

CONSOLIDATED FINANCIAL STATEMENTS

AUDITOR'S REPORT



KPMG LLP

Chartered Accountants

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AUDITORS' REPORT

To the Members of Council,
Inhabitants and Ratepayers of
The Regional Municipality of Niagara

We have audited the consolidated statement of financial position of The Regional Municipality of Niagara as at December 31, 2004 and the consolidated statements of financial activities, financial activities operating fund, capital fund, reserves and reserve funds, and changes in financial position for the year then ended. These financial statements are the responsibility of the Region's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Region as at December 31, 2004 and the results of its operations and changes in 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'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

St. Catharines, Canada
April 8, 2005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2004, with comparative figures for 2003
(In thousands of dollars)

	2004	2003
Assets		
Financial assets:		
Cash	\$ 14,352	\$ 13,895
Investments (note 2)	177,267	185,235
Accounts receivable	56,020	38,639
Other current assets	2,083	1,453
Debt recoverable from others	124,204	88,095
	<u>373,926</u>	<u>327,317</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	51,443	47,544
Employee benefits and other liabilities (note 3)	53,980	51,890
Deferred development costs (note 4)	13,450	11,739
Landfill liability (note 5)	31,441	32,020
	<u>150,314</u>	<u>143,193</u>
Long-term liabilities (note 6)	273,010	228,902
	<u>423,324</u>	<u>372,095</u>
Net financial liabilities	(49,398)	(44,778)
Non-financial assets:		
Inventory	2,950	3,528
Prepaid expenses	1,121	1,180
	<u>4,071</u>	<u>4,708</u>
Net debt	<u>\$ (45,327)</u>	<u>\$ (40,070)</u>
Municipal Position		
Fund balances at end of year:		
To be used to offset (recover from) taxation or user charges	\$ 930	\$ 2,285
Unexpended capital financing (unfinanced outlay capital)	(603)	40,649
Reserves (note 7)	30,741	24,051
Reserve funds (note 7)	157,832	117,662
	<u>188,900</u>	<u>184,647</u>
Amounts to be recovered:		
From reserve and reserve funds for employee benefits	(40,240)	(36,873)
From reserve and reserve funds for landfill liability	(2,822)	(2,422)
From future revenues for employee benefits	(13,740)	(15,017)
From future revenues for future landfill closure costs	(28,619)	(29,598)
From future revenues for capital projects	(148,806)	(140,807)
	<u>(234,227)</u>	<u>(224,717)</u>
	<u>\$ (45,327)</u>	<u>\$ (40,070)</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

Year ended December 31, 2004, with comparative figures for 2003
(In thousands of dollars)

	2004	2003
Revenues:		
Taxation and user charges:		
Requisitions on local governments	\$ 247,322	\$ 232,037
User charges	152,940	140,900
	<hr/> 400,262	<hr/> 372,937
Grants:		
Government of Canada	9,738	9,662
Province of Ontario	241,729	225,310
Other municipalities	7,395	12,002
	<hr/> 258,862	<hr/> 246,974
Other:		
Development charges earned	7,000	5,920
Investment income	6,038	6,518
Provincial offences	6,485	5,935
Sale of assets	861	866
Miscellaneous	7,111	6,362
	<hr/> 27,495	<hr/> 25,601
Total revenues	<hr/> 686,619	<hr/> 645,512
Expenditures:		
General government	22,801	20,879
Protection to persons and property	104,985	99,367
Transportation services	56,822	64,357
Environmental services	134,007	97,046
Health services	40,088	38,100
Social and family services	285,603	287,279
Social housing	42,153	41,664
Planning and development	4,586	3,977
Recreation and cultural services	194	250
	<hr/> 691,239	<hr/> 652,919
Net expenditures	<hr/> (4,620)	<hr/> (7,407)
Debt issued	30,784	31,878
Debt principal repayments	(22,785)	(21,495)
Employee benefits and other liabilities	2,090	1,016
Landfill liability	(579)	595
Change in amount to be recovered	9,510	11,994
Change in non-financial assets	(637)	810
Change in Fund Balances	<hr/> \$ 4,253	<hr/> \$ 5,397

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

STATEMENT OF FINANCIAL ACTIVITIES - OPERATING FUND

Year ended December 31, 2004, with comparative figures for 2003

(In thousands of dollars)

