

City of Port Colborne
Financial Report
2004

Grant Thornton 

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Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of the
Corporation of the City of Port Colborne

We have audited the consolidated statement of financial position of the **Corporation of the City of Port Colborne** as at December 31, 2004 and the consolidated statements of financial activities and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the City's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Budget figures are provided for comparative purposes and have not been subject to audit procedures. Accordingly, we do not express an opinion on the budget figures.

Grant Thornton LLP

Port Colborne, Ontario
May 2, 2005

Grant Thornton LLP
Chartered Accountants

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City of Port Colborne

Consolidated Statement of Financial Position

Restated
(Note 11)
2003

As at December 31

2004

Assets

Cash and temporary investments (Note 2)	\$ 1,452,770	\$ 3,235,529
Taxes receivable	2,932,735	3,249,225
User charges receivable	1,617,810	1,716,687
Accounts receivable	1,069,306	1,531,333
Other assets	75,613	87,623
Investment in subsidiary (Note 3)	<u>7,605,370</u>	<u>7,539,556</u>
	\$ 14,753,604	\$ 17,359,953

Liabilities

Bank indebtedness (Note 4)	\$ 2,720,428	-
Accounts payable and accrued liabilities	925,464	\$ 1,774,578
Payable to Region of Niagara	457,674	686,510
Other liabilities	291,726	358,943
Deferred revenue for development purposes (Note 5)	314,831	241,102
Long term debt (Note 6)	9,554,187	10,313,148
Employee benefit obligations (Notes 7 and 18)	<u>5,109,262</u>	<u>5,087,153</u>
	19,373,572	18,461,434

Municipal position

Current fund (Note 8)	(66,302)	(272,750)
Capital fund (Note 8)	(880,255)	3,279,170
Reserves and reserve funds (Note 9)	3,384,668	3,752,844
Equity in subsidiary investment (Note 3)	<u>7,605,370</u>	<u>7,539,556</u>
Fund balances	10,043,481	14,298,820
Liabilities to be recovered in future (Note 10)	<u>(14,663,449)</u>	<u>(15,400,301)</u>
	(4,619,968)	1,101,481
	\$ 14,753,604	\$ 17,359,953

Contingencies (Note 20)

Approved by

(Treasurer)

(Chief Administrative Officer)

See accompanying notes to the financial statements

City of Port Colborne

Consolidated Statement of Financial Activities

For the Year Ended December 31, 2004

	Budget 2004 (Unaudited)	Actual 2004	Actual 2003 Restated (Note 11)
Revenue			
Taxation (Note 12)	\$ 9,934,164	\$ 10,409,309	\$ 9,046,899
User charges (Note 13)	3,603,933	3,744,113	3,962,471
Grants (Note 15)	2,264,147	789,331	1,364,849
Other (Note 16)	<u>1,023,280</u>	<u>1,426,760</u>	<u>1,871,852</u>
	<u>16,825,524</u>	<u>16,369,513</u>	<u>16,246,071</u>
Expenditures			
Current			
General government	2,374,774	2,945,535	2,764,822
Protection to persons and property	2,188,328	2,190,599	2,027,344
Transportation services	3,001,807	3,008,972	3,061,240
Environmental services	1,185,482	1,058,911	1,041,556
Health services	12,650	42,056	52,808
Social and family services	9,950	9,950	9,950
Recreation and culture services	2,718,305	2,856,649	2,672,865
Planning and development	<u>1,299,573</u>	<u>1,295,255</u>	<u>1,604,148</u>
	<u>12,790,869</u>	<u>13,407,927</u>	<u>13,234,733</u>
Capital			
General government	85,800	164,365	315,116
Protection to persons and property	2,383,000	2,455,243	743,450
Transportation services	1,644,000	1,842,442	1,065,725
Environmental services	1,482,100	826,737	1,351,838
Recreation and culture services	2,494,800	1,080,017	1,196,594
Planning and development	<u>222,000</u>	<u>142,193</u>	<u>158,141</u>
	<u>8,311,700</u>	<u>6,510,997</u>	<u>4,830,864</u>
	<u>21,102,569</u>	<u>19,918,924</u>	<u>18,065,597</u>
Net expenditures	(4,277,045)	(3,549,411)	(1,819,526)
Issue of long term debt	60,000	60,600	5,950,000
Repayment of long term debt	(819,396)	(819,560)	(619,863)
Increase (decrease) in employee benefit obligations	-	(12,782)	83,036
Change in equity in subsidiary (Note 3)	-	65,814	(1,218,882)
Change in fund balances	<u>\$ (5,036,441)</u>	<u>\$ (4,255,339)</u>	<u>\$ 2,374,765</u>

