

Financial Statements of

THE REGIONAL MUNICIPALITY OF NIAGARA

Year ended December 31, 2006

THE REGIONAL MUNICIPALITY OF NIAGARA

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December 31, 2006

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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, 2006 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, 2006 and the results of its operations and changes in financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

St. Catharines, Canada
March 30, 2007

Consolidated Statement of Financial Position

December 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	2006	2005
Assets		
Financial assets:		
Cash	\$ 19,379	\$ 20,557
Investments (note 2)	265,107	226,677
Accounts receivable	66,324	58,543
Other current assets	2,000	1,952
Debt recoverable from others (note 6)	150,304	127,900
	<u>503,114</u>	<u>435,629</u>
Liabilities		
Financial liabilities:		
Accounts payable and accrued liabilities	67,240	61,958
Employee benefits and other liabilities (note 3)	58,665	54,910
Deferred development costs (note 4)	18,634	16,426
Landfill liability (note 5)	28,727	34,101
	<u>173,266</u>	<u>167,395</u>
Long-term liabilities (note 6)	<u>352,753</u>	<u>298,091</u>
	<u>526,019</u>	<u>465,486</u>
Net debt	(22,905)	(29,857)
Non-financial assets:		
Inventory	3,408	3,377
Prepaid expenses	763	827
	<u>4,171</u>	<u>4,204</u>
Net liabilities	<u>\$ (18,734)</u>	<u>\$ (25,653)</u>
Municipal Position		
Fund balances at end of year:		
To be used to offset taxation or user charges	\$ 919	\$ 338
Unexpended capital financing (unfinanced capital outlay)	39,971	68
Reserves (note 7)	56,722	45,841
Reserve funds (note 7)	173,495	188,620
	<u>271,107</u>	<u>234,867</u>
Amounts to be recovered:		
From reserve and reserve funds for employee benefits	(45,573)	(41,208)
From reserve and reserve funds for landfill liability	(2,822)	(2,822)
From reserve and reserve funds for allowance for tax write-off	-	(1,318)
From future revenues for employee benefits	(13,092)	(13,702)
From future revenues for future landfill closure costs	(25,905)	(31,279)
From future revenues for capital projects	(202,449)	(170,191)
	<u>(289,841)</u>	<u>(260,520)</u>
	<u>\$ (18,734)</u>	<u>\$ (25,653)</u>

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

Consolidated Statement of Financial Activities

Year ended December 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Budget	2006	2005
Revenues:			
Taxation and user charges:			
Requisitions on local governments	\$ 272,529	\$ 278,735	\$ 273,994
User charges	170,457	167,281	161,915
	442,986	446,016	435,909
Grants:			
Government of Canada	17,593	18,163	9,629
Province of Ontario	270,443	278,904	254,716
Other municipalities	7,443	11,721	13,178
	295,479	308,788	277,523
Other:			
Development charges earned	2,558	6,374	5,982
Developer contributions	-	278	1,285
Investment income	4,100	10,934	7,298
Provincial offences	5,563	5,493	5,644
Sale of assets	-	905	877
Miscellaneous	1,354	5,268	4,421
	13,575	29,252	25,507
Total revenues	752,040	784,056	738,939
Expenditures:			
General government	24,382	40,449	27,938
Protection to persons and property	142,473	126,945	114,071
Transportation services	54,532	55,155	55,189
Environmental services	144,024	144,675	128,656
Health services	49,783	50,390	46,708
Social and family services	315,566	309,263	297,489
Social housing	46,062	44,482	43,062
Planning and development	4,607	5,517	6,142
Recreation and cultural services	237	228	143
	781,666	777,104	719,398
Net revenues (expenditures)	(29,626)	6,952	19,541
Debt issued	31,529	55,240	41,963
Debt principal repayments	(22,982)	(22,982)	(20,578)
Employee benefits and other liabilities	-	3,755	930
Landfill liability	-	(5,374)	2,660
Allowance for tax write-off	-	(1,318)	1,318
Change in amounts to be recovered	8,547	29,321	26,293
Change in non-financial assets	-	(33)	133
Change in Fund Balances	\$ (21,079)	\$ 36,240	\$ 45,967

