding year.

f) Tangible capital assets:

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs attributable to acquisition or construction, development or betterment of the tangible capital asset including but not limited to transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue, when fair value can be reasonably estimated. Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing in the year the asset is available for productive use as follows:

Land improvements	7 to 40 Years
Buildings	10 to 100 Years
Vehicles	2 to 30 Years
Machinery and equipment	3 to 40 Years
Computer hardware and software	4 Years
Roads	20 to 40 Years
Water and sewer	75 Years
Bridges and structures	75 Years
Work-in-process	No Amortization Prior to Project Completion

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

1. Significant accounting policies (continued):

g) Non-pension post retirement benefits and post employment sick leave benefits:

The City accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits. The City has adopted the following valuation methods and assumptions:

i) Actuarial cost method:

Accrued benefit obligations are computed using the projected benefit method pro rated on service, as defined in PSAB 3250 and PSAB 3255. The objective under this method is to expense each member's benefit under the plan taking into consideration projections of benefit costs to and during retirement. Under this method an equal portion of total estimated future benefit is attributed to each year of service.

ii) Funding policy:

The non-pension post retirement and post employment benefits are funded on a pay-as-you-go basis. The City funds on a cash basis as benefits are paid. No assets have been formally segregated and restricted to provide the non-pension retirement and post employment benefits.

iii) Accounting policies:

Actuarial gains and losses are amortized on a linear basis over the expected average remaining service life ("EARSL") of members expected to receive benefits under the plan, with amortization commencing in the period following the determination of the gain or loss. Obligations are attributed to the period beginning on the member's date of hire and ending on the expected date of termination, death or retirement, depending on the benefit value. The City's fiscal year-end is December 31 and the measurement date of the City's obligation is such.

h) Taxation and related revenues:

Property tax billings are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established by City Council, incorporating amounts to be raised for local services and amounts the City is required to collect on behalf of the Province of Ontario in respect of education taxes. The legislation limits assessment related increases in property tax bills to a minimum of 5 per cent annually for commercial, industrial and multi-residential classes of property until the affected properties are taxed at a level equivalent to the tax otherwise calculated based on their current value assessment. A normal part of the assessment process is the issue of supplementary rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued. Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known. The City is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

1. Significant accounting policies (continued):

i) Government grants:

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when monies are receivable. Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.

j) Transfer payments:

Transfer payments, which include legislative grants, are recognized in the consolidated financial statements in the period in which the events giving rise to the transfer occurs, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be determined.

k) Investment income:

Investment income earned on surplus funds is reported as revenue in the period earned. Investment income earned on obligatory funds such as development charges and parkland allowances is added to the associated funds and forms part of respective deferred revenue balances.

l) User fees and other revenues:

User fees and other revenues are reported on an accrual basis.

m) Use of estimates:

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Significant items subject to such estimates and assumptions include: solid waste landfill closure and post closure liabilities, employee future benefits, Provincial Offenses Act receivables, allowances for doubtful accounts and other accrued liabilities and/or obligations. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the year in which they become known.

2. Investments:

	2013	2012
Investment in financial institutions - bonds and GICs	\$ 19,688,709	\$ 23,286,927
Other	200	200
Total investments, end of year	\$ 19,688,909	\$ 23,287,127

The City's investment in financial institutions totaling \$19,688,709 are reported at cost and mature between 2014 to 2020, with yields ranging from 1.25% to 4.87%. The current short-term portion equals \$8,034,187.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

3. Government business enterprises:

a) North Bay Hydro:

The City holds 100% of the shares of North Bay Hydro Holding Limited ("Holdco"). Holdco holds 100% of the shares of North Bay Hydro Distribution Limited ('Distribution') and North Bay Hydro Services Inc. ("Services"). The following provides condensed combined financial information for Distribution and Services.

