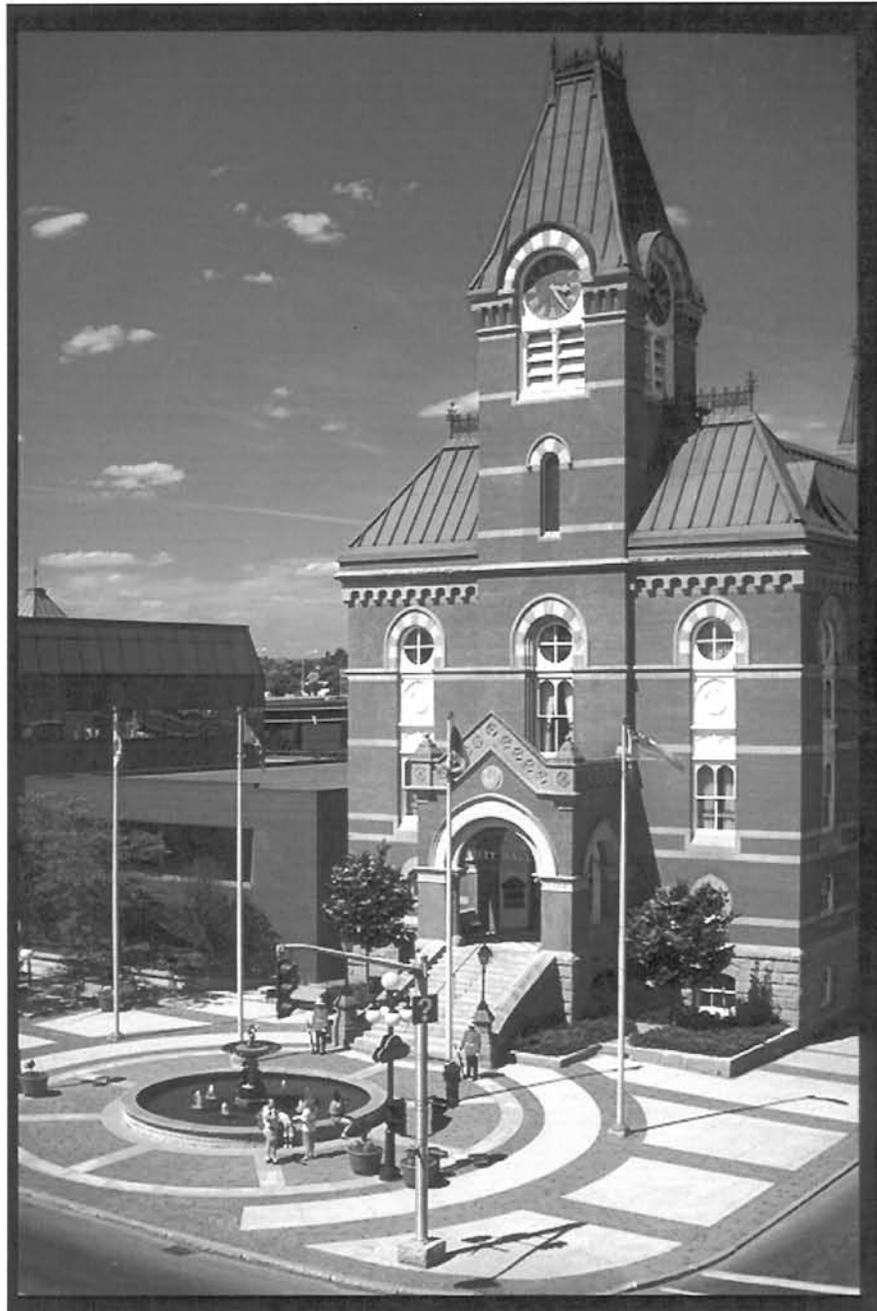


Fredericton

FINANCIAL STATEMENTS



For the Year Ended December 31, 2011

CITY OF FREDERICTON

Consolidated Financial Statements

Year Ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To His Worship The Mayor
and Members of City Council of the **City of Fredericton**

We have audited the accompanying consolidated financial statements of the **City of Fredericton**, which comprise the consolidated statement of financial position as at December 31, 2011 and the consolidated statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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, the consolidated financial statements present fairly, in all material respects, the financial position of the **City of Fredericton** as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Saint John, Canada,
March 26, 2012

Chartered Accountants

CITY OF FREDERICTON

Consolidated Statement of Financial Position
As at December 31, 2011

	2011	2010
Financial assets		
Cash and cash equivalents <i>[note 2]</i>	\$ 12,326,802	\$ 18,580,422
Accounts receivable	8,540,240	8,016,226
Due from Subdivision Land Fund	43,052	32,776
	\$ 20,910,094	\$ 26,629,424
Liabilities		
Accounts payable and accrued liabilities	\$ 14,401,155	\$ 16,482,961
Bank loan payable <i>[note 3]</i>	5,000,000	25,000,000
Deferred revenue	3,477,518	2,015,419
Deferred government transfers <i>[note 6]</i>	830,182	1,982,353
Deposits <i>[note 4]</i>	31,334,937	823,927
Long-term debt <i>[note 8]</i>	56,843,434	59,447,883
Accrued pension liability <i>[note 12]</i>	1,439,200	803,066
Retirement allowance liability <i>[note 13]</i>	4,779,060	4,832,441
	\$ 118,105,486	\$ 111,388,050
Net debt	\$ (97,195,392)	\$ (84,758,626)
Non-financial assets		
Tangible capital assets <i>[schedule 2]</i>	\$ 533,551,294	\$ 494,675,463
Supplies inventory	69,318	71,704
	\$ 533,620,612	\$ 494,747,167
Accumulated surplus	\$ 436,425,220	\$ 409,988,541

