

Financial Statements of

THE CORPORATION OF

THE TOWN OF GRIMSBY

Year ended December 31, 2005

Consolidated
Trust
Niagara Power Incorporated
Downtown Improvement Area

Consolidated Financial Statements of

THE CORPORATION OF THE TOWN OF GRIMSBY

Year ended December 31, 2005



CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Members of Council,
Inhabitants and Ratepayers of
The Corporation of the Town of Grimsby

We have examined the consolidated statement of financial position of The Corporation of the Town of Grimsby as at December 31, 2005 and the consolidated statements of financial activities and cash flows for the year then ended. In addition, we have audited the schedules of revenue fund operations, capital fund operations and reserves and reserve funds for the year ended December 31, 2005. These financial statements and schedules are the responsibility of the town'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 and schedule presentation.

In our opinion, these financial statements and schedules present fairly, in all material respects, the financial position of The Corporation of the Town of Grimsby as at December 31, 2005 and the results of its operations and changes in financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Southcott Davoli Professional Corporation

Chartered Accountants

Grimsby, Ontario

September 11, 2006

THE CORPORATION OF THE TOWN OF GRIMSBY

Consolidated Statement of Financial Position

December 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Financial assets		
Cash and investments (note 2)	\$ 20,278,035	\$ 15,800,804
Taxes receivable (note 3)	2,537,381	4,091,289
User charges receivable	1,047,841	1,222,044
Accounts receivable	1,240,979	1,087,573
Other receivables	64,590	124,624
Prepaid expenses	66,952	–
Investment in Niagara Power Incorporated (note 4)	14,444,542	14,670,285
	<u>\$ 39,680,320</u>	<u>\$ 36,996,619</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 2,628,988	\$ 3,715,799
Other current liabilities	1,337,842	1,325,969
Deferred revenue – general	603,395	773,618
Deferred revenue – obligatory reserve funds (note 5)	3,855,262	3,036,243
Post-employment benefit liability (note 6)	875,508	835,678
WSIB liability (note 7)	–	55,463
Due to trust funds	29,650	18,463
Net long-term liabilities (note 8)	6,338,541	6,905,844
	<u>15,669,186</u>	<u>16,667,077</u>
Municipal Position		
Capital fund (note 9)	–	–
Reserves (note 9)	11,671,448	8,613,299
Reserve funds (note 9)	5,109,193	4,787,480
Equity in Niagara Power Incorporated	14,444,542	14,670,285
Fund balances	<u>31,225,183</u>	<u>28,071,064</u>
Amounts to be recovered		
From future revenues for post-employment benefits	(875,508)	(835,678)
From future revenues for capital outlays financed by long-term liabilities	(6,338,541)	(6,905,844)
	<u>(7,214,049)</u>	<u>(7,741,522)</u>
	<u>24,011,134</u>	<u>20,329,542</u>
Commitments and contingencies (note 10)		
	<u>\$ 39,680,320</u>	<u>\$ 36,996,619</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Consolidated Statement of Financial Activities

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues		
Taxation and user charges		
Property taxation	\$ 9,493,720	\$ 8,874,561
Taxation from other governments	327,621	278,754
User fees	5,711,335	5,809,495
Total taxation and user charges	15,532,676	14,962,810
Grants	1,536,214	706,292
Other		
Penalties and interest on taxes	498,443	492,579
Development charges	289,104	1,283,630
Investment income	999,109	803,972
Other	1,419,728	982,995
Niagara Power Incorporated net earnings (loss) (note 4)	(225,743)	391,779
Total other	2,980,641	3,954,955
Total revenues	20,049,531	19,624,057
Expenditures		
Revenue fund		
General government	1,457,633	1,383,462
Protection to persons and property	1,198,890	1,165,305
Transportation services	1,869,098	1,825,289
Environmental services	5,212,100	4,997,529
Health services	184,731	225,541
Social and family services	136,517	121,841
Recreation and cultural services	3,310,396	3,251,756
Planning and development	392,454	390,922
	13,761,819	13,361,645
Capital fund		
General government	247,649	180,827
Protection to persons and property	65,943	26,206
Transportation services	959,782	778,083
Environmental services	882,158	1,066,579
Health services	31,216	13,652
Social and family services	19,343	1,333
Recreation and cultural services	381,673	5,577,837
Planning and development	18,356	58,148
	2,606,120	7,702,665
Total expenditures	16,367,939	21,064,310
Net revenues (expenditures)	3,681,592	(1,440,253)
Debt principal repayments	(567,303)	(22,121)
Increase in post-employment benefit liability (note 6)	39,830	101,683
Long-term liability issued	-	6,800,000
Change in fund balances	\$ 3,154,119	\$ 5,439,309

