



**water** safe  
reliable



## Table of Contents

General Manager Message	3
Year in Review	4
Capital Works for 2008	5
Outlook	5
Management Responsibility	8
Auditors' Report	9
Governance	15

# 2008 Highlights

<b>Financial</b>	<b>2008</b>	<b>2007</b>
Service Revenue	\$10,364,000	\$10,566,000
Net Gain (Loss)	(\$764,000)	\$1,930,000
Total Municipal Position	\$3,665,000	\$4,429,000
<b>Operations</b>	<b>2008</b>	<b>2007</b>
Number of Customers	25,618	25,592
Annual Sales (m3)	10,007,151	11,181,306
Peak Daily System Demand (m3)	44,044	56,583

## H.J. Brian Curran P.Eng., MBA

General Manager, Public Utilities Commission

To: Chair Mark Howson and Members of the Public Utilities Commission

We are fortunate to have two very high quality sources of water supply to serve Sault Ste. Marie. Our groundwater system covers an extensive recharge area and has a thick overburden to filter water as it moves to the aquifer. Water is pumped to the surface, disinfected and supplied into the distribution system. Several years ago we completed a groundwater planning study to identify potential threats to our groundwater resource. We have installed monitoring wells to collect and analyze groundwater quality and are working with the local Conservation Authority to identify measures to protect the security of both our surface and groundwater supplies.

The intake structure at Gros Cap takes water from Lake Superior to our water treatment plant. Our treatment plant filters and disinfects water before it is pumped into the distribution system. Although we must be ever vigilant to ensure that our treatment processes are always operating effectively, the high quality of our influent water is a significant benefit in being able to produce a very high quality drinking water for our community. In 2008 we did not have any reportable exceedences of the Ontario Drinking Water Quality Standards.

On or before January 1, 2010 the Public Utilities Commission will have to submit an operational plan to the Ministry of Environment that demonstrates its ability to manage the municipal waterworks in accordance with a Drinking Water Quality Management Standard. On or before that date the owner must also apply for a drinking water works permit and a for a municipal drinking water licence. During the past year we have completed the documentation of the Operational Plan and supporting standard operating procedures. We are on schedule to comply with the regulatory filing requirements.

We addressed the issue of lead in drinking water by conducting two rounds of sampling tap water as required by regulation. In the first round, 92 homes were sampled and 29 homes were found to exceed the 10 parts per billion (ppb) standard. In the second round 169 homes were sampled, with 29 exceeding the standard. Because of the integrated nature of our GIS database we were able to focus on homes that were likely to have lead services. Therefore, the number of homes with higher than acceptable lead concentrations that were found in the two rounds of sampling is not reflective of what we would expect to find in homes throughout the city. We are developing a lead mitigation strategy which will be submitted to the Ministry of Environment by the end of 2009.



## Year in Review

### System Description

The Public Utilities Commission ensures that the municipally owned waterworks provide safe, reliable, potable water at cost to the residential and business customers within the municipal services boundary of Sault Ste. Marie, Ontario. Potable water is also supplied to part of the Rankin Reserve.

Approximately half of the water is supplied from Lake Superior and half from six deep wells located in the east and west urban areas of the city. The water intake in Lake Superior is located at Gros Cap. It extends 860 meters into Lake Superior and is situated at a depth of 17 meters. The Gros Cap pumping station delivers water to the Marshall Drive control tanks. Raw water then flows to the inlet of the water filtration plant. The water treatment plant is rated at 40,000 cubic meters/day and uses direct filtration, incorporating chemically assisted coagulation, flocculation and dual filtration media.

The management, maintenance and operations of the plant, wells and distribution system are carried out by PUC Services Inc. under a 10 year contract to July 25, 2010.

### Water Rates

Water rates increased by 5% effective January 1, 2008. The rate increase was required to ensure sufficient capital is available to meet operating requirements as well as for current and projected infrastructure replacements. Water rates for Sault Ste. Marie residents are still amongst the lowest in the province.