	2013	2012
Statement of Financial Position		
Total Assets	\$ 91,082,722	\$ 83,739,458
Total Liabilities	\$ 58,717,765	\$ 53,086,686
Net Assets	32,364,957	30,652,772
Total Liabilities and Net Assets	\$ 91,082,722	\$ 83,739,458
Statement of Operations		
Total Revenues	\$ 15,264,465	\$ 13,932,139
Total Expenses	12,853,731	11,515,516
Net income	\$ 2,410,734	\$ 2,416,623

Related party transactions between Hydro and the City are summarized as follows:

- i) The City purchased electricity and services from Distribution including electrical energy in the amount of \$2,371,339 (2012 - \$2,510,679), street light energy in the amount of \$784,314 (2012 - \$856,557), construction activity in the amount of \$194,280 (2012 - \$12,330) and street light maintenance in the amount of \$191,918 (2012 - \$506,064).
- ii) The City received municipal taxes from Distribution in the amount of \$59,134 (2012 - \$57,183)
- iii) Distribution purchased goods and services from the City totalling \$263,908 (2012 - \$371,589)
- iv) The City received Conservation and Demand Management incentives from Distribution totalling \$36,309 (2012 - \$4,425).
- v) The City holds two promissory notes (a) \$19,511,601 payable from Distribution and (b) \$1,332,950 payable from Services, totalling \$20,844,551 (2012 - \$20,844,551). Note (a) is unsecured, due upon twelve months written notice and bears interest of 5% per annum. Note (b) bears interest at 5% per annum and has no definite terms of repayment.
- vi) The City also holds a loan receivable from Distribution related to the Merrick Landfill project. The loan bears interest at 4.90% and is receivable in monthly principal and interest instalments over 20 years. The balance at December 31, 2013 is \$3,853,798 (2012 - \$3,977,125).
- vii) The City received interest in the amount of \$975,580 (2012 - \$975,580) from promissory note (a) and \$66,648 (2012 - \$66,648) from promissory note (b).
- viii) At December 31, 2013 the City balances include accounts receivable of \$135,696 (2012 - \$173,780) and accounts payable and accrued liabilities of \$539,799 (2012 - \$588,240) due to/from Distribution.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

3. Government business enterprises (continued):

b) Investment in government business enterprises:

	2013	2012
Investment in government business enterprises, beginning of year	\$ 30,652,772	\$ 28,854,823
Equity in earnings	2,410,734	2,416,623
Cash dividend received	(698,549)	(618,674)
Investment in government business enterprises, end of year	\$ 32,364,957	\$ 30,652,772

4. Deferred revenue - obligatory reserve funds:

	2013	2012
Balance, beginning of the year	\$ 3,394,592	\$ 3,787,920
Federal gas tax contributions	3,310,814	3,310,814
Provincial gas tax contributions	992,218	1,029,733
Development contributions	841,527	722,665
Investment income	76,108	88,055
Utilization of funds	(4,878,208)	(5,544,595)
Deferred revenue - obligatory reserve funds, end of year	\$ 3,737,051	\$ 3,394,592
Analyzed as follows:		
Development charges	\$ 2,465,873	\$ 1,874,085
Federal gas tax contributions	9,151	194,995
Provincial gas tax contributions	138,595	134,229
Sub-divider contributions	-	-
Cash in lieu of parkland	601,616	582,619
Building Code Act	521,816	608,664
Deferred revenue - obligatory reserve funds, end of year	\$ 3,737,051	\$ 3,394,592

Included in cash and cash equivalents is restricted amounts of \$3,737,051 (2012 - \$3,394,592) with respect to the above obligatory reserve funds.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

5. Post employment benefits payable:

	2013	2012
Sick leave benefits	\$ 7,152,596	\$ 6,720,309
Supplementary health benefits	6,576,610	6,512,844
Total post employment benefits payable	\$ 13,729,206	\$ 13,233,153

The City maintains a sick leave plan covering all Fire Association employees hired before December 31, 1997, Police Services Board and Police Association employees hired before September 1, 1977, all Library employees hired prior to August 31, 1987, and all other employees with at least five years of service hired prior to September 30, 1980. The above sick leave benefit liability estimates the use of accumulated sick leave prior to retirement as well as any lump-sum payments upon retirement.

In addition, the City has a defined supplementary health benefit plan covering City union employees, Fire Association employees, Police Association employees and management and non-union employees who retire from current employment. The above supplementary health benefit liability estimates the expense of each member's benefit under the plan taking into consideration projections of benefit costs to and during retirement up to the age of 65.