See accompanying notes to the financial statements

City of Port Colborne Consolidated Statement of Changes in Financial Position

For the Year Ended December 31 2004 Restated
(Note 11)
2003

Increase (decrease) in cash and cash equivalents

Operating activities		
Net expenditures	\$ (3,549,411)	\$ (1,819,526)
Decrease (increase) in taxes receivable	316,490	(9,996)
Decrease (increase) in user charges receivable	98,877	(754,435)
Decrease in accounts receivables	462,027	200,409
Decrease (increase) in other assets	12,010	(2,856)
Decrease in accounts payable and accrued liabilities	(849,114)	(275,649)
Increase (decrease) in payable to Region of Niagara	(228,836)	686,510
Decrease in other liabilities	(67,217)	(28,846)
Increase in deferred revenue	73,729	355
Increase (decrease) in employee benefit obligations	(12,782)	83,036
	<u>(3,744,227)</u>	<u>(1,920,998)</u>
Financing activities		
Increase (decrease) in bank indebtedness	2,720,428	(1,676,280)
Issue of long term debt	60,600	5,950,000
Repayment of long term debt	(819,560)	(619,863)
	<u>1,961,468</u>	<u>3,653,857</u>
Net increase (decrease) in cash and cash equivalents	(1,782,759)	1,732,859
Cash and cash equivalents		
Beginning of year	<u>3,235,529</u>	<u>1,502,670</u>
End of year	<u>\$ 1,452,770</u>	<u>\$ 3,235,529</u>

See accompanying notes to the financial statements

City of Port Colborne

Schedule of Current Fund Operations

For the Year Ended December 31, 2004

	Budget <u>2004</u> (Unaudited)	Actual <u>2004</u>	Actual <u>2003</u> Restated (Note 11)
Revenue			
Taxation (Note 12)	\$ 9,934,164	\$ 10,409,309	\$ 9,046,899
User charges (Note 13)	3,603,933	3,514,337	3,875,776
Grants (Note 15)	590,347	634,745	796,831
Other (Note 16)	<u>1,016,280</u>	<u>1,115,556</u>	<u>1,416,768</u>
	<u>15,144,724</u>	<u>15,673,947</u>	<u>15,136,274</u>
Expenditures			
General government	2,374,774	2,945,535	2,764,822
Protection to persons and property	2,188,328	2,190,599	2,027,344
Transportation services	3,001,807	3,008,972	3,061,240
Environmental services	1,185,482	1,058,911	1,041,556
Health services	12,650	42,056	52,808
Social and family services	9,950	9,950	9,950
Recreation and culture services	2,718,305	2,856,649	2,672,865
Planning and development	<u>1,299,573</u>	<u>1,295,255</u>	<u>1,604,148</u>
	<u>12,790,869</u>	<u>13,407,927</u>	<u>13,234,733</u>
Net revenues	<u>2,353,855</u>	<u>2,266,020</u>	<u>1,901,541</u>
Financing and transfers			
Repayment of long term debt	(819,396)	(819,560)	(619,863)
Transfers to capital fund	(1,209,500)	(1,119,986)	(1,435,525)
Transfers from (to) reserves and reserve funds	(324,959)	(107,244)	7,898
Increase (decrease) in employee benefit obligations	<u>-</u>	<u>(12,782)</u>	<u>83,036</u>
Net financing and transfers	<u>(2,353,855)</u>	<u>(2,059,572)</u>	<u>(1,964,454)</u>
Change in current fund	-	206,448	(62,913)
Current fund			
Beginning of year	<u>(272,750)</u>	<u>(272,750)</u>	<u>(209,837)</u>
End of year	<u>\$ (272,750)</u>	<u>\$ (66,302)</u>	<u>\$ (272,750)</u>