### Water Quality

Both raw and treated water are routinely tested at various points in the treatment and distribution system, in accordance with the requirements specified by the Ministry of the Environment (MOE). All test results are available for review by accessing the "PUC Water Commission - Water Quality Reports" through the PUC website ([www.ssmruc.com](http://www.ssmruc.com)) or by requesting a copy of the results from the offices of PUC Services Inc.

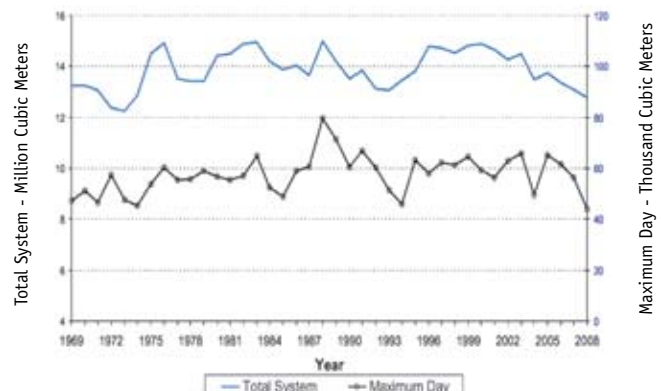
## Reportable Incidents

There were no reportable water quality incidents for 2008. All parameters analyzed in accordance with the requirements of the Ontario Drinking Water Standard (ODWS), including volatile organics, inorganics, and pesticides, showed no exceedences.

### System Total Pumpage

Total water delivered to the distribution system in 2008 was 12.79 million cubic meters compared to 13.09 in 2007. The maximum day production in the year was 44.0 thousand cubic meters, which occurred August 20, 2008. Annual consumption has fluctuated around 14 million cubic meters over the past four decades. There is evidence of a decline in the amount of water consumed annually over the past ten years or so. During that time we identified and repaired several significant leaks in the distribution system, thus reducing system consumption over time.

Distribution System Water Production



### System Capacity

Ministry of Environment guidelines for calculating "uncommitted reserve capacity" are aimed at ensuring adequate capacity exists in the water supply for future development within the community. Based on current data, uncommitted reserve capacity calculated under the Ministry guidelines is minimal. A project to restore system capacity was undertaken in 2008 in order to reinstate the full permitted supplies from the deep wells. The work includes improvements to the pumping stations to increase chlorine contact time so as to permit full production from all four well fields. This work will carry into 2009 and is anticipated to be completed by the end of May.

## Conservation Program

The Ministry of Environment continues to encourage supply authorities to implement conservation initiatives in order to defer system upgrades required to meet increased customer demand. In keeping with such best practice, the Commission will be developing a conservation program in 2009.

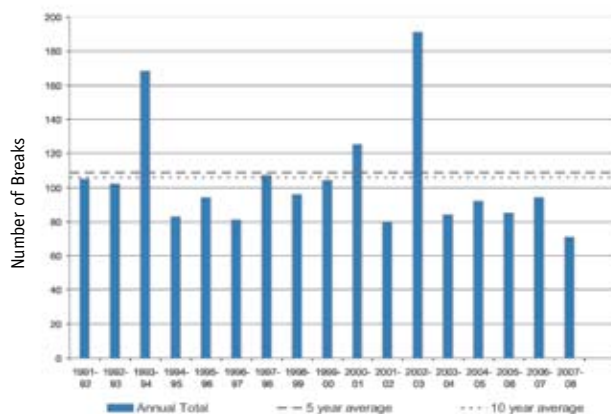
## Backflow Prevention

An area of growing concern for the Ministry of Environment is that of potential cross connections leading to possible backflow occurrences. The Commission will be working with the City of Sault Ste. Marie to develop a coordinated and comprehensive backflow prevention program in 2009. The Commission will be responsible for premise isolation requirements, i.e. the installation of a backflow preventer at the service entrance to the building, while the City will be responsible for plumbing under the Building Code.