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Consolidated Statement of Cash Flows

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Operations		
Net revenue (expenditures)	\$ 3,681,592	\$(1,440,253)
Niagara Power Incorporated net loss (earnings)	225,743	(391,779)
Sources and uses		
Taxes receivable	1,553,908	(781,017)
User charges receivable	174,203	(1,059,324)
Accounts receivable	(153,406)	(138,595)
Other receivables	60,034	61,308
Prepaid expenses	(66,952)	–
Accounts payable and accrued liabilities	(1,086,811)	(2,349,686)
Other current liabilities	11,873	104,480
Deferred revenue – general	(170,223)	210,390
Deferred revenue – obligatory reserve funds	819,019	42,476
Post-employment benefit liability	39,830	101,683
WSIB liability	(55,463)	–
Due to trust funds	11,187	67,123
Net change in cash from operations	5,044,534	(5,573,194)
Financing		
Long-term liability issued	–	6,800,000
Long-term liability repaid	(567,303)	(22,121)
	(567,303)	6,777,879
Net change in cash and short-term investments	4,477,231	1,204,685
Cash and short-term investments, beginning of year	15,800,804	14,596,119
Cash and short-term investments, end of year	\$ 20,278,035	\$ 15,800,804

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Schedule of Revenue Fund Operations

Year ended December 31, 2005, with comparative figures for 2004

	2005 Budget	2005 Actual	2004 Actual
Revenues			
Property taxation	\$ 9,404,070	\$ 9,493,720	\$ 8,874,561
Taxation from other governments	297,100	327,621	278,754
User fees	5,123,180	5,711,335	5,809,495
Grants			
Government of Canada	31,500	30,345	31,695
Province of Ontario	111,500	1,310,389	439,170
Other municipalities	126,930	195,480	235,427
Penalties and interest on taxes	496,020	498,443	492,579
Investment income	723,983	824,230	591,140
Other	488,150	947,361	961,955
Total revenues	16,802,433	19,338,924	17,714,776
Expenditures			
General government	1,401,720	1,457,633	1,383,462
Protection to persons and property	1,238,150	1,198,890	1,165,305
Transportation services	1,893,710	1,869,098	1,825,289
Environmental services	5,520,150	5,212,100	4,997,529
Health services	218,750	184,731	225,541
Social and family services	139,920	136,517	121,841
Recreation and cultural services	3,462,827	3,310,396	3,251,756
Planning and development	390,250	392,454	390,922
Total expenditures	14,265,477	13,761,819	13,361,645
Net revenues	2,536,956	5,577,105	4,353,131
Financing and transfers			
Transfers to reserves and reserve funds	(1,300,348)	(4,353,732)	(3,317,354)
Transfers to capital fund	(695,900)	(695,900)	(1,115,339)
Debt principal repayments	(540,708)	(567,303)	(22,121)
Increase in post-employment benefit liability	–	39,830	101,683
Net financing and transfers	(2,536,956)	5,577,105	(4,353,131)
Change in revenue fund balance	–	–	–
Revenue fund balance, beginning of year	–	–	–
Revenue fund balance, end of year	\$ –	\$ –	\$ –