	Budget	2004	2003
Revenues:			
Taxation and user charges:			
Requisitions on local governments	\$ 243,578	\$ 247,322	\$ 232,037
User charges	151,218	152,940	140,900
	394,796	400,262	372,937
Grants:			
Government of Canada	8,576	8,694	8,618
Province of Ontario	222,077	227,632	220,842
	230,653	236,326	229,460
Other:			
Investment income	3,512	5,076	4,275
Provincial offences	6,044	6,485	5,935
Miscellaneous	3,237	5,099	3,761
	12,793	16,660	13,971
Total revenues	638,242	653,248	616,368
Expenditures:			
General government	12,324	16,950	14,058
Protection to persons and property	106,113	102,532	95,804
Transportation services	26,554	26,459	27,594
Environmental services	70,447	68,355	60,617
Health services	37,954	38,397	35,700
Social and family services	278,218	281,869	271,987
Social housing	40,467	39,979	39,571
Planning and development	3,773	3,745	3,433
Recreation and cultural services	306	194	250
Total expenditures	576,156	578,480	549,014
Net revenues	62,086	74,768	67,354
Debt principal payments	(23,123)	(22,785)	(21,495)
Employee benefits and other liabilities	2,090	2,090	1,016
Landfill liability	(579)	(579)	595
Change in non-financial assets	(636)	(637)	810
Transfers to other funds	(39,838)	(54,212)	(43,891)
	(62,086)	(76,123)	(62,965)
Change in operating fund balance	-	(1,355)	4,389
Operating fund balance, beginning of year	2,285	2,285	(2,104)
Operating fund balance, end of year	\$ 2,285	\$ 930	\$ 2,285

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

STATEMENT OF FINANCIAL ACTIVITIES - CAPITAL FUND

Year ended December 31, 2004, with comparative figures for 2003
(In thousands of dollars)

	2004	2003
Revenues:		
Grants:		
Government of Canada	\$ 1,044	\$ 1,044
Province of Ontario	14,097	4,468
Other municipalities	7,395	12,002
	<u>22,536</u>	<u>17,514</u>
Other:		
Development charges earned	7,000	5,920
Investment income	309	978
Sale of assets	861	866
Miscellaneous	2,012	2,601
	<u>10,182</u>	<u>10,365</u>
Total revenues	32,718	27,879
Expenditures:		
General government	5,851	6,821
Protection to persons and property	2,453	3,563
Transportation services	30,363	36,763
Environmental services	65,652	36,429
Health services	1,691	2,400
Social and family services	3,734	15,292
Social housing	2,174	2,093
Planning and development	841	544
	<u>112,759</u>	<u>103,905</u>
Net expenditures	(80,041)	(76,026)
Debt issued and assumed	30,784	31,878
Transfers from other funds	8,005	42,508
Change in capital fund balance	(41,252)	(1,640)
Capital fund balance, beginning of year	40,649	42,289
Capital fund balance, end of year	\$ (603)	\$ 40,649

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

STATEMENT OF FINANCIAL ACTIVITIES - RESERVES & RESERVE FUND

Year ended December 31, 2004, with comparative figures for 2003
(In thousands of dollars)

	2004	2003
Revenues:		
Investment income	\$ 653	\$ 1,265
Transfers from other funds	46,207	1,383
Change in reserve fund balance	46,860	2,648
Reserves and reserve fund balance, beginning of year (note 7)	141,713	139,065
Reserves and reserve fund balance, end of year (note 7)	\$ 188,573	\$ 141,713

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31, 2004 with comparative figures for 2003
(In thousands of dollars)

	2004	2003
Operations:		
Net expenditures	\$ (4,620)	\$ (7,407)
Sources and uses of cash:		
Accounts receivable	(17,381)	(15,622)
Other current assets	(630)	3
Accounts payable and accrued liabilities	3,899	(4,623)
Employee benefits and other liabilities	2,090	1,016
Deferred development costs	1,711	2,511
Landfill liability	(579)	595
Net change in cash from operations	(10,890)	(16,120)
Investing:		
Investments	7,968	6,514
Financing:		
Debt issued and assumed	30,784	31,878
Long-term debt repaid	(22,785)	(21,495)
Net change in cash from financing	7,999	10,383
Net change in cash	457	(6,630)
Cash, beginning of year	13,895	20,525
Cash, end of year	\$ 14,352	\$ 13,895

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

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars)

1. Significant accounting policies:

The consolidated financial statements of The Regional Municipality of Niagara (the Region) are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the exception of providing budget figures (note 1(j)). Significant accounting policies adopted by the Region are as follows:

(a) Reporting entity:

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances 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 Region and which are owned or controlled by the Region. These financial statements include:

Police Services Board
Niagara Regional Housing
Provincial Offenses Act Operations

Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

(b) Fund accounting:

Funds within the consolidated financial statements consist of current, capital, reserves and reserve funds. Transfers between funds are recorded as adjustments to the appropriate municipal fund balance.