See accompanying notes

Approved by:



Brad Woodside, Mayor



Tina Tapley, City Treasurer

CITY OF FREDERICTON

Consolidated Statement of Operations and Accumulated Surplus For the year ended December 31, 2011

	2011 Actual	2010 Actual
Revenue		
Property taxes	\$ 82,509,916	\$ 78,358,509
Unconditional grant	5,758,196	5,816,360
Federal grant in lieu of taxes adjustment	29,183	46,243
Services to other governments	1,099,030	1,101,413
Sales, fines and other fees	24,071,944	21,607,030
Interest and return on investments	884,763	141,275
Third party contributions	19,712,196	20,910,028
	\$ 134,065,228	\$ 127,980,858
Expenses		
General government services	21,893,119	18,713,565
Contributions to Fredericton Playhouse Inc.	820,581	677,708
Protective services [note 20]	28,064,867	28,377,395
Transportation services [including Transit]	25,505,728	26,539,668
Environmental health services	2,410,353	2,260,968
Public health services	28,898	18,135
Environmental development services	8,374,156	8,183,262
Recreation and cultural services	6,959,761	7,488,488
Utility Operations	13,511,874	13,989,090
Flood expenses (recovery)	59,212	(20,792)
	\$ 107,628,549	\$ 106,227,487
Annual surplus	\$ 26,436,679	\$ 21,753,371
Accumulated surplus, beginning of year	409,988,541	388,235,170
Accumulated surplus, end of year	\$ 436,425,220	\$ 409,988,541

See accompanying notes

CITY OF FREDERICTON

Consolidated Statement of Changes in Net Debt For the year ended December 31, 2011

	2011 Actual	2010 Actual
Annual surplus	\$ 26,436,679	\$ 21,753,371
Acquisition of tangible capital assets	(58,824,898)	(72,850,241)
Disposal of tangible capital assets	2,565,345	2,451,408
Amortization of capital assets	17,383,722	17,029,646
Decrease in supplies inventory	2,386	3,076
	<u>(38,873,445)</u>	<u>(53,366,111)</u>
Increase in net debt	(12,436,766)	(31,612,740)
Net debt, beginning of year	(84,758,626)	(53,145,886)
Net debt, end of year	<u>\$ (97,195,392)</u>	<u>\$ (84,758,626)</u>

See accompanying notes

CITY OF FREDERICTON

Consolidated Statement of Cash Flows
For the year ended December 31, 2011

	2011	2010
Operating transactions		
Annual surplus	\$ 26,436,679	\$ 21,753,371
Non-cash items included in annual surplus	7,894,914	28,348,273
Amortization of capital assets	17,383,722	17,029,646
Proceeds on sale of tangible capital assets	557,046	213,066
Change in accrued pension liability	636,134	781,419
Change in retirement allowance liability	(53,381)	271,857
Change in deferred government transfers	(1,152,171)	(6,208,924)
Change in deferred revenue	1,462,099	492,403
Change in supplies inventory	2,386	3,076
Loss on sale of tangible capital assets	2,008,299	2,238,342
Cash provided by operating transactions	55,175,727	64,922,529
Capital transaction		
Acquisition of tangible capital assets	(58,824,898)	(72,850,241)
Cash applied to capital transaction	(58,824,898)	(72,850,241)
Financing transactions		
Long-term debt issues	-	11,000,000
Long-term debt retirement	(2,400,000)	(1,912,000)
Capital leases	138,066	315,326
Capital lease principal repayments	(342,515)	(617,376)
Cash provided by financing transactions	(2,604,449)	8,785,950
Change in cash and cash equivalents	(6,253,620)	858,238
Cash and cash equivalents, beginning of year	18,580,422	17,722,184
Cash and cash equivalents, end of year	\$ 12,326,802	\$ 18,580,422

See accompanying notes

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

1. Significant accounting policies:

(i) Reporting entity:

The consolidated financial statements of the City of Fredericton ["City"] reflect the assets, liabilities, revenues, expenditures, and changes in net debt and accumulated surplus in the reporting entity. The reporting entity is comprised of the organizations accountable for the administration of their affairs and resources to City Council and owned or controlled by the City. Inter-fund and inter-corporate balances and transactions have been eliminated. The entities included in the consolidated financial statements are as follows:

Owned/controlled corporations

e-Novations ComNet Inc.
Fredericton Area Pollution Control Commission
Fredericton Convention Centre Inc.
Fredericton Lands Commission
Newmarket Properties Inc.