See accompanying notes to the financial statements

City of Port Colborne

Schedule of Capital Fund Operations

For the Year Ended December 31, 2004

	Budget 2004 (Unaudited)	Actual 2004	Actual 2003
Revenue			
User charges (Note 13)	-	\$ 229,776	\$ 86,695
Grants (Note 15)	\$ 1,673,800	154,586	568,018
Other (Note 16)	7,000	264,342	404,882
	<u>1,680,800</u>	<u>648,704</u>	<u>1,059,595</u>
Expenditures			
General government	85,800	164,365	315,116
Protection to persons and property	2,383,000	2,455,243	743,450
Transportation services	1,644,000	1,842,442	1,065,725
Environmental services	1,482,100	826,737	1,351,838
Recreation and culture services	2,494,800	1,080,017	1,196,594
Planning and development	222,000	142,193	158,141
	<u>8,311,700</u>	<u>6,510,997</u>	<u>4,830,864</u>
Net expenditures	<u>(6,630,900)</u>	<u>(5,862,293)</u>	<u>(3,771,269)</u>
Financing and transfers			
Transfers from current fund	1,209,500	1,119,986	1,435,525
Transfers from reserve fund	1,025,000	522,282	179,247
Issue of long term debt	60,000	60,600	5,950,000
	<u>2,294,500</u>	<u>1,702,868</u>	<u>7,564,772</u>
Net financing and transfers	<u>2,294,500</u>	<u>1,702,868</u>	<u>7,564,772</u>
Change in capital fund balance	<u>(4,336,400)</u>	<u>(4,159,425)</u>	<u>3,793,503</u>
Capital fund			
Beginning of year	<u>3,279,170</u>	<u>3,279,170</u>	<u>(514,333)</u>
End of year	<u>\$ (1,057,230)</u>	<u>\$ (880,255)</u>	<u>\$ 3,279,170</u>

See accompanying notes to the financial statements

City of Port Colborne

Schedule of Reserves and Reserve Funds

For the Year Ended December 31, 2004

	Budget 2004 (Unaudited)	Actual 2004	Actual 2003
Revenue			
Other (Note 16)	-	\$ <u>46,862</u>	\$ <u>50,202</u>
Transfers			
Transfers from (to) current fund	\$ 324,959	107,244	(7,898)
Transfers to capital fund	<u>(1,025,000)</u>	<u>(522,282)</u>	<u>(179,247)</u>
Total net transfers	<u>(700,041)</u>	<u>(415,038)</u>	<u>(187,145)</u>
Change in reserves and reserve funds balance	(700,041)	(368,176)	(136,943)
Reserves and reserve funds			
Beginning of year	<u>3,752,844</u>	<u>3,752,844</u>	<u>3,889,787</u>
End of year	<u>\$ 3,052,803</u>	<u>\$ 3,384,668</u>	<u>\$ 3,752,844</u>

See accompanying notes to the financial statements

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

1. Significant accounting policies

The consolidated financial statements of the City of Port Colborne are prepared by management in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Municipality are as follows:

(a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and changes in fund balances and in financial position of the reporting entity. The reporting entity is comprised of all organizations and enterprises accountable for the administration of their affairs and resources to the Municipality and which are owned or controlled by the Municipality. In addition to general government tax-supported operations, they include the following:

Port Colborne Public Library Board
Downtown Development Board

Interdepartmental and organizational transactions and balances are eliminated.

Port Colborne Hydro Inc. is a subsidiary corporation of the Municipality and is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government enterprises (Note 3). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

The statements exclude trust assets that are administered for the benefit of external parties (Note 19).

(b) Basis of accounting

The basis of accounting followed in the financial statement presentation includes revenues in the period in which the transactions or events occurred that gave rise to the revenues and expenditures in the period the goods and services are acquired and a liability is incurred or transfers are due.

(c) Fund accounting

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

(d) Region and school board transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Region of Niagara are not reflected in the municipal fund balances of these financial statements.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

1. Significant accounting policies (continued)

(e) Tangible capital assets

The historical cost and accumulated depreciation for tangible capital assets are not reported for municipal purposes. Tangible capital assets are reported as an expenditure on the Consolidated Statement of Financial Activities in the year of acquisition.