## Watermain Breaks

There were 71 breaks in 2008 compared to 94 in 2007. The average for the prior five years is 109. The Long Term Break Summary – Annual Totals chart depicts watermain break activity since the winter of 1991-92. Watermain breaks are recorded from November of one year to October of the next.

Long-Term Break Summary - Annual Totals



## Capital Works for 2008

In 2008 a total of \$4.5 million was spent on capital improvements in the system. Major system works in 2008 included the following:

- Replaced 100mm watermain on Franklin Street from Wallace Terrace to Henrietta Avenue,
- Replaced 100mm watermain on Pilgrim Street from Towers Street to Herrick Street,
- Replaced 150mm watermain on Retta Street from Mark Street to Wellington Street,
- Replaced 150mm and 200mm watermains on Wellington Street East from Simpson Street to Trunk Road,
- Repaired the chlorine contact main at Steelton Pumping Station,
- Installed several large services to supply new commercial developments, and
- Installed several connections to service new subdivisions across the City.

## Outlook

### Capital Expenditures

Significant annual increases in construction activities, both in City related works and commercial developments have driven up the costs of capital water works. Activity levels have been spurred by a number of forces, including:

- recent population growth
- construction of the new hospital
- renewed industrial growth.

Moving forward, the Commission's typical annual capital budget is anticipated as follows:

Average Annual Plant Additions	\$ 750,000
Sustaining Infrastructure Renewal	<u>\$5,940,000</u>
Total Capital Budget	\$6,690,000

Annual rate increases are anticipated in the 5-10% range over the next several years to fund the increased level of capital expenditures and regulatory requirements.

## Community Lead Testing

Amendments to Regulation 170/03 of the Safe Drinking Water Act came into effect July 26, 2007 requiring water supply authorities to test for lead in drinking water twice annually.

In each round, samples are required for at least 80 private residences, 8 non residential facilities and 16 points in the water distribution during each period. The regulation requires that water samples are taken at facilities where the presence of lead service lines is known or suspected or where buildings are suspected to have plumbing containing lead solder (plumbing installed prior to 1990).

The first sampling period was from December 15, 2007 to April 15, 2008 and the second period from June 15 to October 15, 2008.

In conformity with regulatory requirements homes were identified that we knew or suspected of having lead service pipes. A search of our records found 224 locations out of approximately 22,000 service lines that indicated a record of lead piping. Based on our records, lead service lines were installed only during the years 1943 to 1948 inclusive when copper was in short supply due to World War II. This is similar to all communities across North America that were installing service lines at that time.

Efforts were made to seek the cooperation of the 224 households for testing. Letters were hand delivered to each residence. Follow-up telephone calls were made to each residence and staff attended in person to discuss the testing with the occupants.

Nonetheless, participation was limited with only 92 households (41%) agreeing to take part in round one testing. The results were that 29 homes exceeded the 10 ug/L provincial standard with the highest reading being 57 ug/L. This represents an exceedence rate of 31.5% of the homes tested.

For the second round of testing, 636 letters were issued. This included 132 homes with a record of lead but not sampled in round one; 309 homes with a record of galvanized service lines; and, 195 homes of unknown service type built between 1943 to 1948. Again, follow up telephone calls were made to each occupant to seek participation.

Once again participation was limited with only 169 homes sampled (27%). The second round results found 29 homes exceeded the limit representing 17% of the total tested with the highest reading being 45 ug/L.

To encourage participation in the testing program, the Commission offered free NSF certified point-of-use filters for participants whose water tested higher than 10 ug/L, free replacement of the municipal portion of the service line, and 0% financing on the private portion, should the owner decide to replace their portion of the service line.

Regulation requires that in the event more than ten percent of samples exceed the 10 ug/L limit for lead in two out of three consecutive sampling rounds, a plan must be submitted within one year to the Ministry of Environment. The plan must assess the source of the lead entering the water supply, provide options to mitigate the problem indicate a preferred action plan and set out a schedule to implement the proposed plan.