(ii) Basis of accounting:

The consolidated financial statements have been prepared by management in accordance with the Canadian generally accepted accounting principles for government outlined in the Canadian Institute of Chartered Accountants' ["CICA"] *Public Sector Accounting Board* ["PSAB"] *Handbook*.

(iii) Revenue recognition:

Revenues are recognized on the accrual basis and are measurable as they are earned. Revenue received prior to being earned is recorded as deferred revenue until such time as the revenue is earned.

(iv) Expense recognition:

Expenses are recorded on the accrual basis as they are incurred and are measurable based on receipt of goods or services and obligation to pay.

(v) Supplies inventory:

Inventory is valued at the lower of cost and net replacement cost with cost being determined on the first-in, first out basis.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

1. Significant accounting policies (continued):

(vi) Tangible capital assets

Tangible capital assets ["TCAs"] are physical assets used to provide city services; city administration; construction and/or maintenance of other TCAs owned by the City, and will be used on a regular basis for a period greater than one year and are not surplus properties held for resale or disposal. Studies and master plans are not considered TCAs.

TCAs are recorded at cost, which includes all amounts directly attributable to acquisition, construction, development or betterment of the asset, and are amortized on a straight-line basis over their estimated useful lives. Amortization begins in the year after the asset has been put into use. Assets under construction are not amortized until they are put into use. Descriptions and useful lives are as follows:

	Useful Lives
Land: all land owned by the City, including land under buildings.	N/A
Land improvements: includes major landscaping projects, sports fields/courts, trail culverts, paved trails, parking lots, playgrounds and similar assets.	15 - 80 years
Buildings: all City owned buildings, with the exception of treatment plants, as single assets or broken into components: structural, interior, exterior, mechanical, electrical, specialty items and equipment, and site works.	20 - 60 years
Machinery and equipment: includes information technology assets, large signage, transit fare boxes, motorized fleet equipment, parking meters, leasehold improvements and similar assets.	3 - 40 years
Vehicles: all City vehicles including cars, trucks, buses, and similar assets.	6 - 20 years
Linear assets: all Public Works infrastructure including roads, sidewalks, street lights, traffic signals, storm sewers, water and sewer mains.	15 - 80 years
Water and wastewater facilities: includes water and wastewater treatment plants broken into components: process piping/equipment, electrical and instrumentation, structural, architectural, mechanical, and site works.	10 - 60 years

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

1. Significant accounting policies (continued):

(vi) Tangible capital assets (continued)

The City has a capitalization threshold in the amount of \$25,000. Any item purchased under this threshold is recorded as an expense in the year during which the item is acquired. An exception is pooled assets, which include computers, street lights, parking meters and groups of assets of a similar nature.

All grants, donations from subdivision developers and other third party contributions are recorded as income in the year during which the expenditure for the capital asset is incurred. The full cost of the asset is capitalized in the year during which the asset is substantially complete and put into use.

(vii) Employee future benefits

The City accrues its obligations under employee future benefit plans and the related costs, net of plan assets. The City has adopted the following policies:

a) The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Current service costs are expensed during the year.

The excess of net actuarial gain (or loss) is amortized over the average remaining service period of active employees, which is estimated to be 16 years.

b) The City has a Supplemental Executive Retirement Plan ["SERP"] for eligible employees [see note 12].

c) City employees are entitled to a retirement allowance under collective agreements or in accordance with City policy. The liability is actuarially determined [see note 13].

(viii) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available at the date of the consolidated financial statements. Actual results may differ from those estimates.

2. Cash and cash equivalents

Cash and cash equivalents are recorded at cost, which approximates their quoted market value and are redeemable upon demand. Included in this amount are funds internally restricted by City Council for predetermined projects in the amount of \$4,353,955 [2010 - \$4,619,555].

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

3. Bank loan payable

Bank loan payable consists of a banker's acceptance received December 19, 2011 for 91 days at a borrowing rate of 2.43%, maturing March 19, 2012. This banker's acceptance of \$5,000,000 is part of the City's borrowing limit.

4. Deposits

Deposits consist of monies being held by the City that will either be refunded, provided certain requirements are met, or earned upon final sale of assets. Included in total deposits below is \$30,351,491 received from the Province of New Brunswick in relation to the sale of Chancery Place. This asset is recorded as \$37,365,241 within Tangible capital assets.

	2011	2010
Foundation locations	\$ 330,000	\$ 311,750
Tenders	131,280	200,200
Infrastructure fees	306,796	114,167
Performance bonds	79,000	79,000
Hotel development	75,000	75,000
Subdivision development	25,000	25,000
Animal control	270	210
Land sales	36,100	18,600
Chancery Place	30,351,491	-
	<u>\$ 31,334,937</u>	<u>\$ 823,927</u>

5. Funds held in trust

Trust fund assets administered by the City for the benefit of external parties in the amount of \$373,900 [2010 - \$331,443] are not included in the consolidated financial statements.

6. Deferred government transfers

Funding received as part of the Gas Tax Funding program and the Federal Transit Funding are recorded as revenue in the year during which related expenditures are incurred. Monies that have not been spent are recorded as deferred government transfers on the consolidated statement of financial position. This amount consists of the following:

	2011	2010
Gas Tax Funding	\$ 830,182	\$ 1,059,714
Federal Transit Funding	-	922,639
	<u>\$ 830,182</u>	<u>\$ 1,982,353</u>

These amounts are restricted to fund pre-approved projects that relate to the program objectives and cannot be used for other projects.