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Schedule of Capital Fund Operations

Year ended December 31, 2005, with comparative figures for 2004

	2005 Budget	2005 Actual	2004 Actual
Revenues			
Government of Canada grants	\$ 306,000	\$ –	\$ –
Development charges earned	1,674,000	289,104	1,283,630
Other	32,000	472,367	21,040
Total revenues	2,012,000	761,471	1,304,670
Expenditures			
General government	896,525	247,649	180,827
Protection to persons and property	135,000	65,943	26,206
Transportation services	2,600,000	959,782	778,083
Environmental services	1,505,000	882,158	1,066,579
Health services	35,000	31,216	13,652
Social and family services	30,000	19,343	1,333
Recreation and cultural services	1,265,000	381,673	5,577,837
Planning and development	20,900	18,356	58,148
Total expenditures	6,487,425	2,606,120	7,702,665
Net expenditures	4,475,425	1,844,649	(6,397,995)
Financing and transfers			
Transfers from revenue fund	695,900	695,900	1,115,339
Transfers from reserves and reserve funds	3,779,525	1,148,749	1,585,582
Issue of long-term liability	–	–	6,800,000
Net financing and transfers	4,475,425	1,844,649	9,500,921
Change in capital fund balance	–	–	3,102,926
Capital fund balance, beginning of year	–	–	(3,102,926)
Capital fund balance, end of year	\$ –	\$ –	\$ –

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Schedule of Reserves and Reserve Funds

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues		
Investment income	\$ 174,879	\$ 212,832
Transfers		
Transfers from revenue fund	4,353,732	3,317,354
Transfers to capital fund	(1,148,749)	(1,585,582)
Total transfers	3,204,983	1,731,772
Change in reserves and reserve funds balance	3,379,862	1,944,604
Reserves and reserve funds balance, beginning of year	13,400,779	11,456,175
Reserves and reserve funds balance, end of year	\$ 16,780,641	\$13,400,779

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements

Year ended December 31, 2005

The Town of Grimsby is a municipality in the Province of Ontario, Canada. It conducts its operations guided by the provision of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. Significant accounting policies:

The consolidated financial statements of the Corporation of the Town of Grimsby (the "Town") are the representation of management prepared in accordance with generally accepted accounting principles for local governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments.

(a) Reporting entity:

(i) Consolidated statement of financial position:

These consolidated statements reflect the assets, liabilities, sources of financing and expenditures of the current fund, capital fund, reserve funds and reserves and include the activities of all committees of Council and the following boards, which are under the control of Council:

The Grimsby Public Library Board
The Grimsby Museum
The Grimsby Downtown Improvement Area

All inter-fund assets and liabilities and revenues and expenditures have been eliminated. The investment in Niagara Power Incorporated ("NPI") has been accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Town, and interorganizational transactions and balances are not eliminated. The Town recognizes its equity interest in the annual income or loss of NPI in its statement of financial activities with a corresponding increase or decrease in its investment asset account. Any dividends that the Town may receive from NPI will be reflected as reductions in the investment asset account.

(ii) Accounting for 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.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2005

1. Significant accounting policies (continued):

(iii) Trust funds:

Trust funds administered by the Town have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities. They are reported separately on the trust funds balance sheet and statement of continuity.

(b) Basis of accounting:

(i) Accrual accounting:

Sources of financing and expenditures are reported on the accrual basis of accounting.

The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Investments:

Investments are carried at cost. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to reflect the loss.

(iii) Capital assets:

The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

(iv) Deferred revenue:

Deferred revenue represents 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.