Trust funds and their related operations administered by the Region are not included in these financial statements but are reported on separately on the Trust Funds Statement of Continuity and Balance Sheet.

(c) Inventory:

Inventory is valued at the lower of cost and net realizable value.

(d) Capital assets:

Expenditures made on capital assets are reported as capital expenditures on the statement of financial activities in the period incurred.

(e) Reserves and reserve funds:

Certain amounts, as approved by Regional Council are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.

(f) Government transfers:

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

(g) Deferred development revenue:

Deferred development revenues represent user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(h) Investment income:

Investment income earned on surplus current funds, capital funds, reserves and reserve funds (other than obligatory reserve funds) are reported as revenue in the period earned. Investment income earned on development charge reserve funds is added to the fund balance and forms part of the deferred development revenue balance.

(i) 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

(j) Budget figures:

Budgets established for capital programs within the capital fund, reserves and reserve funds are based on a project oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have therefore not been reflected on the consolidated statement of financial activities.

2. Investments:

Investments reported on the consolidated balance sheet have market values as follows:

	2004		2003	
	Cost	Market Value	Cost	Market Value
Investment	\$ 177,267	\$ 179,534	\$ 185,235	\$ 187,243

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004
(In thousands of dollars)

3. Employee benefits and other liabilities:

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

	2004	2003
Future payments required to WSIB	\$ 14,294	\$ 14,243
Accumulated Sick Leave Benefit Plan entitlements	17,621	16,476
Retiree benefits	13,253	11,797
Vacation pay	6,813	7,811
Other liabilities	1,999	1,563
Total	\$ 53,980	\$ 51,890

The Region has established reserve funds to mitigate the future impact of these obligations. Reserves relating to these liabilities are as follows:

	2004	2003
Workplace safety and insurance	\$ 13,844	\$ 13,746
Cumulative sick leave	4,040	4,092
Police accumulated sick leave	2,261	1,686
Future health and dental claims	1,863	2,147
Other PSAB liabilities	6,232	6,202
Contingency reserve designated by council	12,000	9,000
	\$ 40,240	\$ 36,873

Information about the Region's benefit plans is as follows:

	2004	2003
Accrued benefit obligation:		
Balance, beginning of year	\$ 57,521	\$ 56,963
Current benefit cost	2,925	2,032
Interest	1,863	1,840
Benefits paid	(3,155)	(3,314)
Balance, end of year	59,154	57,521
Unamortized actuarial loss	(5,174)	(5,631)
Liability for benefits	\$ 53,980	\$ 51,890

Included in expenditures is \$458 (2003 – \$458) for amortization of the actuarial loss.

Accumulated sick leave

Under the accumulated sick leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Region's employment.

WSIB

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board ("WSIB") Act the Region has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund disability payments. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The most recent actuarial valuation was performed in 2002.

The main actuarial assumptions employed for the valuation are as follows:

- a) Interest (discount rate):
The obligation as at December 31, 2004 of the present value of future liabilities and the expense for the 12 months ended December 31, 2004, were determined using a discount rate of 6%.
- b) Administration costs:
Administration costs were assumed to be 30% of the compensation expense.
- c) Compensation expense:
Compensation costs, which include loss of earnings benefits, health care costs and non-economic loss awards, were assumed to increase at rates ranging from 2.5% to 5.5% depending on the benefit type.

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars)

3. Employee benefits and other liabilities (continued):

Retiree benefits

The Region pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age 65. The Region recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit liability at December 31, 2004 of \$15,790 and the expense for the 12 months ended December 31, 2004, were determined by actuarial valuation using a discount rate of 6.0%. The most recent actuarial valuation was performed in 2002.