7. Infrastructure deficit

There are a number of TCAs owned by the City that have reached the end of their intended useful lives. This results in an infrastructure deficit in the amount of \$180,551,973 at December 31, 2011 [2010 - \$157,568,599]. This amount is based on the estimated current replacement cost of the assets that are at the end of their useful lives. This deficit is not included in the annual or accumulated surplus figures in the consolidated financial statements.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

8. Long-term debt

	2011	2010
General		
Debenture, maturing 2016, 20-year amortization period, bearing interest at 4.15% to 4.45%	\$ 13,553,000	\$ 14,191,000
Debenture, maturing 2018, 20-year amortization period, bearing interest at 3.30% to 4.85%	3,362,000	3,496,000
Debenture, maturing 2023, 20-year amortization period, bearing interest at 2.10% to 5.55%	8,756,000	9,101,000
Debenture, maturing 2019, 20-year amortization period, bearing interest at 0.95% to 5.00%	5,835,000	6,069,000
Debenture, maturing 2019, 20-year amortization period, bearing interest at 1.00% to 4.50%	14,338,000	14,922,000
Debenture, maturing 2020, 20-year amortization period, bearing interest at 1.50% to 3.85%	10,567,000	11,000,000
	<u>56,411,000</u>	<u>58,779,000</u>
Water and Sewer		
Debenture, maturing 2011, bearing interest at 4.1% to 4.3%	-	32,000
	<u>56,411,000</u>	<u>58,811,000</u>
Capital lease obligations with implicit interest rates ranging from 4.43% to 6.15%	<u>432,434</u>	<u>636,883</u>
Total debt	\$ 56,843,434	\$ 59,447,883

Approval of the Municipal Capital Borrowing Board has been obtained for the long-term debt.

Principal due within the next five years and thereafter on certificates of indebtedness are approximately as follows:

2012	2,443,000
2013	2,527,000
2014	2,616,000
2015	2,714,000
2016 and thereafter	46,111,000
	<u>\$ 56,411,000</u>

Interest in the amount of \$2,491,192 [2010 - \$2,344,445] relating to the debentures is included in interest expense.

Capital lease obligations due within the next four years are as follows:

2012	221,434
2013	89,525
2014	92,906
2015	28,569
Total minimum lease payments	\$ 432,434

Interest in the amount of \$35,842 [2010 - \$59,200] relating to the capital lease obligations is included in interest expense.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

9. Capital borrowing

Requested and Approved Capital Borrowing

The City obtained approval under Order in Council [OIC] and Ministerial order to borrow an amount of \$121,178,000, of which \$11,000,000 was financed in 2010, \$21,800,000 in 2009, \$13,500,000 in 2008, and \$16,500,000 in 2006 by the New Brunswick Municipal Finance Corporation.

		<u>Approved</u>	<u>Borrowed</u>
Recreation and Cultural	OIC 06-02	\$ 14,350,000	\$ 14,350,000
Recreation and Cultural	OIC 06-23	5,900,000	5,900,000
Recreation and Cultural	OIC 06-43	20,620,000	410,000
Protective Services	OIC 06-43	5,400,000	5,400,000
Protective Services	OIC 07-17	1,400,000	1,400,000
General Government	OIC 07-55	3,040,000	3,040,000
General Government	OIC 07-66	1,000,000	1,000,000
General Government	OIC 09-08	65,460,000	30,800,000
Protective Services	OIC 10-72	500,000	500,000
General Government	OIC 11-06	1,329,000	-
Recreation and Cultural	OIC 11-06	1,079,000	-
Environmental Health	OIC 11-06	1,100,000	-
Total authorizations to December 31, 2011		<u>\$ 121,178,000</u>	<u>\$ 62,800,000</u>

Of the total amount borrowed, \$56,411,000 remains to be repaid [see note 8].

10. Capital commitments

Total capital expenditures relating to capital commitments for the year amounted to \$21,690,819 [2010 - \$42,178,316]. Remaining capital commitments, including actual and estimated amounts authorized at year-end, are comprised of:

Project	Committed	Accumulated expenditures	Remaining
Grant•Harvey Centre	\$ 29,348,520	\$ 20,052,899	\$ 9,295,621
Office Complex	39,000,000	37,365,241	1,634,759
	<u>\$ 68,348,520</u>	<u>\$ 57,418,140</u>	<u>\$ 10,930,380</u>

Accumulated expenditures for projects not completed at year-end are included in Assets Under Construction [schedule 2].

11. Reporting to the Province of New Brunswick

The City complies with PSAB accounting standards. The City is also required to comply with the Municipal Financial Reporting Manual ["MFRM"] prescribed by the Province of New Brunswick ["PNB"]. Differences in accounting policies include the methodology for accounting for TCAs, government transfers, and liability accruals for the pension fund and other retirement benefits. The PSAB also requires full consolidation of funds.