(f) Deferred revenue for development purposes

Receipts which are restricted by legislation of senior governments or by agreement with external parties are deferred and reported as restricted revenues. When qualifying expenditures are incurred, restricted revenues are brought into revenue at equal amounts. Revenues received in advance of expenditures, which will be incurred in a later period, are deferred until they are earned by being matched against those expenditures.

(g) Reserves for future expenditures

Certain amounts, as approved by Municipal Council, are set aside in reserves and reserve funds for future operating and capital expenditures. Transfers to and from reserves and reserve funds are reflected as an adjustment to the respective fund.

(h) Subdivision infrastructure

Subdivision streets, lighting, sidewalks, drainage and other infrastructure is required to be provided by subdivision developers. Upon completion they are turned over to the Municipality. The Municipality is not involved in the construction and does not budget for either the contribution from the developer or the capital expenditure.

(i) Local improvements

The Municipality records capital expenditures funded by local improvement agreements as they are incurred. Revenues are recognized over the term of the local improvement agreements as they are collected.

(j) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

2. Cash and temporary investments 2004 2003

Cash and temporary investments are comprised of:

Cash on hand	\$ 2,770	\$ 2,720
Cash held in banks	-	1,732,809
Temporary investments	<u>1,450,000</u>	<u>1,500,000</u>
	<u>\$ 1,452,770</u>	<u>\$ 3,235,529</u>

3. Subsidiary operations

Port Colborne Energy Inc. (Energy) was incorporated by Municipal Council under the Corporations Act on January 10, 2003. Energy is wholly owned by the City. Energy holds all the shares of Port Colborne Fibre Inc. and Port Colborne Hydro Inc.

Port Colborne Fibre Inc. (Fibre) was incorporated under the Corporations Act on January 10, 2003. Fibre is wholly owned by Energy. Fibre holds a twenty-five percent investment in Niagara Regional Broadband Network Limited (NRBN), which will design and build a fibre optic network to service municipalities, health care entities, school boards, universities, colleges and businesses in the Regional Municipality of Niagara.

Port Colborne Hydro Inc. was incorporated under the Corporations Act on June 4, 1999 and Municipal Council under municipal By-law 3867/12/00 transferred all employees, assets, liabilities, rights and obligations of the Port Colborne Hydro-Electric Commission to the corporation. Hydro is wholly owned by Energy.

Hydro entered into an agreement with Canadian Niagara Power Inc. (CNP) effective April 15, 2002 to lease the assets of the business for a period of ten years to CNP. The agreement includes the leasing of all capital assets and inventory and the assumption of customer deposit and certain future employee benefit liabilities. The base monthly lease payment is in the amount of \$ 127,350. The agreement also provides for an option to purchase the capital assets and inventory at the expiration of the lease for \$ 6.9 million.

The following table provides condensed supplementary financial information for Port Colborne Energy Inc. on a consolidated basis:

	<u>2004</u>	<u>2003</u> (Restated)
Financial position		
Current assets	\$ 890,376	\$ 410,273
Investment	375,000	37,500
Inventory	550,000	550,000
Capital assets	6,599,342	7,192,057
Future income taxes	<u>396,617</u>	<u>470,268</u>
Total assets	<u>8,811,335</u>	<u>8,660,098</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

3. Subsidiary operations (continued)	<u>2004</u>	<u>2003</u> (Restated)
Current liabilities (including current portions of long term debt of \$ 105,000 (2003 \$ 95,000))	460,791	188,801
Non-current liabilities	630,174	711,741
Note payable	3,225,070	3,225,070
Long term debt	<u>115,000</u>	<u>220,000</u>
Total liabilities	<u>4,431,035</u>	<u>4,345,612</u>
Net assets	<u>\$ 4,380,300</u>	<u>\$ 4,314,486</u>
Change in equity investment in subsidiary		
Revenue	\$ 1,546,167	\$ 1,564,490
Expenses	(1,133,642)	(1,234,440)
Income taxes and financing expenses	<u>(95,279)</u>	<u>(48,932)</u>
Equity earnings from operations	317,246	281,118
Dividends	(251,432)	-
Repayment of note receivable	<u>-</u>	<u>(1,500,000)</u>
Change in equity	<u>\$ 65,814</u>	<u>\$ (1,218,882)</u>

The Municipality's investment in Port Colborne Energy Inc. is comprised of the following:

Note receivable	\$ 3,225,070	\$ 3,225,070
Net assets	<u>4,380,300</u>	<u>4,314,486</u>
	<u>\$ 7,605,370</u>	<u>\$ 7,539,556</u>

The financial position information is as reported by Port Colborne Energy Inc. at December 31, 2004 and December 31, 2003. The results of operations is as reported by Port Colborne Energy Inc. for the years ended December 31, 2004 and December 31, 2003.