Information about the City's defined supplementary health benefit care and sick leave plan is as follows:

	2013	2012
Sick leave benefits:		
Accrued benefit, beginning of year	\$ 6,720,309	\$ 6,370,466
Amortization of unamortized actuarial gains/losses and other	152,073	152,073
Service cost for the year	944,109	887,863
Interest expense for the year	345,624	335,678
Benefits paid during the year	(1,009,519)	(1,025,771)
Accrued benefit liability and projected obligation, end of year	\$ 7,152,596	\$ 6,720,309
Supplementary health benefits:		
Accrued benefit, beginning of year	\$ 6,512,844	\$ 6,498,289
Amortization of unamortized actuarial gains/losses and other	24,449	24,447
Service cost for the year	291,476	274,111
Interest expense for the year	292,035	291,423
Benefits paid during the year	(544,194)	(575,426)
Accrued benefit liability and projected obligation, end of year	\$ 6,576,610	\$ 6,512,844

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

5. Post employment benefits payable (continued):

A comprehensive actuarial valuation was completed as at December 31, 2011 by an actuarial firm. The next valuation date will be for 2014, as at December 31. The main actuarial assumptions employed for the valuations are as follows:

- i) The discount rate was assumed at 4.25% per annum for Accrued Benefit Obligation ("ABO") (2012 - 4.25%) and 4.25% per annum for the 2013 expense (2012 - 4.25%).
- ii) Future general salary and wage levels were assumed to increase 3% per annum.
- iii) Health Costs were assumed at 6.3333% per annum from 2011 through 2013, reducing by 0.3333% annually to 4% in 2020 (2012 hospital - 6.3333%, 2012 prescription drugs - 6.3333%, 2012 other medical and travel costs - 6.3333%).
- iv) Dental costs were assumed to increase at 4% per annum.
- v) The expected average remaining service life is 12 years for non-pension post retirement benefits and 11 years for post employment benefits.

6. Solid waste landfill closure and post-closure care liability:

The City owns two solid waste landfill sites. The Merrick Landfill site ('Merrick') has been accepting waste since 1994. The Marsh Drive Landfill site ("Marsh") has been closed since the opening of Merrick. Environmental approvals for the operation of landfill sites require that the City accept responsibility for certain obligations regarding closure and post-closure care of each site.

Closure activities include all activities related to closing the landfill site. Through a proactive closure plan, many closure costs are incurred on an on-going basis and are included in the yearly fiscal operating budget. Taking this into consideration, it is assumed that this will result in minimal closure costs at the actual closure date with expenses being absorbed in the annual operating budget.

Post-closure activities include all activities related to monitoring the site once it can no longer accept waste. These costs are expected to last for an indeterminate time period, but at a minimum, would exceed 20 years.

There are currently no reserves set aside for either closure or post-closure activities. The Merrick site has remaining capacity of 1,360,000 cubic metres of waste and is estimated to have a remaining landfill life of approximately 19.7 years. The City recognizes a future liability for closure and post-closure care costs. Based on historical post closure costs for Marsh and an estimated annual inflation rate of 2%, an amount is estimated at December 31, 2013 for the current year post-closure liability of both sites in the amount of \$2,266,443 (2012 - \$2,166,417) and has been accrued in the consolidated financial statements. Based on a 35 year liability assumption, the total estimated future expenditures for post-closure of both Merrick and Marsh landfill is \$5,760,507 (2012 - \$5,667,068) of which \$3,494,065 (2012 - \$3,500,651) represents the amount of Merrick site future post-closure liability yet to be accrued.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

7. 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:

	2013	2012
Debentures (i)	\$ 47,508,742	\$ 40,146,817
Term loans (ii)	11,000,000	12,500,000
Hospital commitment (iii)	8,852,683	9,294,984
Total net long-term liabilities (iv)	\$ 67,361,425	\$ 61,941,801

- (i) The debentures bear interest at rates of 2.2% to 5.45%, repayable in annual principal payments of \$3,946,000 (2012 - \$4,255,000) and semi-annual principal payments of \$435,650 (2012 - \$435,650) and monthly principal payments of \$193,902 (2012 - \$81,667) plus interest, maturing in December 2014 to December 2027.
- (ii) The term loans bear interest at rates of 2.85% to 4.61%, repayable in semi-annual principal payments of \$200,000 (2012 - \$200,000) and quarterly principal payments of \$275,000 (2012 - \$275,000) plus interest, maturing in December 2018 to December 2021.
- (iii) During 2003, the City passed a resolution committing to pay \$1,000,000 per year for 20 years to the North Bay Regional Health Centre capital project. As at December 31, 2006, a formal agreement was executed which became effective when the construction tender for the new hospital was awarded. In 2007, the City made the first of 20 annual payments. Based on municipal borrowing rates of 6% for a 20 year debenture, the present value of the remaining 13 payments of \$1,000,000 is \$8,852,683.
- (iv) Total 2013 principal payments for long-term liabilities totalled \$8,048,601 (2012 - \$7,762,898).