Schedule 3 provides a reconciliation between fund reporting required by PNB and current-year PSAB.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

12. Pension asset/liability

a - Superannuation Pension Plan

The City provides pension benefits to employees of the City, including employees of the Fredericton Region Solid Waste Commission ("FRSWC") and Fredericton Area Pollution Control Commission in accordance with the *New Brunswick Pension Benefits Act* and City By-Law A-5. The Plan is administered by a Board of Administrators representing City Council, management, unionized employees and retired employees. The Plan is a contributory defined benefit pension plan covering all eligible employees. Under the Plan, contributions are made by the Plan members and the City.

An actuarial valuation of the Plan was completed for June 30, 2011 and has been updated by extrapolation to December 31, 2011.

	2011	2010
Plan Assets, at market-related value, January 1	\$ 183,299,953	\$ 178,606,953
Contributions - City	4,816,300	4,439,100
Contributions - employee required	4,816,300	4,439,100
Contributions - employee voluntary	58,200	172,500
Benefit payments	(9,937,700)	(9,126,200)
Expected earnings on market-related value	12,365,000	12,054,000
Actuarial loss	(8,702,100)	(7,285,500)
Plan assets, at market-related value, December 31	186,715,953	183,299,953
Accrued benefit obligation, January 1	203,857,619	192,523,000
Current service cost	7,673,900	7,987,100
Benefit payments	(9,937,700)	(9,126,200)
Interest on accrued benefit obligation	13,609,200	12,956,900
Prior-period service cost	(2,265,700)	
Net actuarial gains	1,367,000	(458,100)
Change in obligation relating to FRSWC	(22,166)	(25,081)
Accrued benefit obligation, December 31	214,282,153	203,857,619
Unamortized actuarial losses, January 1	(20,076,100)	(14,182,600)
Current-year gains on accrued obligation	(1,367,000)	458,100
Actuarial losses due to pension fund assets	(8,702,100)	(7,285,500)
Amortization of actuarial losses	1,361,600	933,900
Recognition of net unamortized losses as an offset to the impact of the prior-period service cost	2,265,700	-
Unamortized actuarial losses, December 31	(26,517,900)	(20,076,100)
Net pension fund liability (asset) comprised of:		
Accrued benefit obligation	214,282,153	203,857,619
Less: Plan assets	(186,715,953)	(183,299,953)
Less: Unamortized losses	(26,517,900)	(20,076,100)
Net pension fund liability	1,048,300	481,566
City portion of Plan expenses		
Current-period benefit cost	7,673,900	7,987,100
Less: employee contributions	(4,874,500)	(4,611,600)
Add: amortization of actuarial losses	1,361,600	933,900
	4,161,000	4,309,400
Interest during the period on average pension liability	1,244,200	902,900
Pension-related expense	5,405,200	5,212,300

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

12. Pension asset/liability (continued)

b - Supplemental Executive Retirement Plan

	2011	2010
Accrued Actuarial Obligation	\$ 390,900	\$ 321,500

c - Net Pension Liability

Superannuation Pension Plan	\$ 1,048,300	\$ 481,566
Supplemental Executive Retirement Plan	390,900	321,500
	<u>\$ 1,439,200</u>	<u>\$ 803,066</u>

Significant management assumptions used in the actuarial valuation for the Superannuation Pension Plan are:

Discount rate:	6.75% per annum
Inflation rate:	2.50% per annum
Salary growth rate:	3.25% per annum, plus promotional and merit scale
Retirement age:	60% at the age first eligible for an unreduced pension, remainder at age 65

Significant management assumptions used in the actuarial valuation for the Supplemental Executive Retirement Plan are:

Discount rate:	3.75% per annum for 2011 liability
Inflation rate:	2.50% per annum
Increase in pensionable earnings	3.25% per annum for 2011 liability
Retirement age:	age 65

The Superannuation Plan for the employees of the City is exempted from funding on a solvency basis. The exemption was approved by the New Brunswick Superintendent of Pensions on March 19, 2007.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

13. Retirement allowance liability

The City provides a retirement allowance to employees of the City who have continuous service of five years or more and retire due to disability, death or age, or are laid off by the City. The City shall pay such employees or their beneficiaries an allowance equal to one month's pay for each five years of service or fraction thereof, but not exceeding six months, at the employee's regular rate of salary plus their benefit spending allowance at retirement.

Based on an actuarial valuation of the liability, the results at December 31, 2011 are as follows:

	2011	2010
Accrued benefit liability at January 1	\$ 6,592,700	\$ 6,316,700
Current service cost	497,100	461,500
Termination benefits	-	113,900
Interest on obligation	304,500	311,300
Benefit payments	(857,000)	(752,900)
Amortization of losses	10,900	-
Actuarial loss on accrued benefit obligation	(142,200)	142,200
Accrued benefit liability at December 31	\$ 6,406,000	\$ 6,592,700
Restricted cash for retirement allowance obligation	\$ 1,626,940	\$ 1,760,259
Net accrued benefit obligation	\$ 4,779,060	\$ 4,832,441
City portion of benefit expenses		
Current-period benefit cost	\$ 497,100	\$ 461,500
Termination benefit	-	113,900
Interest cost	304,500	311,300
Amortization of losses	10,900	-
Retirement allowance expense	\$ 812,500	\$ 886,700