(v) Reserves and reserve funds:

The Town follows the practice of appropriating revenues and current operating surpluses into reserves and reserve funds that are retained for general and specific purposes. These reserves and reserve funds are established by Council resolution or by-law and are available for future uses. Amounts are only expended in accordance with the terms and policies established by Council. Expenditures in respect of items for which the reserves have been created are reported as expenditures on the Schedules of Revenue or Capital Fund Operations as they are incurred. Corresponding transfers are reported out of the Schedule of Reserves and Reserve Funds.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2005

1. Significant accounting policies (continued):

(vi) Government transfers:

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

(vii) Investment income:

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

(viii) 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.

2. Investments:

Investments of \$14,171,193 (2004 - \$5,874,637) are carried at cost. The investments have a market value of \$14,128,419 (2004 - \$5,943,488) at the end of the year. The market value represents the realizable value of the investments if they were to be sold at December 31, 2005. The Town's investment policy as approved by Council is to maintain sufficient liquidity within the portfolio to be able to hold investments until maturity. Accordingly, the financial statements only recognize gains or losses on investments sold prior to maturity.

3. Taxes receivable:

Taxes receivable consist of the following:

	2005	2004
Current year's taxes receivable	\$ 1,627,970	\$ 2,156,108
Previous year's taxes receivable	565,787	765,398
Prior years' taxes receivable	382,204	1,208,363
Allowance for uncollectable taxes	(38,580)	(38,580)
Total taxes receivable	\$ 2,537,381	\$ 4,091,289

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2005

3. Taxes receivable (continued):

Property tax billings are prepared by the Town of Grimsby based on an assessment roll prepared by the Municipal Property Assessment Corporation (MPAC), an agency of the Ontario government. All assessed property values in the Town were reviewed and new values established based on a common valuation date which was used by the Town in computing the 2005 property tax bills. However, the property tax revenue and tax receivables of the Town of Grimsby are subject to measurement uncertainty as a significant number of appeals submitted by ratepayers have yet to be heard. Further, MPAC's processing of agreed upon adjustments to assessments as well as changes to assessed value reflecting new construction is significantly backlogged. Any billing adjustments made necessary by the determination of such changes will be recognized in the fiscal year in which they are determined.

The Province of Ontario instituted a mandatory capping program through the provisions of Bill 140 that limits assessment related increases in certain classes of property to 5%.

4. Investment in Niagara Power Incorporated:

In compliance with provincial legislation enacted to restructure the electrical industry in Ontario, Council approved the incorporation of the electricity distribution business of the former Grimsby Hydro-Electric Commission (the "Commission"). Pursuant to this legislation, the Town incorporated four companies, Niagara Power Incorporated (NPI), and its wholly-owned subsidiaries, Grimsby Energy Incorporated, Grimsby Hydro Incorporated and Grimsby Power Incorporated.

NPI was incorporated on April 20, 2001 as a wholly-owned subsidiary of the Town. Effective November 1, 2001, substantially all of the assets and liabilities of the former Commission were transferred to NPI.

The investment in NPI is represented by the following:

	2005	2004
Promissory note receivable from GPI	\$ 5,782,746	\$ 5,782,746
2,001 common shares	7,987,327	7,987,327
Retained earnings	674,469	900,212
	<u>\$ 14,444,542</u>	<u>\$14,670,285</u>

The promissory note receivable from GPI bears interest at the higher of prime or 4% and matures on February 1, 2020. Interest commenced in April, 2001. Included in investment income is 2005 - \$419,249 (2004 - \$420,398) related to this note.

Included in other revenue is a donation of \$250,000 from NPI.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2005

4. Investment in Niagara Power Incorporated (continued):

The Town was charged \$369,017 (2004 - \$311,400) for service and street lighting in 2005. The Town of Grimsby provided property services, water and vehicle fuel to GPI aggregating \$38,330 (2004 - \$32,700). These transactions are in the normal course of operations and are measured at the exchange amount charged to unrelated parties.