- b) The aggregate maturities of the net long-term liabilities are as follows:

	2013	2012
2014	\$ 9,112,962	\$ 8,048,601
2015	8,690,342	7,766,139
2016	8,084,610	7,343,519
2017	7,584,217	6,737,788
2018	7,102,721	6,237,395
2018 thereafter	26,786,573	25,808,359
Total net long-term liabilities	\$ 67,361,425	\$ 61,941,801

The repayments are summarized as follows:

From municipal revenues	\$ 51,230,075	\$ 47,889,451
From user fees	16,131,350	14,052,350
Total net long-term liabilities	\$ 67,361,425	\$ 61,941,801

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

7. Net long-term liabilities (continued):

The repayments to be funded by municipal revenues include \$8,852,683 for the discounted hospital commitment noted in part 7a). The requirement to be funded through user fees include a current \$6,800,000 debenture for the water filtration plant that will be recovered from a water filtration plant surcharge over the next 15 years. The water filtration surcharge will equal up to a maximum of principal debenture plus interest.

- c) The long-term liabilities reported in 7a), issued in the name of the City, have been approved by municipal by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

8. Interest on long-term liabilities:

Total interest charges for the year on long-term liabilities reported in the Consolidated Statement of Operations are as follows:

	2013	2012
General government	\$ 27,817	\$ 13,160
Protection services	52,596	57,904
Transportation services	815,836	842,419
Engineering and environmental services	543,416	518,229
Community services	557,699	582,735
Recreation and cultural services	274,649	279,117
Planning and development	19,064	52,543
Total interest payments	\$ 2,291,077	\$ 2,346,107

Interest includes accruals on long-term liabilities outstanding in the amount of \$140,651 (2012 - \$153,945).

9. Accumulated surplus:

	2013	2012
Investment in tangible capital assets	\$ 524,175,705	\$ 502,351,397
General surplus	9,560,183	18,212,987
Reserve funds	25,131,893	22,945,628
Equity in government business enterprises	53,209,508	51,497,323
Amounts to be recovered:		
Post employment benefits and other liabilities	(13,729,206)	(13,233,153)
Landfill closure and post-closure liabilities	(2,266,443)	(2,166,417)
Hospital commitment	(8,852,683)	(9,294,984)
Debt for tangible capital assets	(58,508,742)	(52,646,817)
Accumulated surplus, end of year	\$ 528,720,215	\$ 517,665,964

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

10. Pension agreements:

The City makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer pension plan, on behalf of all permanent, full-time and qualifying part-time members 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 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 440,000 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. On December 31, 2013, the estimated accrued pension obligation for all members of the Plan was \$73,000 million (2012 - \$69,122 million). The Plan had an actuarial value of net assets at that date of \$64,400 million (2012 - \$59,368 million) indicating an actuarial deficit of \$8,600 million (2012 - \$9,924 million). Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the City does not recognize any share of the OMERS pension surplus or deficit. Contributions made by the City to OMERS for 2013 were \$4,580,888 (2012 - \$4,070,685).

11. Commitments:

- a) In June 2010, the City entered into a new 10 year agreement in principle (including two five year optional extensions by mutual consent) with Miller Waste to operate the waste collection and recycling collection/processing programs. The agreement includes residential, ICI curb side and multi-residential services. The agreement also contains a performance bond for 100% of the annual value of the work should Miller be unable to fulfill the requirements of the contract.

In 2013 costs totaled \$1,004,786 (2012 - \$989,542) for waste collection and \$694,036 (2012 - \$759,861) for recycling.

- b) In September 2008, the City entered into a 10 year contract for the lease of property and building located at 112 Patton Street. Operating from this location is a recycling center processing recyclables collected from a provincially mandated blue box program.

In 2013 lease costs totalled \$94,332 (2012 - \$93,874).

- c) In the fall of 2010, the City tendered the operation of the City's Landfill operation. The City entered into a 5 year contract that included a 1 year option to extend the contract with Bruman Construction & Leasing on January 24, 2011.

In 2013 the contract costs to operate the landfill totalled \$1,066,862 (2012 - \$949,318).

- d) In 1990, the City entered into an agreement with the Physically Handicapped Adults Rehabilitation Association ("PHARA") to provide drivers for Para bus services. The agreement renews on a yearly basis unless one of the parties notifies the other of its intention not to renew the contract.