Significant economic and demographic assumptions used in the actuarial valuation are:

Discount rate:	3.75% per annum for 2011 liability
Salary growth rate:	3.25% per annum, plus promotional and merit scale
Retirement age:	60% at the age first eligible for an unreduced pension, remainder at age 65

14. Expenses by object

	2011	2010
Salaries and benefits	\$ 55,124,483	\$ 54,243,614
Goods and services	27,657,733	26,826,789
Amortization	17,383,722	17,029,646
Interest	2,620,950	3,052,819
Other	4,841,661	5,074,619
Total	\$ 107,628,549	\$ 106,227,487

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

15. Contingencies:

(i) The City provided a letter of guarantee in 2005 in support of a loan by The Rotary Club of Fredericton North Inc. ["Rotary"] up to an amount of \$500,000 with Scotiabank for a term not to exceed twenty years. The Rotary constructed a lodge for community use within the pre-existing municipally owned Killarney Lake Park with this loan, which is being repaid through the Rotary's fundraising efforts. The City is the sole owner of the lodge. The outstanding loan balance at December 31, 2011 amounts to \$39,793.

(ii) The City is subject to claims and lawsuits arising in the normal course of operations. Many of these claims, especially related to property expropriation, may take several years to resolve. Management is of the opinion that the ultimate resolution of any legal proceedings will not have a significant effect on the City's financial position.

16. Recreational service agreement

The City entered into Recreational Service Agreements ["Agreements"] with a number of surrounding Local Service Districts ["LSDs"] and the Village of New Maryland ["Village"]. The Agreements are in effect from January 1, 2008 to December 31, 2027 with an option to extend beyond this period.

Under the Agreements, the City is required to provide access to constituents of the areas to the City's recreational facilities as if they were residents of the City. In addition, the City is required to provide an audited schedule of Net Operating Loss of the City's arena complexes [schedule 4]. A capital replacement fund is in place to plan for future capital expenditures relating to the arenas.

In return, the LSDs and the Village have agreed to have a portion of their property taxes paid to the City in order to help fund a proportional amount of the capital and operating expenses of the facilities. The contributions are collected by the Province of New Brunswick, then distributed to the City by the Minister of Local Government. Contributions under this agreement for the current year amount to \$455,116 [2010 - \$456,309].

17. Other

The City, through Newmarket Properties Inc., leases land and building from the Province of New Brunswick for a nominal fee of \$1 a year under a five-year renewable lease agreement terminating April 30, 2014. Under the terms of the lease, the Province of New Brunswick is responsible for the provincial portion of the real property tax levy. The effect of this lease arrangement is not recorded in these consolidated financial statements.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

18. Segmented information

The City is a diversified municipal government that provides a wide range of services to citizens. For management reporting purposes, these operations are broken into segments [schedule 1]. The segments are as follows:

General Government Services

General Government Services are responsible for the internal services provided by and for the other City departments. They consist of Legislation; City Administrator - including Strategic Initiatives, Legal, City Clerk; Corporate Services - including Communications, Human Resources, Asset Management, Fleet, Information Technology, Property Services, Telecommunications; and Finance - including City Service Centre.

Protective Services

Protective Services include Police, Fire, By-Law and Building Inspection services within the City and aiding surrounding areas as required.

Transportation Services

Transportation Services consist of common services, road and linear maintenance, street lighting, traffic services, Parking Services and Public Transit.

Environmental Health Services

Environmental Health Services consist of garbage and waste collection and disposal.

Public Health Services

Public Health Services consist of cemetery maintenance and the backyard composting program.

Environmental Development Services

Environmental Development Services consist of administration, Economic and Sustainable Development, Heritage and Cultural Affairs, Planning and Development, Tourism and Parks and Trees Services.

Recreation and Cultural Services

Recreation and Cultural Services consist of administration, programs, community liaison, indoor and outdoor pools, arenas, community facilities, the Fredericton Public Library and the Fredericton Playhouse.

Water and Wastewater Services

Water and Wastewater Services consist of supply, purification and treatment, transportation, storage, distribution and collection.

CITY OF FREDERICTON

Notes to Consolidated Financial Statements

Year ended December 31, 2011

19. Province of New Brunswick Compliance Requirements

The City is in compliance with the following requirements under the *Municipalities Act* and/or the MFRM:

(i) Inter-fund accounts

All inter-fund accounts at December 31, 2011 represent current transactions except as noted below and are in compliance with the policy established by the Department of Local Government.

Inter-fund accounts related to government funding under the Federal Gas Tax and Federal Transit agreements may not represent current transactions whereas not all funding received in 2010 and 2011 was expended in the current year.

(ii) Restrictions on municipal borrowings:

Section 89 of the *Municipalities Act of the Province of New Brunswick* restricts a municipality's borrowings for operating purposes to less than four percent of the operating budget of the municipality, as defined by the Province of New Brunswick, and to less than two percent of the assessed value of real property in the municipality for capital purposes. Borrowings by the City are within these legislative restrictions.

(iii) Water cost transfer

The City's water cost transfer is within the maximum allowable by regulation 81-195 under the *Municipalities Act* based on the applicable percentage of water system expenditures for the population.