The main actuarial assumptions employed for the valuations are as follows:

- a) Interest (discount rate):
The obligation as at December 31, 2004, of the present value of future liabilities and the expense for the 12 months ended December 31, 2004, were determined using a discount rate of 6%.
- b) Medical costs:
Medical costs were assumed to increase at the rate of 10% per year reducing to 5.0% per year over 15 and 5.0% per year thereafter.
- c) Dental costs:
Dental costs were assumed to increase at the rate of 5% per year.

4. Deferred development costs:

A requirement of PSAB is that obligatory reserve funds be reported as deferred revenue. The Region has obligatory development charge reserve funds in the amount of \$13,450 (2003 - \$11,739). These reserve funds are considered obligatory as Provincial legislation restricts how these funds may be used and, under certain circumstances, how these funds may be refunded.

In the case of development charges, revenue recognition occurs after the funds have been collected and when The Region has approved the expenditures for the capital works for which the development charges were raised. These funds have been set aside, as required by the Development Charges Act, to defray the cost of growth related capital projects associated with new development.

The deferred revenues, reported on the consolidated statement of financial position, are made up of the following:

	2004	2003
Balance, beginning of year	\$ 11,739	\$ 9,228
Contributions from capital	-	50
Contribution from development charges act	8,700	8,347
Interest earned	61	106
Total revenue	8,761	8,503
Transfers to operating	(50)	(22)
Transfers to capital	(7,000)	(5,970)
Balance, end of year	\$ 13,450	\$ 11,739

5. Landfill liability:

The Region owns and operates a number of landfill sites. As well, they own and monitor several landfill sites which have been closed. The liability for closure of operational sites and post-closure care has been recognized based upon the usage of the site's capacity during the year. The costs were based upon the 2005 budget and inflation adjusted at 3% per annum to the estimated year of closure. These costs were then discounted to December 31, 2004 using a discount rate of 5.5%. Post-closure care is estimated to be required for 25 years from the date of site closure.

The liability for closure and post-closure care as at December 31, 2004 is \$31,441 (2003 - \$32,020). Estimated expenditures for closure and post-closure care are \$39,170 (2003 - \$37,867). The liability remaining to be recognized is \$2,983 (2003 - \$2,465). The total estimated remaining capacity of the operational sites is 1,741 tonnes (2003 - 1,791 tonnes). It is estimated that the life of the sites range from 3 to 35 years.

Included in reserve funds is \$2,822 (2003 - \$2,422) for settling closure and post-closure care liabilities.

6. Net long-term liabilities:

- (a) In addition to long-term liabilities incurred directly, the Region has assumed the responsibility for the charges on debt originally

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars)

6. Net long-term liabilities (continued):

incurred by local municipalities in respect of functions which are now a Regional responsibility.

As well as incurring long-term liabilities for Regional purposes, the Region also incurs long-term liabilities on behalf of the Area Municipalities. The responsibility for raising the amounts required to service this debt lies with the respective Area Municipalities.

The balance of net long-term liabilities reported on the consolidated balance sheet is made up of the following:

	2004	2003
Long-term liabilities incurred by the Region (including capital lease)	\$ 268,836	\$ 224,183
Long-term liabilities assumed by the Region incurred by others	4,174	4,719
Long-term liabilities	273,010	228,902
Debt recoverable from others (long-term liabilities incurred by the Region for which other entities have assumed responsibility)	(124,204)	(88,095)
Net long-term liabilities, end of year	\$ 148,806	\$ 140,807

(b) The long-term liabilities in (a) issued in the name of the Region have received approval of the Ontario Municipal Board for those approved on or before December 31, 1992. Those approved after January 1, 1993 have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs.

(c) The Region is contingently liable for long-term liabilities with respect to tile drainage and shoreline property assistance and for those for which the responsibility for the payment of principal and interest has been assumed by area municipalities and school boards. The total amount outstanding as at December 31, 2004 is \$124,204 (2003 - \$88,095) and is reported on the consolidated balance sheet as debt recoverable from others.