Niagara Power Incorporated is wholly-owned and controlled by the Town of Grimsby and as a business enterprise of the Town is accounted for on a modified equity basis in these financial statements. NPI is the electric distribution utility for the Town's residents. Other activities of NPI and its subsidiaries are to provide energy services, meter services and street lighting services. The following table provides condensed supplementary financial information for NPI for the year ended December 31, 2005 and for the year ended December 31, 2004:

	2005	2004
Assets		
Current assets	\$ 5,850,054	\$ 5,541,814
Capital assets	14,325,540	14,304,063
Long-term assets	493,590	521,320
Total assets	20,669,184	20,367,197
Liabilities		
Current liabilities	2,377,306	5,330,533
Long-term liabilities	9,630,082	6,149,125
Total liabilities	12,007,388	11,479,658
Net assets	\$ 8,661,796	\$ 8,887,539
Results of operations		
Revenues	\$ 16,508,602	\$13,896,266
Operating expenses	16,734,345	13,504,487
Earnings (loss)	(225,743)	391,779
Retained earnings, beginning of year	900,212	508,433
Retained earnings, end of year	\$ 674,469	\$ 900,212

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2005

5. Deferred revenue – obligatory reserve funds:

A requirement of the public sector accounting principles of the Canadian Institute of Chartered Accountants is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used; under certain circumstances these funds may possibly be refunded. The balances in the obligatory reserve funds of the Town are summarized below:

	2005	2004
Development charges	\$ 2,143,180	\$ 1,595,563
Park dedication fund	948,259	682,906
Subdivision administration	496,942	632,532
Tree planting	19,955	85,955
Other	246,926	39,287
	<u>\$ 3,855,262</u>	<u>\$ 3,036,243</u>

The deferred revenue-obligatory reserve funds, reported in the consolidated statement of financial position, are comprised of the following:

	2005	2004
Balance, beginning of year	\$ 3,036,243	\$ 2,993,767
Contributions from		
Development Charges Act	748,028	1,356,472
Subdivider contributions	–	13,750
Recreational land	312,473	74,427
Investment income	62,399	62,097
Federal gasoline tax	207,639	–
	<u>1,330,539</u>	<u>1,506,746</u>
Transfers to revenue fund	(222,416)	(180,641)
Transfers to capital fund	(289,104)	(1,283,630)
Balance, end of year	<u>\$ 3,855,262</u>	<u>\$ 3,036,243</u>

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2005

6. Post-employment benefit liability:

The Town makes available to qualifying employees who retire the opportunity to continue their coverage for such benefits as extended health and drugs, dental care and life insurance. The Town recognizes these post-retirement costs in the period in which the employees rendered the services. An actuarial estimate of future liabilities was completed in 2004 and forms the basis for the estimated liability reported in these financial statements.

Information about the Town's benefit plan is as follows:

	2005	2004
Accrued benefit liability, beginning of year	\$ 835,678	\$ 733,995
Current year benefit cost	38,521	36,333
Retirement benefit interest cost	49,840	43,726
Benefits paid for the year	(50,055)	(46,780)
Actuarial loss	–	68,404
Plan amendment	1,524	–
Accrued benefit liability, end of year	\$ 875,508	\$ 835,678

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

a) Interest (discount rate):

The obligation as at December 31, 2005, of the present value of future liabilities and the expense for the 12 months ended December 31, 2005, were determined using a discount rate of 6%.

b) Medical costs:

Medical costs were assumed to increase at the rate of 10% in 2005 graded down to 5% over the next 15 years.

c) Dental costs:

Dental costs were assumed to increase at the rate of 5% in 2005 and thereafter.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2005

7. Workplace safety and insurance obligations:

The Town is a Schedule II employer under the Workplace Safety & Insurance Act and follows a policy of self insurance for all its employees.

An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The Town remits payments to the WSIB as required to fund disability payments. The estimated future liability relating to WSIB amounted to \$NIL (2004 - \$55,463).

A Workplace Safety and Insurance Reserve, funded by annual contributions from the revenue fund, has also been established to protect against any unknown future liability. The balance in the fund at December 31, 2005 was \$147,741 (2004 – \$98,218).