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

Statement of Financial Activities - Operating Fund

Year ended December 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Budget	2006	2005
Revenues:			
Taxation and user charges:			
Requisitions on local governments	\$ 272,529	\$ 278,735	\$ 273,994
User charges	170,457	167,281	161,915
	442,986	446,016	435,909
Grants:			
Government of Canada	8,549	8,670	8,585
Province of Ontario	269,988	267,601	251,780
	278,537	276,271	260,365
Other:			
Investment income	4,100	5,338	5,512
Provincial offences	5,563	5,493	5,644
Miscellaneous	1,354	5,219	3,971
	11,017	16,050	15,127
Total revenues	732,540	738,337	711,401
Expenditures:			
General government	18,078	17,888	18,380
Protection to persons and property	116,697	117,202	107,037
Transportation services	27,258	27,330	28,324
Environmental services	79,695	70,514	72,671
Health services	48,149	48,325	44,387
Social and family services	314,639	308,376	294,209
Social housing	43,527	42,406	40,352
Planning and development	4,602	4,514	4,366
Recreation and cultural services	237	228	143
Total expenditures	652,882	636,783	609,869
Net revenues	79,658	101,554	101,532
Debt principal payments	(22,982)	(22,982)	(20,578)
Employee benefits and other liabilities	-	3,755	930
Landfill liability	-	(5,374)	2,660
Allowance for tax write-off	-	(1,318)	1,318
Change in non-financial assets	-	(33)	133
Transfers to other funds	(56,676)	(75,021)	(86,587)
	(79,658)	(100,973)	(102,124)
Change in operating fund balance	-	581	(592)
Operating fund balance, beginning of year	338	338	930
Operating fund balance, end of year	\$ 338	\$ 919	\$ 338

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

Statement of Financial Activities - Capital Fund

Year ended December 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Budget	2006	2005
Revenues:			
Grants:			
Government of Canada	\$ 9,044	\$ 9,493	\$ 1,044
Province of Ontario	455	11,303	2,936
Other municipalities	7,443	11,721	13,178
	16,942	32,517	17,158
Other:			
Development charges earned	2,558	6,374	5,982
Developer contributions	-	278	1,285
Investment income	-	550	349
Sale of assets	-	905	877
Miscellaneous	-	49	450
	2,558	8,156	8,943
Total revenues	19,500	40,673	26,101
Expenditures:			
General government	6,304	22,561	9,558
Protection to persons and property	25,776	9,743	7,034
Transportation services	27,274	27,825	26,865
Environmental services	64,329	74,161	55,985
Health services	1,634	2,065	2,321
Social and family services	927	887	3,280
Social housing	2,535	2,076	2,710
Planning and development	5	1,003	1,776
Total expenditures	128,784	140,321	109,529
Net expenditures	(109,284)	(99,648)	(83,428)
Debt issued and assumed	31,529	55,240	41,963
Transfers from other funds	77,336	84,311	42,136
Change in capital fund balance	(419)	39,903	671
Capital fund balance, beginning of year	68	68	(603)
Capital fund balance, end of year	\$ (351)	\$ 39,971	\$ 68

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

Statement of Financial Activities – Reserves and Reserve Fund

Year ended December 31, 2006, with comparative figures for 2005
(In thousands of dollars)

	Budget	2006	2005
Revenues:			
Investment income	\$ -	\$ 5,046	\$ 1,437
Transfers from (to) other funds	(20,660)	(9,290)	44,451
Change in reserve fund balance	(20,660)	(4,244)	45,888
Reserves and reserve fund balance, beginning of year (note 7)	234,461	234,461	188,573
Reserves and reserve fund balance, end of year (note 7)	\$ 213,801	\$ 230,217	\$ 234,461

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

Consolidated Statement of Changes in Financial Position

December 31, 2006 with comparative figures for 2005
(In thousands of dollars)

	2006	2005
Operations:		
Net revenues	\$ 6,952	\$ 19,541
Sources and uses of cash:		
Accounts receivable	(7,781)	(2,523)
Other current assets	(48)	131
Accounts payable and accrued liabilities	5,282	10,515
Employee benefits and other liabilities	3,755	930
Deferred development costs	2,208	2,976
Landfill liability	(5,374)	2,660
	(1,958)	14,689
Net change in cash from operations	4,994	34,230
Investing:		
Investments	(38,430)	(49,410)
Financing:		
Debt issued and assumed	55,240	41,963
Long-term debt repaid	(22,982)	(20,578)
Net change in cash from financing	32,258	21,385
Net change in cash	(1,178)	6,205
Cash, beginning of year	20,557	14,352
Cash, end of year	\$ 19,379	\$ 20,557

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

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(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. 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 Offences 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 report on separately on the Trust Funds Statement of Continuity and Balance Sheet.

(c) Accrued basis of accounting:

The Region follows the accrual method of accounting for revenues and expenditures. Revenues are normally recognized in the year in which they are earned. Expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services. The statements necessarily include some amounts that are based on management's best estimates and careful judgements.

(d) Investments:

Investments consist of bonds and money market notes and are stated at the lower of cost and market value. Gains and losses on investments are recorded when incurred.

(e) Inventory:

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

(f) Capital assets:

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

(g) 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.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

1. Significant accounting policies (continued):

(h) 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.