In 2013, contract costs totalled \$522,824 (2012 - \$502,339).

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

12. 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, that is not covered by insurance, such loss would be charged to operations in the year of resolution.

13. Environmental indemnities:

- a) During 2002, the City acquired 26 acres of former rail yards from the Canadian Pacific Railway ("Railway") on an "as is" basis, whereby both the City and the Railway will be responsible for any claims arising from the condition of the soils, until such time as the City leases or transfers the lands to a third party.

Five of these acres were transferred to a third party on February 17, 2006 and the City has given an indemnity for any soils claims arising there from. Payment in the amount of \$1,060,000 was received and a Certificate of Property Status and Record of Site Condition was filed with the Ministry of the Environment by the City's agent.

As for the balance of these lands, the City has remedied the lands according to the Risk Management Plan approved by the Ministry of Environment using Site Specific Risk Assessment criteria.

The Risk Management Plan includes a monitoring program to ensure that the site develops in compliance with clean up and/or proposed barriers from soil exposure risks and to determine how groundwater contamination may be evolving and migrating across the site over time. The clean up of diesel contaminated soils also has associated short-term monitoring requirements. Monitoring is also carried out on down gradient lands owned by the City including sediment sampling in Lake Nipissing.

The City may also have environmental liability related to a former industrial parcel on Memorial Drive known as the Kenroc site.

Monitoring costs in 2013 were \$12,240 (2012 - \$18,062) and data is summarized in annual reports provided to the Ministry of Environment.

- b) In 2003, the City sold land (Part of Parcel 2133 Widdifield and Ferris, Part of the Southern Half of Lot 18, Concession D, Being Part 12, Plan 36R City of North Bay) for use as a paved parking area and agreed to indemnify the purchaser from any claim or demand resulting from the presence of existing hydrocarbon materials identified by WESA dated October 2003 on the associated land. The agreement also commits the City to future costs of removing contaminants (if still present) due to sale of the land. The lands are below hydrocarbon levels specified by the Ministry of Environment's Table B Guidelines for Industrial/Commercial Lands on a stratified basis, understanding the intended use of the land as being paved parking. An environment liability could result if there is a change in land use.

An estimate of contingent liability is undeterminable and accordingly provisions have not been made for liabilities, if any, in these consolidated financial statements.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

14. Public liability insurance:

For the period of 2004 to 2007, the City was insured with the Ontario Municipal Insurance Exchange ("OMEX"), an insurance reciprocal whose members pool their insurance coverage. As a member of a reciprocal, the City agreed to assume a certain percentage of the entire group's liabilities and losses for the period of time that the City was a member. In the event that an annual premium funding becomes insufficient to cover claims and claim reserves, the reciprocal has the ability to re-assess each member to appropriately fund the difference. As the claims for the above-noted period are settled, the City may either incur new liabilities or receive refunds. As at December 31, 2012, the City's portion of the claim reserve was \$506,998 and open claims for the above-noted period was 143. There is no additional liability or refund acknowledged for 2013.

15. Provincial offences act:

The Ministry of the Attorney General requires all municipal partners administering Provincial Offences Act to disclose in the year-end audited consolidated financial statements a note on the gross and net provincial offences revenues earned. The following table provides condensed financial information (on a cash basis) required by the terms in the Memorandum of Understanding (MOU) for its 2013 fiscal year with comparative 2012 figures:

	2013	2012
Revenues (net of refunds)	\$ 1,650,812	\$ 1,668,940
Year end accrual	68,046	45,555
	\$ 1,718,858	\$ 1,714,495
Expenses: Provincial charges	\$ 168,629	\$ 176,690
City operating	1,069,061	1,028,787
	\$ 1,237,690	\$ 1,205,477
Net revenue	\$ 481,168	\$ 509,018
Participating partners share	\$ 213,057	\$ 202,610
City of North Bay share	\$ 268,111	\$ 306,408

As per regulations, the City's consolidated statement of operations includes an accrual for POA receivables as at December 31, 2013 in the amount of \$375,176 (2012 - \$307,129). The calculation for collectible accounts receivables was estimated based on a five-year trend.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

16. Budget:

The Budget By-law adopted by Council for the 2013 year was not prepared on a basis consistent with that used to report actual results (Public Sector Accounting Standards). The budget was prepared on a modified accrual basis while Public Sector Accounting Standards now require a full accrual basis. The budget figures anticipated use surpluses accumulated in previous years to reduce current year expenses in excess of current year revenues to \$Nil. In addition, the budget expensed all tangible capital expenditures rather than including amortization expense. As a result, the budget figures presented in the consolidated statements of operations and change in net financial assets represent the financial plan adopted by council with adjustments as follows:

	2013	2012
Budget By-law for the year	\$ -	\$ -
Add: Debt principal repayments	8,058,146	6,916,288
Investment in tangible capital assets	32,169,421	35,071,647
Less: Net transfer to/(from) reserves	(2,344,554)	(2,046,428)
Budget surplus per statement of operations	\$ 37,883,013	\$ 39,941,507

17. Credit facility agreement:

The City has a credit facility agreement with a Canadian Financial Institution bearing interest at the bank's prime rate less 0.50%. The maximum draw under the terms of the operating line are \$12 million. At year-end the City has not utilized any amount under this credit facility.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

18. Tangible capital assets:

	Land & Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computer Hardware & Software	Roads	Water & Sewer	Bridges & Structures	Leasehold Improvements	Work in Process	2013 Total
Cost, beginning of year	\$ 101,449,705	106,292,604	30,909,456	71,908,507	5,610,105	230,961,940	186,900,591	35,169,939	1,851,578	42,150,264	813,204,689
Additions during the year	4,964,629	3,732,926	2,728,395	2,874,414	317,209	8,918,825	6,686,740	272,741	-	13,566,652	44,062,531
Disposals during the year	(125,592)	(283,913)	(1,194,665)	(39,655)	(25,077)	(1,049,816)	(499,094)	(21,958)	-	-	(3,239,770)
Cost, end of year	106,288,742	109,741,617	32,443,186	74,743,266	5,902,237	238,830,949	193,088,237	35,420,722	1,851,578	55,716,916	854,027,450
Accumulated amortization, beginning of year	42,859,479	29,641,333	17,513,278	34,730,650	4,747,965	106,444,427	64,564,966	10,258,615	92,578	-	310,853,291
Amortization expense	3,506,139	2,334,253	2,284,570	3,331,483	442,413	6,337,283	2,622,089	466,764	46,289	-	21,371,283
Disposals during the year	(46,181)	(237,011)	(1,051,869)	(39,655)	(14,330)	(722,529)	(242,664)	(18,591)	-	-	(2,372,830)
Accumulated amortization, end of year	46,319,437	31,738,575	18,745,979	38,022,478	5,176,048	112,059,181	66,944,391	10,706,788	138,867	-	329,851,745
Net book value, beginning of year	58,590,226	76,651,271	13,396,178	37,177,857	862,140	124,517,513	122,335,625	24,911,324	1,759,000	42,150,264	502,351,398
Net book value, end of year	\$ 59,969,305	78,003,042	13,697,207	36,720,788	726,189	126,771,768	126,143,846	24,713,934	1,712,711	55,716,916	524,175,705

	Land & Land Improvements	Buildings	Vehicles	Machinery & Equipment	Computer Hardware & Software	Roads	Water & Sewer	Bridges & Structures	Leasehold Improvements	Work in Process	2012 Total
Cost, beginning of year	\$ 100,336,169	96,941,699	29,730,145	70,053,849	5,169,643	228,234,298	184,800,574	35,169,939	1,851,578	33,364,796	785,652,690
Additions during the year	1,113,536	9,350,905	3,283,634	2,113,988	551,421	4,526,006	2,108,688	-	-	8,785,468	31,833,646
Disposals during the year	-	-	(2,104,323)	(259,330)	(110,959)	(1,798,364)	(8,671)	-	-	-	(4,281,647)
Cost, end of year	101,449,705	106,292,604	30,909,456	71,908,507	5,610,105	230,961,940	186,900,591	35,169,939	1,851,578	42,150,264	813,204,689
Accumulated amortization, beginning of year	39,473,169	27,291,209	17,363,612	31,512,512	4,373,427	100,978,120	62,030,965	10,258,615	46,289	-	293,327,918
Amortization expense	3,386,310	2,350,124	2,111,416	3,477,120	485,497	6,802,822	2,539,587	-	46,289	-	21,199,166
Disposals during the year	-	-	(1,961,750)	(258,982)	(110,959)	(1,336,515)	(5,586)	-	-	-	(3,673,792)
Accumulated amortization, end of year	42,859,479	29,641,333	17,513,278	34,730,650	4,747,965	106,444,427	64,564,966	10,258,615	92,578	-	310,853,292
Net book value, beginning of year	60,863,000	69,650,490	12,366,533	38,541,337	796,216	127,256,178	122,769,609	24,911,324	1,805,289	33,364,796	492,324,772
Net book value, end of year	\$ 58,590,226	76,651,271	13,396,178	37,177,857	862,140	124,517,513	122,335,625	24,911,324	1,759,000	42,150,264	502,351,397