(d) Certain principal payments due on the net long-term liabilities do not represent a burden on general Regional revenue, as they are to be recovered in future years from other sources. The total principal payments for the periods 2005 to 2009, 2010 to 2014 and 2015 and thereafter and the source of financing are summarized as follows:

	2005 to 2009	2010 to 2014	2015 and thereafter	Total
From general municipal revenues	\$ 94,488	\$ 37,272	\$ 13,202	\$ 143,612
From consolidated water and sewer enterprises	3,844	-	-	3,844
	\$ 98,332	\$ 37,272	\$ 13,202	\$ 148,806

(e) Total interest on net long-term liabilities which are reported on the consolidated statement of financial activities amounted to \$8,077 in 2004 (2003 - \$7,830). The interest on long-term liabilities assumed by the municipalities and school boards or by individuals in the case of tile drainage and shoreline property assistance loans are not reflected in these financial statements.

(f) Capital lease liability:

Year ending December 31:

2005	\$	220
2006		3
Total minimum lease payments		223
Less amount representing interest at 4.08%		5
Present value of net minimum capital lease payments	\$	218

Interest of \$14 (2003 - \$25) relating to capital lease obligations has been included in interest expense.

7. Municipal fund balances:

(a) Reserve transfers:

The balance available for the general reduction of taxation for the fiscal year ending December 31, 2004 has been adjusted by an amount of \$10,469 (2003 - \$3,980) transferred to reserves and transferred from reserve of \$nil (2003 - \$5,421) as authorized by the Council in March, 2005. Had these adjustments not been made the equity to be used to offset taxation or user charges would have been \$11,399 (2003 - \$844).

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars)

7. Municipal fund balances (continued):

(b) Reserves and reserve funds:

The total balances of reserves and reserve funds of \$30,741 (2003 - \$24,051) and \$157,832 (2003 - \$117,662) respectively are made up of the following:

	2004	2003
Reserves set aside by Council:		
Working funds	\$ 2,012	\$ 2,143
Contingencies	16,973	11,067
General property acquisition	993	965
Building standards	704	520
General capital levy	5,297	3,119
Encumbrance	818	356
Tax write-off	-	585
Tax rate stabilization	38	2,575
Early retirement incentives	402	402
Winter maintenance	1,682	1,000
Communications strategy	40	40
Local service re-alignment	614	614
Telecommunications	93	93
Senior stabilization	196	196
Land ambulance severance	879	376
Total reserves	30,741	24,051
Reserve funds set aside for specific purpose by Council, legislation, regulation or agreement:		
Replacement of equipment	\$ 5,603	\$ 5,374
Welland Canal crossing	320	318
Health services - Wallington fund	41	41
Capital works - sewer operations	30,008	6,432
Capital works - water operations	65,280	49,670
Roads maintenance	403	425
Workplace safety and insurance	13,844	13,746
Accumulated sick leave	4,040	4,092
Police accumulated sick leave	2,261	1,686
Public liability self insurance	2,526	2,522
Future health and dental claims	1,863	2,147
OMERS Type III surplus	12	1,509
Judicial review	23	22
Seniors capital	999	749
Solid Waste	14,380	12,126
Police OMERS surplus	107	3,634
Social Assistance	2,112	1,325
Other PSAB liabilities	6,232	6,202
Niagara Regional Housing purposes	5,523	5,239
Niagara Regional Housing owned units	1,400	-
Children Services	764	313
Debt retirement	91	90
Total reserve funds	157,832	117,662
	\$ 188,573	\$ 141,713

8. Trust funds:

Trust funds administered by the Region amounting to \$1,554 (2003 - \$1,754) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities.

9. Pension agreements:

The Region makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 2,934 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.

Effective August 1, 1998, OMERS provided a temporary contribution holiday, with no corporate or employee pension contributions payable by the Corporation or its employees until December 31, 2002. Contributions by the Corporation which commenced

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004
(In thousands of dollars)

9. Pension agreements (continued):

effective January, 2003, are being made at rates for 2004 at 6.0% for employees earning below the year's maximum pensionable earnings and 8.8% on earnings above the year's maximum pensionable earnings. Rates will remain at 6.0% and 8.8% respectively in 2005.

The amount contributed to OMERS for 2004 was \$10,359 (2003 - \$1,700) for current service and is included as an expenditure on the consolidated statement of financial activities.