(i) 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.

(j) 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.

(k) 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.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

2. Investments:

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

	2006		2005	
	Cost	Market Value	Cost	Market Value
Investments	\$ 265,107	\$ 265,444	\$ 226,677	\$ 227,062

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.

	2006	2005
Future payments required to WSIB	\$ 16,217	\$ 15,060
Accumulated Sick Leave Benefit Plan entitlements	16,998	16,816
Retiree benefits	15,712	14,349
Vacation pay	7,681	6,819
Other liabilities	2,057	1,866
Total	\$ 58,665	\$ 54,910

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

	2006	2005
Workplace safety and insurance	\$ 14,772	\$ 14,086
Cumulative sick leave	4,082	4,009
Police accumulated sick leave	4,186	2,946
Future health and dental claims	3,069	1,880
Other PSAB liabilities	6,464	6,287
Contingency reserve designated by council	13,000	12,000
	\$ 45,573	\$ 41,208

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

3. Employee benefits and other liabilities (continued):

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

	2006	2005
Accrued benefit obligation:		
Balance, beginning of year	\$ 65,554	\$ 59,154
Current benefit cost	5,358	1,781
Interest	2,921	1,947
Actuarial loss	2,243	5,928
Benefits paid	(5,687)	(3,256)
Balance, end of year	70,389	65,554
Unamortized actuarial loss	(11,724)	(10,644)
Liability for benefits	\$ 58,665	\$ 54,910

Included in expenditures is \$938 (2006 – \$458) for amortization of the actuarial loss. The unamortized actuarial loss is amortized over the expected average remaining service life as listed below:

Accumulated Sick Leave Benefit Plan entitlements	12 years
Retiree benefits	15 years

The unamortized actuarial loss on future payments required to WSIB is amortized over the expected period of the liability which is 10 years.

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 as at December 31, 2005.

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

a) Interest (discount rate):

The obligation as at December 31, 2006, of the present value of future liabilities and the expense for the 12 months ended December 31, 2006, were determined using a discount rate of 5%.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

3. Employee benefits and other liabilities (continued):

Administration costs:

Administration costs were assumed to be 28% 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 2.25% to 6.0% depending on the benefit type.

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 and the expense for the 12 months ended December 31, 2006, were determined by actuarial valuation using a discount rate of 5%. The most recent actuarial valuation was performed as at December 31, 2005.

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

a) Interest (discount rate):

The obligation as at December 31, 2006, of the present value of future liabilities and the expense for the 12 months ended December 31, 2006, were determined using a discount rate of 5%.

Medical costs:

Medical costs were assumed to increase at the rate of 8% per year reducing to 4% per year over 12 years and 4% per year thereafter.

c) Dental costs:

Dental costs were assumed to increase at the rate of 4% 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 \$18,634 (2005 - \$16,426). 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.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

4. Deferred development costs (continued):

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

	2006	2005
Balance, beginning of year	\$ 16,426	\$ 13,450
Contributions from capital	2,472	895
Contribution from development charges act	8,157	8,848
Interest earned	425	110
Total revenue	11,054	9,853
Transfers to capital	(8,846)	(6,877)
Balance, end of year	\$ 18,634	\$ 16,426

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 2006 budget and inflation adjusted at 3% per annum to the estimated year of closure. These costs were then discounted to December 31, 2006 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, 2006 is \$28,727 (2005 - \$34,101). Estimated expenditures for closure and post-closure care are \$42,738 (2005 - \$45,360). The liability remaining to be recognized is \$4,144 (2005 - \$3,798). It is estimated that the life of the sites range from 2 to 35 years.

Included in reserve funds is \$2,822 (2005 - \$2,822) for settling closure and post-closure care liabilities.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

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 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:

	2006	2005
Long-term liabilities incurred by the Region (including capital lease)	\$ 350,029	\$ 295,084
Long-term liabilities assumed by the Region incurred by others	2,724	3,007
Long-term liabilities	352,753	298,091
Debt recoverable from others (long-term liabilities incurred by the Region for which other entities have assumed responsibility)	(150,304)	(127,900)
Net long-term liabilities, end of year	\$ 202,449	\$ 170,191

- (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, 2006 is \$ 150,304 (2005 - \$127,900) and is reported on the consolidated balance sheet as debt recoverable from others.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

(In thousands of dollars)

6. Net long-term liabilities (continued):

- (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 2007 to 2011, 2012 to 2016 and 2017 and thereafter and the source of financing are summarized as follows:

	2007 to 2011	2012 to 2016	2017 and thereafter	Total
From general municipal revenues	\$ 123,378	\$ 59,677	\$ 17,999	\$ 201,054
From consolidated water and sewer enterprises	1,395	-	-	1,395
	\$ 124,773	59,677	\$ 17,999	\$ 202,449

Total interest on net long-term liabilities which are reported on the consolidated statement of financial activities amounted to \$ 8,931 in 2006 (2005 - \$8,311). The long-term liabilities bear interest at rates ranging from 2.85% to 9.59%. 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:	
2007	\$ 47
2008	47
2009	47
2010	47
2011	8
	196
Less amount representing interest at 10.1%	42
Present value of net minimum capital lease payments	\$ 154

Interest of \$15 (2005 - \$nil) relating to capital lease obligations has been included in expenditures on the consolidated statement of financial activities.