CORPORATION OF THE CITY OF NORTH BAY

Notes to Financial Statements

Year ended December 31, 2013

19. Segmented information:

The City and associated local Agencies, Boards and Commissions provide a wide range of services to the citizens of the City. These services can be segmented as follows:

a) General Government:

General Government consists of Office of the Mayor, Council, administrative services (including Clerks, elections, communications, legal and information technology services), Human Resources and financial departments. Areas within the General Government respond to the needs of external and internal clients by providing high quality, supportive and responsive services. This area supports the operating departments in implementing priorities of Council and provides strategic leadership on issues, relating to governance, strategic planning and service delivery.

b) Protection Services:

Protection services is comprised mostly of fire and police services. Police services provides adequate and effective policing that meet the needs of the community in areas of: crime prevention, law enforcement, assistance to victims of crime, public order and emergency response. Fire Protection includes fire suppression, fire prevention, fire safety education, rescue and emergency services and the training of persons involved in the provision of these activities.

c) Transportation Services:

Transportation services consists mainly of roadway systems, public transit and the parking authority. Roadways includes the maintenance and repair of the City's roads, sidewalks, drainage systems, traffic flow, street lights, as well as winter control (sanding, salting, snow plowing and removal). Public transit is responsible for the operation of a public transportation system including the maintenance and repairs of a fleet of transit buses. The parking department provides and manages public parking both on and off street and ensures that available parking spaces are shared between both long and short-term parkers to allow the greatest possible access for visitors to the central business district.

d) Engineering and Environmental Services:

Environmental services consists of providing and maintaining: sanitary sewer systems, storm sewer systems, water systems, waste collection, waste disposal and recycling. This division ensures the supply and quality of the City's drinking water, processes and cleans sewage to meet all provincial standards and provides waste disposal and recycling services.

e) Community Services:

Public health services works to improve the overall health of the population by providing various services to individuals and the community. Social and family services provides services that are meant to help the less fortunate in society. Social housing is provided to help shelter families and elderly in need. Childcare funding is provided to subsidize daycares and to provide early learning programs. The ambulance service transports the injured to the hospital and provides emergency medical care to those in need.

f) Recreation and Cultural Services:

Recreation and culture services support and maintain (but are not limited to) community parks, recreational programs and the public library. Recreational and cultural programs include: festivals, beach facilities and various community events.

g) Planning and Development:

Planning and development includes: planning, economic development and building departments. The planning department is responsible for the planning and review of property development plans and the City's future direction. Economic development generates opportunities in the community to strengthen the economic base of the City. The building department provides a number of services including enforcement of building and construction codes.

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

19. Segmented information:

	General Government	Protection	Transportation	Engineering & Environmental	Community Services	Recreation & Cultural	Planning & Development	2013 Total
Revenues:								
Taxation	\$ -	-	-	-	-	-	-	72,401,427
Other taxation	-	-	-	-	-	-	-	4,063,758
Fees and user charges	239,406	398,933	6,157,141	22,862,555	-	1,478,429	137,139	31,273,603
Grants and transfers	68,598	1,360,697	5,219,441	4,882,793	8,956,300	1,428,195	146,749	22,062,773
License, permits and rents	1,207,024	-	-	-	-	955,241	-	2,162,265
Investment income	2,482,622	-	11,028	-	-	1,260	-	2,494,910
Provincial offences	-	1,718,858	-	-	-	-	-	1,718,858
Other	2,462,754	469,761	1,125,284	1,532,665	-	1,499,868	83,656	7,173,988
Equity in Government Business Enterprise	-	-	-	-	-	-	-	2,410,734
	6,460,404	3,948,249	12,512,894	29,278,013	8,956,300	5,362,993	367,544	145,762,316
Expenses:								
Salary and benefits	2,831,246	30,240,277	11,316,428	7,805,703	-	7,014,654	1,181,362	60,389,670
Materials	689,244	2,732,716	11,372,936	6,102,933	-	3,218,554	559,723	24,676,106
Contracted services	758,635	1,531,093	1,833,388	4,168,384	-	971,379	101,415	9,364,294
Rents and financial	21,737	99,486	222,633	194,601	-	125,920	11,130	675,507
External transfers	-	528,623	-	-	15,079,419	332,085	1	15,940,128
Interest	27,817	52,596	815,836	543,416	557,699	274,649	19,064	2,291,077
Amortization of tangible capital assets	2,056,855	860,692	11,188,416	5,265,532	-	1,993,610	6,178	21,371,283
	6,385,534	36,045,483	36,749,637	24,080,569	15,637,118	13,930,851	1,878,873	134,708,065
Net balance	\$ 74,870	(32,097,234)	(24,236,743)	5,197,444	(6,680,818)	(8,567,858)	(1,511,329)	11,054,251