The Town also maintains an insurance policy, which protects the Corporation against single claims in excess of \$250,000.

8. Net long-term liabilities:

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

	2005	2004
Total long-term liabilities incurred by the Municipality and outstanding at the end of the year	\$ 6,338,541	\$ 6,905,844
Net long-term liabilities, end of year	\$ 6,338,541	\$ 6,905,844

(b) The principal payments to be made on the outstanding net long-term liabilities are as follows:

	2005	2004
2006 – 2010	\$ 3,216,066	\$ 3,093,250
2011 and thereafter	3,122,475	3,812,594
Total net long-term liabilities	\$ 6,338,541	\$ 6,905,844

(c) The long-term liabilities in (a) have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limited prescribed by the Ministry of Municipal Affairs and Housing.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2005

8. Net long-term liabilities (continued):

(d) Total charges for the year for net long-term liabilities, which are reported on the Consolidated Statement of Financial Activities, are as follows:

	2005	2004
Principal	\$ 567,303	\$ 22,121
Interest	316,022	145,300
	<u>\$ 883,325</u>	<u>\$ 167,421</u>

9. Municipal position at the end of the year:

	2005	2004
Capital fund		
Acquisition of tangible capital assets to be recovered through issue of long-term liabilities	\$ -	\$ -
Reserves		
Reserves set aside for specific purpose by Council		
Working funds	\$ 700,000	\$ 818,783
Contingencies	2,246,909	1,504,629
Replacement of equipment	1,403,584	924,296
Insurance	85,276	33,075
Workplace Safety and Insurance	147,741	94,744
Parking revenues	5,538	-
Capital expenditure		
General administration	1,215,976	606,097
Protection to persons and property	22,549	4,314
Transportation	330,559	372,215
Sanitary and storm sewers	2,498,053	1,986,730
Water	1,861,946	1,350,789
Health and social	174,844	226,807
Parks and recreation	760,200	538,307
Library	27,291	9,022
Planning and development	155,535	143,491
Other	35,447	-
Total reserves	<u>\$ 11,671,448</u>	<u>\$ 8,613,299</u>

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2005

9. Municipal position at the end of the year (continued):

	2005	2004
Reserve funds		
Reserve funds set aside for specific purpose by Council		
Parking facilities	\$ -	\$ 2,585
Capital expenditure		
Library	454	65,431
Recreation	-	14,597
Other	5,108,739	4,704,867
Total reserve funds	\$ 5,109,193	\$ 4,787,480

10. Commitments and contingencies:

(a) From time to time, the Municipality 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 changes. An estimate of these contingencies cannot be made since the outcome of these matters is indeterminate at this time. Liability insurance coverage exists sufficient to cover known claims.

(b) A subsidiary, Niagara Power Incorporated has guaranteed the indebtedness of Niagara West Transformation Corporation, a joint venture, in the amount of \$6,500,000. As of December 31, 2005 \$5,882,000, (2004 - \$6,000,000) of the loan was outstanding.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times, the joint venture participants may further support these obligations should the realization of the joint venture assets not be sufficient. As a 50% participant in a joint venture, the company is contingently liable at December 31, 2005 for the other participant's share of the liabilities of \$3,201,899 should they not be able to satisfy them, as well as for its own share.

(c) A class action lawsuit claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representatives of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at anytime after April 1, 1981.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2005

10. Commitments and contingencies (continued):

The claim is that late payment penalties result in the municipal electric utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347 (1) (b) of the Criminal Code.

The Electricity Distributors Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on the financial statements of Niagara Power Incorporated.

- (d) A letter of guarantee in the amount of \$2,013,365 has been issued in favour of the Independent Electricity System Operator (IESO) as security for a subsidiary's purchase of electricity through the IESO. No amounts were drawn down on the letter of guarantee at year end.
- (e) Niagara Power Incorporated (NPI) along with the three other shareholders has guaranteed Niagara Regional Broadband Network's (NRBN) term loan in the amount of \$2,700,000. NPI's maximum liability under this guarantee is 25% of the total guarantee or \$675,000.