7. Reserves and reserve funds:

- (a) Reserve transfers:

The balance available for the general reduction of taxation for the fiscal year ending December 31, 2006 has been adjusted by an amount of \$17,565 (2005 - \$19,168) transferred to reserves and reserve funds as authorized by the Council in April, 2006. Had these adjustments not been made the equity to be used to offset taxation or user charges would have been \$18,484 (2005 - \$19,506).

Notes to Consolidated Financial Statements

Year ended December 31, 2006 (In thousands of dollars)

7. Reserves and reserve funds (continued):

(b) Reserves and reserve funds:

The total balances of reserves and reserve funds of \$56,722 (2005 - \$45,841) and \$173,495 (2005 - \$188,620) respectively are made up of the following:

	2006	2005
Reserves set aside by Council:		
Working funds	\$ 9,351	\$ 6,551
Contingencies	13,955	15,194
General property acquisition	903	903
Building standards	1,970	1,225
General capital levy	17,172	8,888
Encumbrance	665	287
Tax write-off	5,000	5,000
Tax rate stabilization	3,350	3,188
Early retirement incentives	402	402
Winter maintenance	934	1,000
Communications strategy	40	40
Local service re-alignment	584	614
Telecommunications	193	193
Senior stabilization	213	281
Land ambulance severance	1,944	1,929
Mapping infrastructure	46	146
Total reserves	56,722	45,841
Reserve funds set aside for specific purpose by Council, legislation, regulation or agreement:		
Replacement of equipment	7,569	6,772
Welland Canal crossing	135	131
Health services - Wallington fund	43	42
Capital works - wastewater operations	38,349	50,060
Capital works - water operations	54,348	65,978
Roads maintenance	135	406
Workplace safety and insurance	14,772	14,086
Accumulated sick leave	4,082	4,009
Police accumulated sick leave	4,186	2,946
Public liability self insurance	2,790	2,500
Future health and dental claims	3,069	1,880
OMERS surplus	13	119
Judicial review	23	23
Seniors capital	1,254	813
Waste management	17,158	15,622
Social Assistance	5,733	5,580
Other PSAB liabilities	6,464	6,287
Niagara Regional Housing purposes	9,765	9,498
Niagara Regional Housing owned units	2,845	1,127
Children Services	668	649
Debt retirement	94	92
Total reserve funds	173,495	188,620
	\$ 230,217	\$ 234,461

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

8. Trust funds:

Trust funds administered by the Region amounting to \$1,267 (2005 - \$1,431) 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 3,091 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.

Contributions are being made at rates of 6.0% and 8.8%.

The amount contributed to OMERS for 2006 was \$13,658 (2005 - \$11,816) 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 \$64,324 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 \$27,255 (2005 - \$28,293). Annual payments of \$2,867 (2005 - \$2,874) and have been charged to current operations.

(c) Minimum annual lease payments:

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

2007	\$ 2,433
2008	1,518
2009	1,135
2010	728
2011	574
Thereafter	4,722
	\$ 11,110

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.

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

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:

	Budget	2006	2005
Salaries, wages and employee benefits	\$ 246,021	\$ 249,981	\$ 232,019
Operating materials and supplies	95,070	83,246	231,502
Contracted services	70,546	68,653	64,928
Rents and financial expenses	12,462	13,528	14,165
External transfers to others	218,981	212,404	58,867
Debt services	9,802	8,971	8,388
Total expenditures by object	\$ 652,882	\$ 636,783	\$ 609,869

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, 2006 amounted to \$2,790 (2005 - \$2,500) and which is reported on the consolidated statement of financial position under reserve funds. An amount of \$220 (2005 - \$273) has been transferred to this reserve fund in the current year. An amount of \$nil (2005 - \$321) has been transferred from this reserve fund in the current year.

Payments charged against operations in the current year amounted to \$702 (2005 - \$1,332). Interest amounted to \$51 (2005 - \$23).

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 \$11,419 (2005 - \$10,472).