10. Commitments:

- (a) The Region has outstanding contractual obligations of approximately \$121,088 for housing redevelopments, capital works, solid waste projects and high speed telecommunications. Regional council has authorized the financing of these obligations.
- (b) The Region is committed to paying principal and interest payments on provincial debentures issued to finance the properties transferred to Niagara Housing Corporation from Ontario Housing Corporation. The debentures are outstanding in the amount of \$29,296 (2003 - \$30,237). Annual payments of principal and interest of \$2,908 (2003 - \$2,908) have been charged to current operations.
- (c) Minimum annual lease payments:

The Region rents premises with minimum annual lease payments as follows:

2005	\$	1,641
2006		1,206
2007		384
2008		180
2009		52

11. Contingent liabilities:

From time to time, the Region is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts, including punitive or extraordinary damages. These claims may be covered by the Region's insurance up to a maximum of \$15,000 per occurrence. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

12. Classification of expenditure by object:

The Schedule of Operating Fund Activities represents the expenditures by function, the following classifies those same expenditures by object:

	2004	2003
Salaries, wages and employee benefits	\$ 211,103	\$ 187,930
Operating materials and supplies	221,084	214,711
Contracted services	71,151	71,978
Rents and financial expenses	8,181	7,924
External transfers to others	58,884	58,630
Debt services	8,077	7,841
Total expenditures by object	\$ 578,480	\$ 549,014

13. Public liability insurance:

The Region has undertaken a portion of the risk for public liability, as a means of achieving efficient and cost effective risk management. The Region is self insured for public liability claims up to \$1,000 for any individual claim and \$1,000 for any number of claims arising out of a single occurrence. Outside coverage is in place for claims in excess of these amounts up to \$15,000 per occurrence.

The Region has a reserve fund for allocated self insurance claims which as at December 31, 2004 amounted to \$2,526 (2003 - \$2,522) and which is reported on the consolidated statement of financial position under reserve funds. An amount of \$239 (2003 - \$152) has been transferred to this reserve fund in the current year. An amount of \$246 (2003 - \$439) has been transferred from this reserve fund in the current year.

Payments charged against operations in the current year amounted to \$665 (2003 - \$939).

14. Self funded employee benefit plans:

The Region provides a group health and dental plan for certain employees and has assumed the full liability for payment of benefits under this plan.

Payments charged against operations in the current year amounted to \$9,137 (2003 - \$8,505).

NOTES CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

(In thousands of dollars)

15. Government transfers:

The Region recognizes the transfer of government funding as expenditures or revenues in the period that the events giving rise to the transfer occurred. The Government transfers reported on the Schedule of Current Operations are:

	2004	2003
Revenue:		
Ontario grants		
Ontario works:		
Social assistance	\$ 155,508	\$ 152,820
Services for seniors	32,455	30,161
	<hr/> 187,963	<hr/> 182,981
Child care	18,329	16,160
Social housing	1,309	1,179
Health services:		
Public Health	8,518	9,711
Ambulance	7,067	7,099
	<hr/> 15,585	<hr/> 16,810
Other:		
Community re-investment fund	1,589	1,589
Roadways	8,360	3,409
Police	1,831	1,858
Miscellaneous	6,763	1,324
	<hr/> 18,543	<hr/> 8,180
Subtotal Ontario grants	<hr/> 241,729	<hr/> 225,310
Federal grants:		
Social housing	9,614	9,602
Miscellaneous	124	60
Subtotal federal grants	<hr/> 9,738	<hr/> 9,662
Total revenues	<hr/> \$ 251,467	<hr/> \$ 234,972
Expenditures:		
Ontario works	\$ 54,476	\$ 54,932
Conservation authorities	2,547	2,027
Miscellaneous	1,861	1,672
Total expenditures	<hr/> \$ 58,884	<hr/> \$ 58,631

16. Child Care – Day Nurseries Act (“DNA”) and Child and Family Services Act (“CFSA”) of the Ministry of Community and Social Services (“MCSS”):

The Region has a CFSA service approval with the Ministry of Community and Social Services. One requirement of the CFSA and DNA service approval is the production by management of an Annual Program Expenditure Reconciliation report (APER) which shows a summary by service of expenditures, subsidy, less agency payments resulting in recoverable surpluses that relate to the CFSA and DNA service approval.

Based on this review and reconciliation there is a settlement due to the Ministry of \$5 for the Community Services Department.

	Lessor of eligible expenditures and Provincial subsidy	Payments received from Province	Surplus recoverable
Year ended December 31, 2003			
Community Services Department:			
DNA Childcare	\$ 14,005	\$ 14,246	\$ 241
Ontario Works Childcare	1,899	1,657	(242)
Early Literacy	126	126	-
Proxy Pay Equity	79	85	6