	General Government	Protection	Transportation	Engineering & Environmental	Community Services	Recreation & Cultural	Planning & Development	2012 Total
Revenue:								
Taxation	\$ -	-	-	-	-	-	-	70,834,493
Other taxation	-	-	-	-	-	-	-	3,945,532
Fees and user charges	305,615	610,833	6,336,959	22,145,169	-	1,564,004	128,747	31,091,327
Grants and transfers	13,009	1,362,898	7,356,336	2,675,815	8,609,200	350,857	414,500	20,782,615
License, permits and rents	1,245,255	-	-	-	-	842,324	-	2,087,579
Investment income	2,436,608	-	-	-	-	11,949	-	2,448,557
Provincial offences	-	1,714,495	-	-	-	-	-	1,714,495
Other taxation	2,720,577	334,851	1,291,349	1,735,133	-	569,338	272,426	6,923,674
Equity in Government Business Enterprise	-	-	-	-	-	-	-	2,416,623
	6,721,064	4,023,077	14,984,644	26,556,117	8,609,200	3,338,472	815,673	142,244,895
Expenses:								
Salary and benefits	2,829,860	29,435,536	10,959,890	7,898,124	-	6,810,389	1,254,533	59,188,332
Materials	441,277	2,741,221	8,080,524	6,414,855	-	3,194,887	732,482	21,605,246
Contracted services	1,174,702	1,617,045	1,955,883	4,293,777	-	916,034	219,754	10,177,195
Rents and financial	22,243	67,502	260,098	207,200	-	73,470	11,533	642,046
External transfers	-	512,808	-	-	15,282,684	324,334	1	16,119,827
Interest	13,160	57,904	842,418	518,229	582,735	279,118	52,543	2,346,107
Amortization of tangible capital assets	1,895,667	786,650	11,494,047	5,181,239	-	1,838,497	3,066	21,199,166
	6,376,907	35,218,665	33,592,861	24,513,424	15,865,419	13,436,729	2,273,913	131,277,919
Net balance	\$ 344,157	\$ (31,195,588)	\$ (18,608,217)	\$ 2,042,693	\$ (7,256,219)	\$ (10,098,257)	\$ (1,458,240)	10,966,976

CORPORATION OF THE CITY OF NORTH BAY

Notes to Consolidated Financial Statements

Year ended December 31, 2013

20. Change in non-cash working capital:

	2013	2012
Decrease (increase) in taxes receivable	\$ (270,663)	\$ 572,693
Decrease (increase) in accounts receivable	(7,117,492)	4,754,194
Decrease (increase) in other financial assets	(139,541)	33,387
Increase (decrease) in accounts payable and accrued liabilities	6,586,832	(2,782,562)
Increase (decrease) in deferred revenue	(313,777)	142,468
Increase (decrease) in obligatory reserve fund	342,459	(393,328)
Decrease (increase) in other non-financial assets	419,857	(251,519)
	<u>\$ (492,325)</u>	<u>\$ 2,075,333</u>

21. Subsequent event:

During 2013, the City signed an agreement with the Battalion Hockey Club. The agreement included a non-interest bearing loan granted to the City in the amount of \$5,000,000 to be applied to the construction and installation of the capital improvements to Memorial Gardens arena. The loan payments are equal to 50% of the capital reserve fund fees collected on ticket sales until \$1,100,000 is repaid to the Battalion. Thereafter, the repayments shall be based on 100% of the capital reserve fund fees collected on ticket sales. The minimum annual repayment is equal to \$135,000. The loan shall be repaid in full not later than July 30, 2028.

The City received the loan on February 28, 2014.

22. Comparative information:

The 2013 consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior annual surplus.