Notes to Consolidated Financial Statements

Year ended December 31, 2006 (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:

	2006	2005
Revenue:		
Ontario grants		
Ontario works:		
Social assistance	\$ 171,021	\$ 164,032
Services for seniors	34,716	35,433
	<u>205,737</u>	<u>199,465</u>
Child care	19,299	17,759
Social housing	1,449	1,428
Health services:		
Public Health	14,326	11,945
Ambulance	12,311	10,645
	<u>26,637</u>	<u>22,590</u>
Other:		
Ontario Municipal Partnership Fund (OMPF)	9,206	6,576
Roadways	8,229	(171)
Police	3,025	1,925
Miscellaneous	5,322	5,144
	<u>25,782</u>	<u>13,474</u>
Subtotal Ontario grants	278,904	254,716
Federal grants:		
Housing	9,489	9,629
Gas tax	8,006	-
Social Assistance	225	-
Miscellaneous	443	-
Subtotal federal grants	18,163	9,629
Total revenues	<u>\$ 297,067</u>	<u>\$ 264,345</u>
Expenditures:		
Ontario works	\$ 204,875	\$ 54,179
Conservation authorities	3,165	2,698
Miscellaneous	2,265	1,990
Total expenditures	<u>\$ 210,305</u>	<u>\$ 58,867</u>

Notes to Consolidated Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

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 \$Nil for the Community Services Department.

	Lessor of eligible expenditures and Provincial subsidy	Payments received from Province	Surplus (recoverable)
Year ended December 31, 2005			
Community Services Department:			
DNA Childcare	\$ 13,877	\$ 13,877	\$ -
Childcare Admin	451	451	-
Ontario Works Childcare	1,928	1,928	-
Health and safety programs	50	50	-
ELCC Childcare	1,327	1,327	-
Early literacy	126	126	-

17. Comparative figures:

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



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AUDITORS' REPORT

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

We have audited the balance sheet of the trust funds of The Regional Municipality of Niagara as at December 31, 2006 and the trust funds statement of continuity 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 financial statements present fairly, in all material respects, the financial position of the trust funds of the Region as at December 31, 2006 and the continuity of trust funds for the year then ended in accordance with the Canadian generally accepted accounting principles.

Chartered Accountants

St. Catharines, Canada
March 30, 2007

Trust Funds Balance Sheet

Year ended December 31, 2006 (In thousands of dollars)

	Total	Residents' Trust Accounts	Trust Funds Retained for Residents	Donated Surplus
Assets				
Cash	\$ 451	\$ -	\$ 243	\$ 208
Investments (note 1(b))	1,049	974	-	75
	\$ 1,500	\$ 974	\$ 243	\$ 283

Liabilities and Fund Balances

Due to Regional Municipality of Niagara (note 2)	\$ 233	\$ 233	\$ -	\$ -
Fund balance	1,267	741	243	283
	\$ 1,500	\$ 974	\$ 243	\$ 283

Trust Funds Statement of Continuity

Year ended December 31, 2006 (In thousands of dollars)

	Total	Residents Trust Accounts	'Trust Funds Retained for Residents	Donated Surplus
Balance, beginning of year	\$ 1,431	\$ 829	\$ 241	\$ 361
Add:				
Residents' deposits, net	1,601	1,601	-	-
Interest earned	38	17	9	12
Donations	240	-	20	220
	1,879	1,618	29	232
Deduct:				
Residents' withdrawals, net	1,706	1,706	-	-
Expenditures for the benefit of residents	337	-	27	310
	2,043	1,706	27	310
Balance, end of year	\$ 1,267	\$ 741	\$ 243	\$ 283

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

Notes to Trust Funds Financial Statements

Year ended December 31, 2006
(In thousands of dollars)

1. Significant accounting policies:

The financial statements of trust funds of The Regional Municipality of Niagara are the representation of management prepared 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. 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) Basis of accounting:

- (i) Sources of financing and expenditures are reported on the accrual basis of accounting.
- (ii) The accrual basis of accounting recognizes revenues as they become available and measurable, expenditures are recognized as they are incurred and become measurable.

(b) Investments:

The investments totalling \$1,049 recorded on the balance sheet at cost, have a market value of \$1,050.

2. Due to The Regional Municipality of Niagara:

The amount due to The Regional Municipality of Niagara has no fixed terms of repayment and interest is calculated monthly using the bank interest rate.