Not surprisingly, both rounds surpassed the 10% threshold since all homes tested had or were suspected of having lead service lines. Since the first two rounds of testing have already exceeded the prescribed threshold, the Commission is required to prepare a corrosion control plan by October 2009.

## Municipal Drinking Water Licensing

The Safe Drinking Water Act (SDWA), 2002 introduced significant changes to regulation of drinking water systems across the province. One important change for all municipalities is the requirement for owners of municipal drinking water systems to obtain a municipal drinking water licence.

One key prerequisite to licensing is the preparation of an Operational Plan which documents the owner/operating authority's processes and procedures for the overall management and operation of the drinking water systems under its jurisdiction.

The Operational Plan must address the 21 elements of the Drinking Water Quality Management Standard (DWQMS). Once the Plan has been developed and the procedures documented, implementation of the Plan must be undertaken to transform it from a manual of procedures into a way of doing business.

Extensive effort and resources were devoted throughout 2008 to the development of an Operational Plan. These efforts will continue through 2009 to complete documentation of standard operating procedures and performance of internal and external audits of the system in order to achieve accreditation in 2010.



Watermain replacement at Queen Street East and Huron Street



Retention Main at Steelton Pumping Station on 2nd Line West

# Management Responsibility

To the Members of City Council

The attached financial statements and other financial information have been prepared by the Commission's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Commission maintains appropriate systems of internal control and policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. These policies and procedures are designed to provide reasonable assurance that relevant and reliable financial information is produced. The statements have been prepared in conformity with accounting principles as recommended by the public sector accounting board. Where appropriate, they reflect estimates based on judgments of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying financial statements.

KPMG LLP, the independent auditors appointed by the Commission, have examined the financial statements of the Commission in accordance with auditing standards generally accepted in Canada to enable them to express to the Commission their opinion, without reservation, on the financial statements. Their report as auditors is set out on the following page.

The statements have been further examined by the Commissioners, who meet regularly with management to review the activities of the Commission. The auditors have full access to the Commissioners. The Commissioners oversee management's financial reporting responsibilities and are responsible for reviewing and approving the financial statements.



Terry Greco, CA  
Treasurer



## Auditors' Report

To the Commissioners of the Public Utilities Commission of the City of Sault Ste. Marie, 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 Public Utilities Commission of the City of Sault Ste. Marie as at December 31, 2008 and the statements of financial activities and fund balances and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission'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 Commission as at December 31, 2008 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants. Licensed Public Accountants

Sault Ste. Marie, Canada  
April 15, 2009

# PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

## Statement of Financial Position

December 31, 2008, with comparative figures for 2007

	2008	2007
Financial assets:		
Accounts receivable	\$ 1,884,662	\$ 2,056,324
Unbilled service revenue	498,741	475,550
Local improvements receivable	321,852	497,916
Receivable from related company, PUC Services Inc.	1,774,083	2,198,654
	4,479,338	5,228,444
Financial liabilities:		
Accounts payable and accrued liabilities	1,050,040	1,024,002
Total net financial assets	3,429,298	4,204,442
Inventory	235,821	224,967
Total net assets	\$ 3,665,119	\$ 4,429,409
Municipal position:		
Operating fund	\$ 3,665,119	\$ 3,429,409
Capital fund		1,000,000
Total Municipal position	\$ 3,665,119	\$ 4,429,409

The accompanying notes are an integral part of the financial statements.

# PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

## Statement of Financial Activities and Fund Balances

Year ended December 31, 2008, with comparative figures for 2007

	Budget	Operating Fund	Capital Fund	2008	2007
	\$	\$	\$	Total	Total
	\$	\$	\$	\$	\$
<b>Revenues:</b>					
Service revenue:					
Residential	6,101,592	5,719,399	-	5,719,399	5,810,831
General	4,304,744	4,071,581	-	4,071,581	4,212,827
Hydrants	563,162	573,388	-	573,388	541,855
	10,969,498	10,364,368	-	10,364,368	10,565,513
Other:					
Occupancy	161,220	194,920	-	194,920	161,081
Investment income	16,537	92,594	-	92,594	86,045
Non-service revenue	220,321	525,778	-	525,778	394,358
Local improvement revenue	436,000	-	40,951	40,951	224,153
	834,078	813,292	40,951	854,243	865,637
<b>Total revenues</b>	<b>11,803,576</b>	<b>11,177,660</b>	<b>40,951</b>	<b>11,218,611</b>	<b>11,431,150</b>
<b>Expenditures:</b>					
Purification and pumping	2,949,084	2,482,149	-	2,482,149	2,363,361
Transmission and distribution	2,552,066	2,427,642	-	2,427,642	2,139,517
Capital expenditures	6,047,648	-	4,506,270	4,506,270	2,187,358
Hydrants	396,198	438,979	-	438,979	337,565
Billing and collection	924,804	911,094	-	911,094	828,253
Interest on long-term debt	78,000	-	-	-	-
General and administration	1,123,073	1,216,767	-	1,216,767	1,644,873
<b>Total expenditures</b>	<b>14,070,873</b>	<b>7,476,631</b>	<b>4,506,270</b>	<b>11,982,901</b>	<b>9,500,927</b>
<b>Net revenues (expenditures)</b>	<b>(2,267,297)</b>	<b>3,701,029</b>	<b>(4,465,319)</b>	<b>(764,290)</b>	<b>1,930,223</b>
Net transfers from operating fund for current year capital expenditures	1,000,000	(3,465,319)	3,465,319	-	-
Proceeds from long-term borrowing	1,440,000	-	-	-	-
<b>Change in fund balances</b>	<b>172,703</b>	<b>235,710</b>	<b>(1,000,000)</b>	<b>(764,290)</b>	<b>1,930,223</b>
Fund balances, beginning of year	-	3,429,409	1,000,000	4,429,409	2,499,186
<b>Fund balances, end of year</b>	<b>172,703</b>	<b>3,665,119</b>	<b>-</b>	<b>3,665,119</b>	<b>4,429,409</b>

The accompanying notes are an integral part of the financial statements.

# PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

## Statement of Changes in Financial Position

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used for):		
Operations:		
Excess of revenues over expenditures	\$ (764,290)	\$ 1,930,223
Uses:		
Increase in local improvements receivable	176,064	(216,734)
Increase in accounts receivable	171,660	(172,944)
Increase in unbilled service revenue	(23,191)	(25,543)
Decrease (increase) in prepaid expenses	-	3,465
Decrease (increase) in inventory	(10,854)	11,071
Increase (decrease) in accounts payable	26,040	301,621
Increase in cash from operations	424,571	1,831,159
Financing:		
Change in receivable to PUC Services Inc.	424,571	1,831,359
Cash, beginning and end of year	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

# PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2008

The Public Utilities Commission of the City of Sault Ste. Marie (the "Commission") is a body appointed by the Corporation of the City of Sault Ste. Marie to supply water and related services to its residents.

## 1. Significant accounting policies:

The financial statements of the Commission are prepared by management in accordance with accounting principles generally accepted in Canada for government organizations as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Commission are as follows:

### (a) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and replacement cost.

### (b) Capital assets:

The historical cost and accumulated amortization of capital assets are not recorded for Commission purposes. Capital assets are reported as an expenditure on the statement of financial activities and fund balances in the year of acquisition as part of the capital fund. Effective January 1, 2009, this will change with the implementation of PSAB Section 3150 – Tangible Capital Assets.

### (c) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue for water consumed by customers since the date of each customer's last meter reading. Actual results could differ from estimates made of actual water usage.