During the year it was discovered that future payments in lieu of taxes were incorrectly recorded in prior years. As a result, the December 31, 2003 figures, presented for comparative purposes, have been restated from those previously reported in order to properly account for future payments in lieu of taxes as follows:

	<u>Increase</u>	<u>Decrease</u>
Future income taxes asset	\$ 418,855	
Income taxes and financing expenses	56,023	
Change in equity		\$ 56,023
Net assets	418,855	
Investment in Port Colborne Energy Inc.	418,855	

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

3. Subsidiary operations (continued)

The following summarizes the Municipality's related party transactions with Port Colborne Hydro Inc. for the year. All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to be the parties.

	<u>2004</u>	<u>2003</u>
Interest received or receivable	\$ 233,818	\$ 282,085
Management fees paid	108,750	103,348

4. Bank indebtedness

An operating line of credit of \$ 2,950,000 has been established with the CIBC, of which \$ 2,720,428 (2003 \$ Nil) was used at December 31, 2004. An executed borrowing by-law in form and content satisfactory to CIBC is in effect to a limit of \$ 3,000,000. Interest is calculated at prime minus 0.5%. Overdrafts outstanding under the line of credit are converted to a promissory note at the CIBC's request which has not been enacted.

5. Deferred revenue for development purposes

	<u>2004</u>	<u>2003</u>
Development Charges Act	\$ 304,295	\$ 221,674
Recreational land (Planning Act)	<u>10,536</u>	<u>19,428</u>
	<u>\$ 314,831</u>	<u>\$ 241,102</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

6. Long term debt 2004 2003

- (a) The balance of net long term debt reported on the Consolidated Statement of Financial Position is made up of the following:

The Municipality has assumed responsibility for the payment of principal and interest charges on certain long term debt issued by the Region of Niagara. At the end of the year, the outstanding principal amount of this debt is

\$ 9,774,187 \$ 10,628,148

Of the long term debt shown above, the responsibility for payment of principal and interest charges has been assumed by Port Colborne Hydro Inc. At the end of the year, the outstanding principal amount of this liability is

(220,000) (315,000)

Net long term debt

\$ 9,554,187 **\$ 10,313,148**

- (b) The net long term debt:

<u>Debenture Number</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>2004</u>	<u>2003</u>
8419-96	Library	7.5 to 8%	2006	\$ 157,000	\$ 227,000
100-2002	Various	3.25 to 6%	2011	3,749,587	4,136,148
74-2003	Various	2.95 to 5.65%	2013	1,931,000	2,107,000
			2018	3,656,000	3,843,000
89-2004	Marina	2.65 to 5.30%	2014	<u>60,600</u>	<u>-</u>
				<u>\$ 9,554,187</u>	<u>\$ 10,313,148</u>

- (c) Principal repayments in each of the next five years are due as follows:

2005	\$ 861,916
2006	900,299
2007	925,658
2008	970,321
2009	1,018,584

- (d) The Municipality paid \$ 524,156 (2003 \$ 268,756) interest on long term debt during the year.

City of Port Colborne
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2004

7. Liability for future benefits	<u>2004</u>	<u>2003</u> Restated (Note 11)
Workplace Safety and Insurance Board future benefits	\$ 541,331	\$ 554,113
Vested sick leave benefits	148,266	148,266
Post-employment benefits	<u>4,460,156</u>	<u>4,460,156</u>
	5,149,753	5,162,535
Less: sick leave funded by reserve	<u>40,491</u>	<u>75,382</u>
	<u>\$ 5,109,262</u>	<u>\$ 5,087,153</u>

(a) Workplace Safety and Insurance Board future benefits

The City of Port Colborne is a Workplace Safety and Insurance Board (WSIB) Schedule 2 employer. The City has recorded an accrual for the estimate of future benefit costs and administrative loading as calculated by the WSIB. During the year \$ 36,705 (2003 \$ 39,765) was paid by the City to the WSIB in relation to these benefits.