FIVE YEAR STATISTICAL REVIEW

(UNAUDITED - in thousands of dollars)

The Regional Municipality of Niagara

	2006	2005	2004	2003	2002
STATISTICS					
Population (a)	435,125	434,347	432,565	429,949	424,900
Number of households (b)	183,334	181,524	179,738	177,130	175,250
Area in hectares	186,069	186,069	186,069	186,069	186,069
Number of continuous full-time employees	3,234	3,036	2,833	2,817	2,777
Personal income (\$000's) (c)	10,863,300	10,863,300	10,676,000	9,413,600	9,088,190
Retail Sales (\$000's) (c)	5,738,800	5,738,800	5,113,300	4,634,300	4,462,190
Unemployment Rates (c):					
Niagara	6.4%	7.0%	7.4%	6.7%	7.2%
Ontario	6.3%	6.6%	6.8%	7.0%	7.1%
Canada	6.3%	6.8%	7.2%	7.6%	7.7%
# Unemployed in Niagara (d)	14,500	14,500	14,900	14,100	14,900
Reported Bankruptcies					
Consumer & Business (e)	1649	1649	1630	1,653	1,584
Average Monthly Ontario Works Caseloads	7,038	6,967	6,849	6,737	6,822
Housing Starts (d)	1,294	1,412	1,781	1,444	1,317
Annual Disposal of Residential Solid Waste (Metric Tonnes)	112,554	107,015	105,193	107,362	102,090
Annual Diversion of Residential Solid Waste (Metric Tonnes)	87,188	84,956	79,388	68,636	59,346
Annual Supply of Treated Water (000 m3)	66,411	74,535	70,738	72,116	76,164
Annual Wastewater Flows (000 m3)	87,011	90,887	90,320	88,535	90,395
BUILDING PERMIT VALUES (\$000's)					
Agricultural & Residential	343,026	325,361	373,750	319,247	266,054
Business & Commercial	105,853	121,772	169,990	118,962	153,597
Industrial	54,613	27,026	30,846	27,213	37,088
Government & Institutional	74,725	85,646	34,246	106,940	323,195
TOTAL	578,217	559,805	608,832	572,362	779,934
TAX LEVY & COLLECTION EXPERIENCES (\$)					
Current Tax Levy	n/a	656,322,239	632,764,906	603,831,142	572,874,819
Current Tax Levy Collections	n/a	614,990,062	592,293,725	562,529,154	538,267,807
Current Collection as a % of Current Levy	n/a	93.7%	93.6%	93.2%	94.0%
Total Collections	n/a	654,688,878	628,521,157	595,900,955	576,541,729
Total Collections as a % of Current Levy	n/a	99.8%	99.3%	98.7%	100.6%
Total Tax Arrears	n/a	60,236,319	61,906,630	61,158,067	54,563,202
Tax Arrears as a % of Current Levy	n/a	9.2%	9.8%	10.1%	9.5%
Regional Government Tax Levy Change (Net of Assessment Increase)	1.97%	3.9%	4.3%	4.9%	2.8%
TAXABLE ASSESSMENT (Taxable assessment upon which the year's rates of taxation were set)					
Residential and farm	28,878,103	24,535,693	24,165,397	22,011,553	19,932,955
Commercial, industrial and business	5,069,562	4,626,946	4,488,342	4,321,967	3,962,397
TOTAL	33,947,665	29,162,639	28,653,739	26,333,520	23,895,352
Per household	157,516	135,165	134,448	124,268	113,740
Commercial, industrial, business as a % of taxable assessment	14.9%	15.9%	15.7%	16.4%	16.6%

Source:

(a) Statistics Canada Preliminary Estimate (b) Ontario Assessment System, Household Counts for Unconditional Grants Act (c) Statistics Canada, Cat. No. 71-001PIB (d) CMHC Canadian Housing Observer

The Regional Municipality of Niagara

FIVE YEAR STATISTICAL REVIEW

(UNAUDITED - in thousands of dollars)