### (d) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

## 2. Budget figures:

The budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they may not be directly comparable with current year actual amounts.

## 3. Related party transactions:

The following entities are identified as related parties to the Commission:

PUC Inc. – 100% owned by the Corporation of the City of Sault Ste. Marie (City).

PUC Distribution Inc. (Distribution) – 100% owned by PUC Inc.

PUC Services Inc. (Services) – 100% owned by PUC Inc.

PUC Energies Inc. (Energies) – 100% owned by PUC Inc.

PUC Telecom Inc. (Telecom) – 100% owned by PUC Inc.

The Commission has a management, operation and maintenance agreement with Services, which expires July 25, 2010, under which Services manages, controls, administers and operates the business of the Commission.

# PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Notes to Financial Statements

Year ended December 31, 2008

The Commission charges interest on balances receivable from Services at the Royal Bank prime less 2%. Interest of \$92,594 (2007 - \$86,045) was earned during the year.

The Commission was charged management fees and operational fees by Services in the amount of \$2,368,070 (2007 - \$1,869,528). Occupancy fees charged to the other related companies was \$194,920 (2007 - \$161,081). These transactions have been recorded at the exchange amount which is the agreed amount between the related parties.

#### 4. Expenditures by object:

Total expenditures by object are as follows:

	2008	2007
Salaries and benefits	\$ 3,649,025	\$ 3,465,649
Materials, supplies and services	3,827,606	3,847,920
Capital	4,506,270	2,187,358
	\$ 11,982,901	\$ 9,500,927

#### 5. Tangible capital assets:

In September 2006, the Public Sector Accounting Board issued amendments to PS 3150, Tangible Capital Assets requiring that all entities will be required to account for tangible capital assets at historical cost and amortize the cost over the estimated useful life of the assets. The transitional provisions require the Commission to adopt the recommendations effective January 1, 2009. Management is currently in the process of evaluating the impact of these new standards.

Furthermore, effective January 1, 2007, the Commission adopted Public Sector Accounting Guideline PSG-7 requiring certain disclosures of tangible capital assets, to the extent it has the information. PSG-7 provides transitional guidance on presenting information related to tangible capital assets by way of a note to the financial statements until Section 3150 - Tangible Capital Assets comes into affect on January 1, 2009.

During 2008, the Commission has worked towards compliance with the new standards. As at December 31, 2008, the municipality has begun inventorying land, building, infrastructure, machinery and equipment, and vehicle assets. Valuation of these assets is in progress. Work has also begun on establishing policies relating to Tangible Capital Asset reporting, including asset classifications, useful life and depreciation methods.

As management is currently in the process of continuing to gather its required information for adoption of PS 3150, the Commission has not gathered sufficient information on each category of major asset for disclosure under PSG-7.

## Governance

The assets of the Public Utilities Commission are owned by the City of Sault Ste. Marie. The Commission is responsible for ensuring that the water treatment and distribution systems are properly managed and maintained. In 2000, a 10 year management agreement was signed with PUC Services Inc. whereby PUC Services manages, operates and maintains the treatment and distribution systems. .

The Commission is composed of three commissioners, one of whom serves as Chair. These members were appointed by City council. The Commission holds public meetings as required to review the work of PUC Services, approve capital and operating budgets and annual financial statements and consider matters that are brought to its attention by the General Manager of the Public Utilities Commission.



Mark Howson

Doug Lawson

Pat Mick

### Current Members of the Commission

**Commission Chair Mark Howson P. Eng., MBA** Senior Maintenance Engineer, Algoma Steel Inc.

**Doug Lawson, PhD**, retired, Past President of Algoma University College

**Pat Mick BA** City Councillor

### Officers

**H.J. Brian Curran P. Eng., MBA** General Manager

**Terry Greco CA** Treasurer

**Claudio Stefano P. Eng., MBA** Secretary



765 Queen Steet East, Sault Ste. Marie, Ontario, P6A 6P2