(b) Vested sick leave benefits

Under the sick leave benefit plan for employees of the Port Colborne Firefighters' Association, sick leave can accumulate and employees may become entitled to a cash payment upon leaving the Municipality's employment.

The accrued benefit obligation at December 31, 2003 of \$ 148,268 was determined by an actuarial valuation using a discount rate of 5.5%.

During the year \$ 35,487 (2003 \$ 24,658) was paid to employees who left the Municipality's employment. Payments to employees eligible to retire over the next five years are anticipated to be \$ 100,000. The Municipality has set aside \$ 40,491 (2003 \$ 75,382) in a reserve.

(c) Post-employment benefits

The City of Port Colborne pays certain post-employment benefits on behalf of its retired employees. Effective December 31, 1999, the City of Port Colborne adopted The Canadian Institute of Chartered Accountants new public accounting standards for employee future benefits. The City of Port Colborne recognizes these post-employment costs in the period in which the employees rendered the services. The plan is substantially unfunded and requires no contributions from employees.

The accrued benefit obligation at December 31, 2003 of \$ 4,460,156 was determined by an actuarial valuation using a discount rate of 5.5%.

During the year benefit payments of \$ 194,984 (2003 \$ 180,601) were paid to retirees.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

7. Liability for future benefits (continued)

Actuarial valuations for accounting purposes are performed every three years using the projected benefit method, pro-rated on service. Under this method, the projected post-employment benefits are deemed to be earned on a pro-rata basis over the employee's years of service.

The most recent actuarial valuations for the vested sick leave and post-employment benefits were prepared at December 31, 2003. As there have been no significant changes in staff composition or claims history, nor have there been any major deviations from the assumptions made for the December 31, 2003 valuations, the December 31, 2004 benefit liabilities have not been updated and will not be updated until the next valuations at December 31, 2006 or unless significant changes occur.

The main actuarial assumptions employed for the vested sick leave and post-employment benefits valuations above are as follows (where applicable):

(i) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.2% in 2003 and thereafter.

(ii) Interest (discount) rate

The obligation as at December 31, 2003, of the present value of future liabilities was determined using a discount rate of 5.5%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 3.3%.

(iii) Salary levels

Future general salary and wage levels were assumed to increase at 3.5% per annum.

(iv) Medical costs

Medical costs were assumed to increase to 8.5% in 2003 and will decrease 1% annually thereafter.

(v) Dental costs

Dental costs were assumed to be 4.5% in 2003 and thereafter.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

8. Municipal fund balances	<u>2004</u>	<u>2003</u>
(a) The current fund balance is comprised of the following:		
To be applied to (recovered from) taxation For benefiting landowners related to special charges and special areas	\$ 94,270	\$ (45,192)
To be recovered from user charges	44,919	44,918
	<u>(205,491)</u>	<u>(272,476)</u>
	<u>\$ (66,302)</u>	<u>\$ (272,750)</u>
(b) The capital fund balance is comprised of the following:		
Funding to be provided from future taxation or user charges	\$ (1,255,887)	\$ (1,321,449)
Funding to be provided from other entities	(970,278)	(248,101)
Funds available for future capital expenditures	<u>1,345,910</u>	<u>4,848,720</u>
	<u>\$ (880,255)</u>	<u>\$ 3,279,170</u>
<hr/>		
9. Reserves and reserve funds	<u>2004</u>	<u>2003</u>
Reserves set aside for specific purposes by Council		
Working capital	\$ 702,957	\$ 1,002,957
Recreation programs and facilities	437	33,267
Acquisition of fixed assets	83,503	252,339
Election expense	24,351	5,800
Administration costs	<u>103,002</u>	<u>53,062</u>
Total reserves	<u>914,250</u>	<u>1,347,425</u>
Reserve funds set aside for specific purposes by Council or agreement		
Acquisition of fixed assets	175,726	101,192
Accumulated sick leave and disability	40,491	75,382
Administration costs	277,330	219,167
Parking	-	309
Soccer complex	516,811	508,867
Skateboard park	-	2,490
Marina and grain elevator property	<u>1,460,060</u>	<u>1,498,012</u>
Total reserve funds	<u>2,470,418</u>	<u>2,405,419</u>
Total reserves and reserve funds	<u>\$ 3,384,668</u>	<u>\$ 3,752,844</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