	2006	2005	2004	2003	2002
CURRENT (OPERATING) FUND OPERATIONS					
Current (Operating) Fund Surplus (deficit), beginning of year	338	930	2,285	(2,104)	(4,522)
Current Fund Revenues by Source					
Property Taxpayer (e)	278,735	273,994	247,322	232,037	213,587
Sewer Charges	53,461	52,388	49,501	45,019	44,674
Water Charges	31,943	32,776	28,353	26,208	25,880
Waste Management	39,264	36,409	35,969	32,058	30,244
User Charges	42,613	40,342	39,117	37,615	35,488
Government of Canada Grants	8,670	8,585	8,694	8,618	9,728
Province of Ontario Grants	267,601	251,780	228,032	220,842	200,476
Investment Income	5,338	5,512	5,076	4,275	4,150
Provincial Offences Act	5,493	5,644	6,485	5,935	5,634
Miscellaneous income	5,219	3,971	4,699	3,761	3,019
Total Current Fund Revenues	738,337	711,401	653,248	616,368	572,880
Current Fund Expenditures by Function					
General Government (e)	17,888	18,380	16,950	14,058	15,556
Protection to Persons and Property	117,202	107,037	102,532	95,804	85,120
Transportation Services	27,330	28,324	26,459	27,594	23,134
Environmental Services	70,514	72,671	68,355	60,617	58,740
Health Services	48,325	44,387	38,397	35,700	31,612
Social and Family Services	308,376	294,209	281,869	271,987	246,607
Social Housing	42,406	40,352	39,979	39,571	38,818
Planning and Development	4,514	4,366	3,745	3,433	3,045
Recreation and Cultural Services	228	143	194	250	195
Total Current Fund Expenditures by Function	636,783	609,869	578,480	549,014	502,827
Financing Activities and Transfers					
Public Sector Accounting Board	-	-	-	-	-
Debt Principal Payments	(22,982)	(20,578)	(22,785)	(21,495)	(17,508)
Employee Benefits and Other Liabilities	3,755	930	2,090	1,016	226
Landfill Liability	(5,374)	2,660	(579)	595	3,621
Allowance for Tax Write-off	(1,318)	1,318	-	-	-
Contributed Capital	-	-	-	-	-
Change in Non-Financial Assets	(33)	133	(637)	810	(221)
Net Transfers to/from other funds					
- Capital Fund	(471)	(1,375)	493	(64)	(3,375)
- Reserves and Reserve Funds	(74,550)	(85,212)	(54,705)	(43,827)	(50,378)
Total Current Fund Financing Activities and Transfers (100,973)	(102,124)	(102,124)	(76,123)	(62,965)	(67,635)
Current (Operating) Fund Surplus/(deficit) end of the year	919	338	930	2,285	(2,104)
Analysis of Current Fund Expenditures by Object					
Salaries, Wages and Employee Benefits	249,981	232,019	211,103	187,930	170,578
Materials and Supplies	83,246	231,502	221,084	214,711	266,959
Contracted Services	68,653	64,928	71,151	71,978	-
Rents and Financial Expenses (e)	13,528	14,165	8,181	7,924	-
External Transfers to Others	212,404	58,867	58,884	58,630	57,868
Debt Service Charges for Net Long Term Liabilities	8,971	8,388	8,077	7,841	7,422
Total Current Fund Expenditures by Object	636,783	609,869	578,480	549,014	502,827

Note: (e) Property Tax Revenue, General Government Expenditure and Rents and Financial Expenses all restated for 2005 by \$1.318 million

FIVE YEAR STATISTICAL REVIEW

(UNAUDITED - in thousands of dollars)

	2006	2005	2004	2003	2002
CAPITAL FUND OPERATIONS					
Capital Fund Surplus/(deficit), beginning of year	68	(603)	40,649	42,289	23,038
Capital Fund Revenues by Source					
Government of Canada Grants	9,493	1,044	1,044	1,044	0
Province of Ontario Grants	11,303	2,936	14,097	4,468	0
Other Municipalities	11,721	13,178	7,395	12,002	10,001
Development Charges	6,374	5,982	7,000	5,920	5,500
Developer Contributions	278	1,285	0	0	0
Investment Income	550	349	309	978	572
Other	954	1,327	2,873	3,467	7,716
Total Capital Fund Revenues	40,673	26,101	32,718	27,879	23,789
Capital Fund Expenditures by Function					
General Government	22,561	9,558	5,851	6,821	6,331
Protection to Persons and Property	9,743	7,034	2,453	3,563	14,381
Transportation Services	27,825	26,865	30,363	36,763	31,500
Environmental Services	74,161	55,985	65,652	36,429	20,698
Health Services	2,065	2,321	1,691	2,400	1,994
Social and Family Services	887	3,280	3,734	15,292	26,159
Social Housing	2,076	2,710	2,174	2,093	1,239
Planning and Development	1,003	1,776	841	544	117
Total Capital Fund Expenditures by Function	140,321	109,529	112,759	103,905	102,419
Financing Activities and Transfers					
Long Term Debt Issued and Assumed	55,240	41,963	30,784	31,878	46,584
Net Transfers to/from Other Funds					
- Current Fund	2,257	1,375	1,899	2,228	5,166
- Reserves and Reserve Funds	82,054	40,761	6,106	40,280	46,131
Total Capital Fund Financing Activities and Transfers	139,551	84,099	38,789	74,386	97,881
Capital Fund Surplus/(deficit), end of the year	39,971	68	(603)	40,649	42,289
ANALYSIS OF CAPITAL FUND EXPENDITURES BY OBJECT (F)					
Administration	1,905	2,228	2,698	2,617	2,540
Equipment	7,393	9,023	10,005	12,704	21,295
Real Property	2,044	5,599	1,883	6,644	5,198
Materials and Supplies	1,801	2,071	2,203	2,677	2,406
Utilities	633	1,914	1,306	1,520	766
Contracted Services	126,613	88,016	95,736	78,008	67,823
External Transfers to Others	(540)	(632)	(539)	(310)	182
Operation Fund Transfer	472	1,310	(533)	45	2,209
Total Capital Fund Expenditures by Object	140,321	109,529	112,759	103,905	102,419
FUND BALANCES					
Current Fund	919	338	930	2,285	(2,104)
Capital Fund	39,971	68	(603)	40,649	42,289
Reserves	56,722	45,841	30,741	24,051	23,237
Reserve Funds (Excludes Development Charges)	173,495	188,620	157,832	117,662	115,828
Fund Balances, end of year	271,107	234,867	188,900	184,647	179,250
NET LONG TERM LIABILITIES					
General Municipal Activities - Capital Projects	200,472	170,191	148,806	140,807	130,424
Per capita (\$)	461	392	344	327	307
Percentage of taxable assessment	0.6%	0.6%	0.5%	0.5%	0.5%