(iv) Second previous year's surplus

The *Municipalities Act* requires that the General Operating Fund surplus (deficit) be absorbed into the operating budget of the second subsequent year and that the Water and Sewerage Operating Fund surplus (deficit) be absorbed into one or more of the three operating budgets commencing with the second following year. [see schedule 3]

20. Protective services

Included in Protective Services expenses are amounts related to a contribution agreement between the Government of Canada, the Province of New Brunswick, the City of Fredericton and the Saint Mary's First Nation for Native policing services. Amounts included relating to expenses and recoveries are as follows:

	2011	2010
Native policing expenses	\$ 484,297	\$ 445,598
Federal contribution	(180,319)	(178,788)
Provincial contribution	(166,448)	(165,035)
Federal recovery of fiber optic connection costs	(4,703)	-
Provincial recovery of fiber optic connection costs	(4,342)	-
City contribution	\$ 128,485	\$ 101,775

CITY OF FREDERICTON

Schedule 1 - Consolidated Schedule of Segment Disclosure

Year ended December 31, 2011

	General*	Protective	Transportation	Transit	Environmental health	Public health	Environmental development	Recreation and culture	Water and wastewater	Consolidated
Revenues										
Warrant/Unconditional Grant	\$ 24,852,124	\$ 27,723,688	\$ 17,838,672	\$ 2,853,255	\$ 2,408,553	\$ 14,218	\$ 4,683,235	\$ 7,923,550	\$ -	\$ 88,297,295
Services to other Governments	-	652,678	446,352	-	-	-	-	-	-	1,099,030
Sales and other fees	3,452,240	1,418,480	2,255,384	1,791,849	32,700	-	-	2,097,707	13,023,584	24,071,944
Interest and return on investments	884,763	-	-	-	-	-	-	-	-	884,763
Government transfers	425,000	-	628,139	922,639	-	-	222,810	6,185,215	5,875,125	14,258,928
Other	58,696	-	2,410,941	-	-	-	172,034	187,434	2,624,163	5,453,268
	\$ 29,672,823	\$ 29,794,846	\$ 23,579,488	\$ 5,567,743	\$ 2,441,253	\$ 14,218	\$ 5,078,079	\$ 16,393,906	\$ 21,522,872	\$ 134,065,228
Expenses										
Salaries and benefits	\$ 10,705,109	\$ 23,983,960	\$ 6,091,461	\$ 2,606,714	\$ -	\$ -	\$ 4,880,710	\$ 3,251,103	\$ 3,605,426	\$ 55,124,483
Goods and services	8,788,825	2,571,968	3,821,046	1,340,084	2,367,440	28,711	2,265,397	1,549,226	4,925,036	27,657,733
Amortization	1,043,579	920,674	8,503,595	607,370	11,228	-	854,502	996,160	4,446,614	17,383,722
Interest	1,390,704	349,993	9,054	6,528	-	-	-	829,894	34,777	2,620,950
Other	844,695	238,272	2,478,192	41,684	31,685	187	373,547	333,378	500,021	4,841,661
	\$ 22,772,912	\$ 28,064,867	\$ 20,903,348	\$ 4,602,380	\$ 2,410,353	\$ 28,898	\$ 8,374,156	\$ 6,959,761	\$ 13,511,874	\$ 107,628,549
Surplus for the year	\$ 6,899,911	\$ 1,729,979	\$ 2,676,140	\$ 965,363	\$ 30,900	\$ (14,680)	\$ (3,296,077)	\$ 9,434,145	\$ 8,010,998	\$ 26,436,679

*Note: Flood expenses are included as General

See accompanying notes

CITY OF FREDERICTON

Schedule 2 - Schedule of Tangible Capital Assets

Year ended December 31, 2011

	Land	Land improve-ments	Buildings	Vehicles	Machinery and equipment	Treatment facilities	Linear assets	Assets under construction	Total
COST									
Balance, beginning of year	\$ 15,741,966	\$ 9,046,442	\$ 64,687,919	\$ 24,506,150	\$ 20,392,224	\$ 45,951,792	\$ 427,342,627	\$ 87,976,944	\$ 695,646,064
Add:									
Net additions during the year	650,841	3,610,939	49,875,482	2,212,461	3,599,833	1,802,197	17,036,963	27,262,288	106,051,004
Less:									
Disposals during the year	280,133	87,989	1,213,017	963,666	1,591,566	351,086	5,107,709	47,227,631	56,822,797
BALANCE, END OF YEAR	16,112,674	12,569,392	113,350,384	25,754,945	22,400,491	47,402,903	439,271,881	68,011,601	744,874,271

ACCUMULATED AMORTIZATION									
Balance, beginning of year	-	2,208,314	21,355,158	12,562,116	10,509,668	23,486,976	130,846,844	-	200,969,076
Add:									
Amortization during the year	-	395,654	1,963,290	1,740,892	1,654,217	1,166,376	10,463,293	-	17,383,722
Less:									
Accumulated amortization on disposals	-	87,989	1,162,851	885,319	1,578,850	314,227	3,000,585	-	7,029,821
BALANCE, END OF YEAR	-	2,515,979	22,155,597	13,417,689	10,585,035	24,339,125	138,309,552	-	211,322,977

NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS									
	\$ 16,112,674	\$ 10,053,413	\$ 91,194,787	\$ 12,337,256	\$ 11,815,456	\$ 23,063,778	\$ 300,962,329	\$ 68,011,601	\$ 533,551,294

Consists of:

General Fund Assets	\$ 15,118,801	\$ 10,053,413	\$ 91,023,616	\$ 11,542,466	\$ 10,851,867	\$ -	\$ 176,598,913	\$ 63,133,334	\$ 378,322,410
Water and Sewer Fund Assets	993,873	-	171,171	794,790	963,589	23,063,778	124,363,416	4,878,267	155,228,884
	\$ 16,112,674	\$ 10,053,413	\$ 91,194,787	\$ 12,337,256	\$ 11,815,456	\$ 23,063,778	\$ 300,962,329	\$ 68,011,601	\$ 533,551,294

The City has tangible capital assets under capital leases as follows, included in the amounts listed above:

	Historical cost	Accumulated amortization	Net book value
Vehicles	\$ 696,156	\$ 154,221	\$ 541,935
Machinery and equipment	738,257	122,532	615,725
Total assets under capital leases	\$ 1,434,413	\$ 276,753	\$ 1,157,660

See accompanying notes

CITY OF FREDERICTON

Schedule 3 - Schedule of Accumulated Surplus Reconciliation to Province of New Brunswick ["PNB"] Requirements

Year ended December 31, 2011

	General Operating Fund	Sewerage Operating Fund	Water and Land Sales Fund	Parking Land Bank Fund	Reserve Fund	General Capital Fund	Sewerage Capital Fund	Water and Land Sales Fund	Total
2011 annual surplus (deficit)	\$ (111,107)	\$ 1,551,405	\$ 192,547	\$ 4,865	\$ (253,678)	\$ 18,013,360	\$ 6,939,287	\$ 26,436,679	
Adjustments to 2011 annual surplus (deficit) for PNB requirements									
Second previous year's surplus (deficit)	344,617	(2,809,723)	-	-	-	-	-	(2,465,106)	
Assets capitalized but previously expensed	(806,130)	755,065	-	-	-	(1,493,595)	(2,527,759)	(3,872,419)	
Amortization expense	-	-	-	-	-	12,937,108	4,446,614	17,383,722	
Change in pension asset	640,501	(43,369)	-	-	-	-	-	597,132	
Change in retirement allowance	(26,194)	(27,185)	-	-	-	-	-	(53,379)	
Difference due to government transfers	-	-	-	-	-	(1,910,521)	758,350	(1,152,171)	
Total adjustments to 2011 annual surplus (deficit)	352,794	(2,125,212)	-	-	-	9,532,992	2,677,205	10,437,779	
2011 annual surplus per PNB requirements	241,687	(473,807)	192,547	4,865	(253,678)	27,546,352	9,616,492	36,874,458	
Accumulated surplus per PNB requirements, beginning of year	684,548	(1,543,392)	626,381	440,200	4,704,555	337,587,172	143,053,615	485,553,079	
Second previous year's (surplus) deficit	(344,617)	2,809,723	-	-	-	-	-	2,465,106	
Accumulated surplus per PNB requirements, end of year	\$ 581,618	\$ 792,524	\$ 818,928	\$ 445,065	\$ 4,450,877	\$ 365,133,524	\$ 152,670,107	\$ 524,892,643	

CITY OF FREDERICTON

Schedule 4 - Schedule of Net Operating Loss - Arena Complexes

Year ended December 31, 2011

	2011	2010
Revenues [note 16]		
Ice rental	\$ 840,956	\$ 768,121
Canteen rental	7,228	8,344
Building rental	8,425	9,583
Public skating	5,853	5,581
Community room rental	9,264	5,104
Other	5,410	4,703
YMCA lease agreement	31,514	30,596
Total arena complex revenue	908,650	832,032
Expenses [note 16]		
Salaries and wages	976,192	941,768
Supplies	25,447	28,256
Repairs and maintenance	292,553	182,396
Utilities	546,819	616,226
Service contracts	74,125	53,006
Other	9,371	1,497
Total arena complex expenses	1,924,507	1,823,149
Net operating loss	\$ (1,015,857)	\$ (991,117)

Revenues are included in sales, fines and other fees and expenses are included in recreation and cultural services in the consolidated statement of operations.

Capital Replacement Fund - Willie O'Ree Place [note 16]

Opening balance, beginning of year	\$ 186,907	\$ 156,877
2011 contribution	50,140	50,140
2011 expenditure	(4,616)	(21,427)
2011 Interest on balance	2,587	1,317
Closing balance, December 31, 2011	\$ 235,018	\$ 186,907

The Capital Replacement Fund is included with cash that is designated as reserves for spending in future years by City Council [see note 2].

Total payments made during the year to the Municipal Capital Borrowing Board for the debt at Willie O'Ree Place amounted to \$1,066,691 [2010 - \$1,066,904]. The amount representing interest for the year was \$536,811 [2010 - \$560,473].