10. Liabilities to be recovered in future	<u>2004</u>	<u>2003</u> Restated (Note 11)
Long term debt	\$ 9,554,187	\$ 10,313,148
Employee benefit obligations	<u>5,109,262</u>	<u>5,087,153</u>
	<u>\$ 14,663,449</u>	<u>\$ 15,400,301</u>

11. Restatement of prior years

During the year it was discovered that a liability for Workplace Safety and Insurance Board (WSIB) Schedule 2 employer estimated future benefit costs and administrative loading as calculated by WSIB were not recorded in prior years. As a result, the December 31, 2003 figures, presented for comparative purposes, have been restated from those previously reported, in order to properly account for the future benefits liability as follows:

	<u>Increase</u>	<u>Decrease</u>
Employee benefit obligations	\$ 554,113	
Liabilities to be recovered in future	554,113	
General government current expenditures		\$ 50,693
Increase in employee benefit obligations		50,693

The restatement of the December 31, 2003 figures did not result in any change to the fund positions.

12. Taxation	Budget <u>2004</u> (Unaudited)	<u>Actual</u> <u>2004</u>	Actual <u>2003</u>
Real property		\$ 29,471,108	\$ 28,127,001
From other governments			
Payments in lieu of taxes		<u>402,777</u>	<u>385,696</u>
		<u>29,873,885</u>	<u>28,512,697</u>
Less: taxation collected on behalf of (Note 14)			
Region of Niagara		12,523,797	12,235,592
School boards		<u>6,940,779</u>	<u>7,230,206</u>
		<u>19,464,576</u>	<u>19,465,798</u>
Net taxes available for municipal purposes		<u>\$ 10,409,309</u>	<u>\$ 9,046,899</u>
Residential, multi-residential and farm	\$ 7,314,744	\$ 7,705,985	\$ 6,584,481
Commercial and industrial	<u>2,619,420</u>	<u>2,703,324</u>	<u>2,462,418</u>
Net taxes available for municipal purposes	<u>\$ 9,934,164</u>	<u>\$ 10,409,309</u>	<u>\$ 9,046,899</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

13. User charges	Budget 2004 (Unaudited)	Actual 2004	Actual 2003
Current fund			
Fees and service charges	\$ 1,845,169	\$ 1,887,051	\$ 1,946,498
Direct water billings	2,924,787	2,727,864	2,732,374
Sewer surcharges	3,309,688	3,255,134	3,061,130
Licences and permits	<u>172,400</u>	<u>172,389</u>	<u>239,313</u>
	8,252,044	8,042,438	7,979,315
Less: water and sewer collections on behalf of the Region of Niagara (Note 14)	<u>4,648,111</u>	<u>4,528,101</u>	<u>4,103,539</u>
	<u>3,603,933</u>	<u>3,514,337</u>	<u>3,875,776</u>
Capital fund			
Special charges	-	<u>229,776</u>	<u>86,695</u>
	<u>\$ 3,603,933</u>	<u>\$ 3,744,113</u>	<u>\$ 3,962,471</u>

14. Collections for the Region of Niagara and school boards

Total taxation, user charges, water and sewer charges, and development charges received or receivable on behalf of the Region of Niagara and the school boards were as follows:

	<u>2004</u>	<u>2003</u>
Region of Niagara	\$ 17,051,898	\$ 16,339,131
School boards	<u>6,940,779</u>	<u>7,230,206</u>
	<u>\$ 23,992,677</u>	<u>\$ 23,569,337</u>

The Municipality is required to levy and collect taxes on behalf of the Region of Niagara and the school boards. These taxes are recorded as revenue at the amounts levied. The taxes levied over (under) the amounts requisitioned are recorded as accounts payable (receivable).