Notes: (f) Capital Fund Expenditures by Object now provided for years 2002 to 2006

FIVE YEAR STATISTICAL REVIEW (UNAUDITED - in thousands of dollars)

	2006	2005	2004	2003	2002
DEBT CHARGES FOR NET LONG-TERM LIABILITIES					
General Municipal Activities	31,953	28,900	30,886	29,074	24,785
Per capita (\$)	73	67	71	68	58

	2006	2005	2004	2003	2002
GENERAL LONG-TERM DEBT CHARGES AS % OF TOTAL GENERAL EXPENDITURES (g)					
Percentage of Debt to General Expenditures	4.1%	4.0%	4.5%	4.5%	4.1%

	2006	2005	2004	2003	2002
TOTAL CONSOLIDATED FUND REVENUES BY SOURCE (h)					
Property Taxpayer	278,735	273,994	247,322	232,037	213,587
Sewer Charges	53,461	52,388	49,501	45,019	44,674
Water Charges	31,943	32,776	28,353	26,208	25,880
Waste Management	39,264	36,409	35,969	32,058	30,244
User Charges	42,613	40,342	39,117	37,615	35,488
Government of Canada Grants	18,163	9,629	9,738	9,662	9,728
Province of Ontario Grants	278,904	254,716	242,129	225,310	200,476
Other Municipalities	11,721	13,178	7,395	12,002	10,001
Development Charges	6,374	5,982	7,000	5,920	5,500
Developer Contributions	278	1,285	0	0	0
Investment Income	5,888	5,861	5,385	5,253	4,722
Provincial Offences Act	5,493	5,644	6,485	5,935	5,634
Miscellaneous income/Other	6,173	5,298	7,572	7,228	10,735
Total Consolidated Fund Revenues by Source	779,010	737,502	685,966	644,247	596,669

	2006	2005	2004	2003	2002
TOTAL CONSOLIDATED FUND EXPENDITURES BY FUNCTION (h)					
General Government	40,449	27,938	22,801	20,879	21,887
Protection to Persons and Property	126,945	114,071	104,985	99,367	99,501
Transportation Services	55,155	55,189	56,822	64,357	54,634
Environmental Services	144,675	128,656	134,007	97,046	79,438
Health Services	50,390	46,708	40,088	38,100	33,606
Social and Family Services	309,263	297,489	285,603	287,279	272,766
Social Housing	44,482	43,062	42,153	41,664	40,057
Planning and Development	5,517	6,142	4,586	3,977	3,162
Recreation and Cultural Services	228	143	194	250	195
Total Consolidated Fund Expenditures by Function	777,104	719,398	691,239	652,919	605,246

	2006	2005	2004	2003	2002
TOTAL CONSOLIDATED FUND EXPENDITURES BY OBJECT (h)					
Salaries, Wages and Employee Benefits	249,981	232,019	211,103	187,930	170,578
Administration	1,905	2,228	2,698	2,617	2,540
Equipment	7,393	9,023	10,005	12,704	21,295
Real Property	2,044	5,599	1,883	6,644	5,198
Materials and Supplies	85,047	233,573	223,287	217,388	269,365
Utilities	633	1,914	1,306	1,520	766
Contracted Services	195,266	152,944	166,887	149,986	67,823
Rents and Financial Expenses	13,528	14,165	8,181	7,924	-
External Transfers to Others	211,864	58,235	58,345	58,320	58,050
Operation Fund Transfer	472	1,310	(533)	45	2,209
Debt Service Charges for Net Long Term Liabilities	8,971	8,388	8,077	7,841	7,422
Total Consolidated Fund Expenditures by Object	777,104	719,398	691,239	652,919	605,246

Notes: (g) General Long-Term Det Charges as % of Total General Expenditures now provided for years 2002 to 2006

(h) Total Consolidated Revenues by Source, Expenditures by Function and Expenditures by Object now provided for years 2002 to 2006