The company has also guaranteed that Grimsby Hydro Incorporated, a subsidiary of NPI, will contribute \$675,000 to the NRBN in 2014 should a certain cash position not be attained by the NRBN.

NPI has guaranteed the payment of a penalty in the event of early termination of a fixed rate loan agreement between Niagara West Transformation Corporation and a bank. The company's liability is estimated at 50% of \$615,700.

- (f) The Municipality has pledged financial support of \$2,500,000 to the West Lincoln Memorial Hospital Foundation for the Building Campaign. Such funds are to be provided on commencement of construction of the new hospital facility.
- (g) The estimated future capital expenditures based on projects in progress at December 31, 2005 is approximately \$192,000 (2004 - \$277,000) after deducting the expenditures incurred as at December 31, 2005. These projects will be financed by grants and taxation revenue in a future year.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2005

11. Operations of school boards and the Region of Niagara:

Further to note 1 (a) (ii), the taxation and other revenues received or receivable on behalf of the school boards and the Region of Niagara are comprised of the following:

	School Boards		Region	
	2005	2004	2005	2004
Property taxation	\$ 8,015,551	\$ 7,643,329	\$ 16,655,012	\$ 15,151,549

The Municipality is required to levy and collect taxes on behalf of the Region of Niagara and the school boards. 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.

12. Trust funds:

Trust funds administered by the Municipality amounting to \$704,037 (2004 - \$681,386) have not been included in the consolidated balance sheet nor have their operations been included in the consolidated statement of operations.

13. Pension agreements:

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 88 (2004 - 87) members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2005 was \$246,628 (2004 - \$215,092) for current service and is included as an expenditure on the consolidated statement of operations. Contribution rates for 2005 were 6% (2004 - 6%) for employees earning below the year's maximum pensionable earnings and 8% (2004 - 8.8%) for earnings above the year's maximum pensionable earnings. Contribution rates are anticipated to be the same in 2006 and for years thereafter.

There are no outstanding obligations for past service at December 31, 2005.

14. Budget figures:

The approved budget for 2005 is reflected on the Schedules of Revenue and Capital Fund Operations. Those numbers have not been audited but are presented for information purposes. The municipality does not budget for activity within reserve funds, with the exception being those transactions which affect either the revenue or capital funds.

THE CORPORATION OF THE TOWN OF GRIMSBY

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2005

15. Classification of expenditures by object:

The consolidated statement of financial activities presents the expenditure by function; the following classifies those same expenditures by object:

	2005	2004
Salaries, wages and employee benefits	\$ 6,190,848	\$ 5,993,215
Operating materials and supplies	2,309,496	2,491,440
Contracted services	4,735,227	4,374,490
Rents and financial expenses	210,226	357,200
Tangible capital assets	2,606,120	7,702,665
Debt service	316,022	145,300
	\$ 16,367,939	\$ 21,064,310

16. Public Sector Salary Disclosure Act:

Pursuant to the requirements of the Public Sector Salary Disclosure Act, 1996, the following employee of the Town of Grimsby received a salary in excess of \$100,000 during the year ended December 31, 2005.

Name	Position Title	Total Earnings	Taxable Benefits
Shay, G.	Town Manager	\$ 107,113	\$ 773

17. Financial instruments:

The municipality's financial instruments consist of cash, investments, taxes receivable, user charges and accounts receivable, accounts payable, other current liabilities and due to trust funds. Unless otherwise noted, it is management's opinion that the municipality is not exposed to significant interest, currency or credit risk arising from these financial instruments.

18. Comparative figures:

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

Financial Statements of

THE CORPORATION OF

THE TOWN OF GRIMSBY

Year ended December 31, 2005

Consolidated
Trust
Niagara Power Incorporated
Downtown Improvement Area