The Municipality is also required to bill and collect water, sewer and development charges on behalf of the Region of Niagara. Water and sewer charges are recorded as revenue at the amounts billed. Water and sewer charges billed over (under) the amounts requisitioned are recorded as accounts payable (receivable). Development charges collected in excess of those paid to the Region are recorded as accounts payable.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

15. Grants	Budget <u>2004</u> (Unaudited)	Actual <u>2004</u>	Actual <u>2003</u>
Current fund			
Province of Ontario	\$ 548,347	\$ 542,706	\$ 587,858
Government of Canada	42,000	90,718	208,973
Other	<u>-</u>	<u>1,321</u>	<u>-</u>
	<u>590,347</u>	<u>634,745</u>	<u>796,831</u>
Capital fund			
Federal		1,087,000	19,750
Province of Ontario	586,800	92,019	17,556
Municipal	<u>-</u>	<u>42,817</u>	<u>550,462</u>
	<u>1,673,800</u>	<u>154,586</u>	<u>568,018</u>
	<u>\$ 2,264,147</u>	<u>\$ 789,331</u>	<u>\$ 1,364,849</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

16. Other revenue	Budget 2004 (Unaudited)	Actual 2004	Actual 2003
Current fund			
Penalties and interest on taxes	\$ 360,000	\$ 414,662	\$ 374,656
Fines	10,590	17,966	7,057
Interest income	36,770	38,105	70,240
Rental income	1,500	1,495	748
Income from subsidiary operations	230,000	251,432	500,000
Sale of land	-	1,400	-
Trust funds	-	5,051	-
Other	<u>377,420</u>	<u>385,445</u>	<u>464,067</u>
	<u>1,016,280</u>	<u>1,115,556</u>	<u>1,416,768</u>
Capital fund			
Contributions from developers	7,000	25,293	57,372
Donations	-	89,993	120,757
Sale of land	-	66,030	209,828
Trust funds	-	12,776	11,864
Other	<u>-</u>	<u>70,250</u>	<u>5,061</u>
	<u>7,000</u>	<u>264,342</u>	<u>404,882</u>
Reserves and reserve funds			
Investment income	-	46,641	50,202
Sale of assets	-	<u>221</u>	<u>-</u>
	-	<u>46,862</u>	<u>50,202</u>
	<u>\$ 1,023,280</u>	<u>\$ 1,426,760</u>	<u>\$ 1,871,852</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

17. Expenditures by object

The Consolidated Statement of Financial Activities presents the expenditures by function; the following classifies those same expenditures by object:

	<u>2004</u>	<u>2003</u> Restated (Note 11)
Salaries, wages and employee benefits	\$ 7,598,467	\$ 7,239,611
Operating materials and supplies	4,519,000	4,782,450
Contracted services	730,730	855,644
Rent and financial expenses		20,708
External transfers to others	35,574	74,002
Tangible capital assets	6,510,997	4,830,864
Debt service	<u>524,156</u>	<u>262,318</u>
Total expenditures by object	<u>\$ 19,918,924</u>	<u>\$ 18,065,597</u>

18. Pension agreements

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

Contributions to OMERS are made at rates ranging from 6% to 8.8% depending on the proposed retirement age and the level of earnings. As a result \$ 325,084 (2003 \$ 105,022) was contributed to OMERS for current service.

19. Trust funds

Trust funds administered by the Municipality amounting to \$ 60,474 (2003 \$ 77,502) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities.

20. Contingencies

The City is involved from time to time in litigation, which arises in the normal course of business. In respect of any outstanding claims, the City believes that insurance coverage is adequate and that no material exposure exists on the eventual settlement of such litigation, therefore no provision has been made in the accompanying financial statements.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2004

21. Public Sector Salary Disclosure Act

For 2004, the following employee was paid a salary, as defined in the Public Sector Salary Disclosure Act, 1996 of \$ 100,000 or more:

<u>Employee Name</u>	<u>Position Title</u>	<u>Salary Paid</u>	<u>Taxable Benefits</u>
Cotterill, Robert	Chief Administrative Officer	\$ 104,538	\$ 690

22. Financial instruments

The City's financial instruments consist of cash, taxes receivable, accounts receivable, temporary and long term investments, bank indebtedness, accounts payable, accrued liabilities, other liabilities and long term debt. It is management's opinion that the City is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values.

23. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.