

**City of Port Colborne**  
**Financial Report**  
2006

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, 2006 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, 2006 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  
June 27, 2007

Grant Thornton LLP  
Chartered Accountants  
Licensed Public Accountants

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# City of Port Colborne

## Consolidated Statement of Financial Position

As at December 31

2006

2005

### Assets

Cash and temporary investments (Note 2)	\$ 1,402,700	\$ 1,480,196
Taxes receivable	2,059,995	2,891,382
User charges receivable	1,097,138	1,438,509
Accounts receivable	1,403,824	1,196,623
Other assets	63,490	56,436
Investment in subsidiary (Note 3)	<u>7,414,740</u>	<u>7,367,894</u>
	<u>\$ 13,441,887</u>	<u>\$ 14,431,040</u>

### Liabilities

Bank indebtedness (Note 4)	\$ 902,066	\$ 1,485,517
Accounts payable and accrued liabilities	1,360,939	1,761,378
Payable to Region of Niagara	-	228,837
Other liabilities	300,320	339,998
Deferred revenue (Note 5)	541,412	443,985
Long term debt (Note 6)	8,871,437	8,692,271
Employee benefit obligations (Notes 7 and 17)	<u>5,220,232</u>	<u>5,216,091</u>
	<u>17,196,406</u>	<u>18,168,077</u>

### Municipal position

Current fund (Note 8)	308,792	115,938
Capital fund (Note 8)	(937,425)	(817,830)
Reserves and reserve funds (Note 9)	3,551,043	3,505,323
Equity in subsidiary investment (Note 3)	<u>7,414,740</u>	<u>7,367,894</u>
Fund balances	10,337,150	10,171,325
Liabilities to be recovered in future (Note 10)	<u>(14,091,669)</u>	<u>(13,908,362)</u>
	<u>(3,754,519)</u>	<u>(3,737,037)</u>
	<u>\$ 13,441,887</u>	<u>\$ 14,431,040</u>

Contingencies (Note 19)

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, 2006

	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Revenue</b>			
Taxation (Note 11)	\$ 10,586,513	\$ 10,696,592	\$ 10,383,441
User charges (Note 12)	3,795,925	4,032,919	4,176,103
Grants (Note 14)	2,556,960	3,425,323	2,737,857
Other (Note 15)	973,148	2,016,883	2,014,082
	<u>17,912,546</u>	<u>20,171,717</u>	<u>19,311,483</u>
<b>Expenditures</b>			
Current			
General government	2,655,227	2,661,185	2,506,333
Protection to persons and property	2,774,963	2,756,838	2,441,707
Transportation services	3,365,790	3,365,513	3,168,613
Environmental services	1,533,707	1,417,117	1,245,549
Health services	70,400	34,992	53,548
Social and family services	9,950	9,950	9,950
Recreation and culture services	3,014,848	3,232,123	3,055,998
Planning and development	1,390,055	1,312,444	1,342,453
	<u>14,814,940</u>	<u>14,790,162</u>	<u>13,824,151</u>
Capital			
General government	61,900	902,783	172,312
Protection to persons and property	775,000	768,699	52,152
Transportation services	1,542,036	1,575,048	1,697,528
Environmental services	1,158,462	965,266	414,574
Recreation and cultural services	773,162	1,003,908	1,954,325
Planning and development	35,000	230,869	78,705
	<u>4,345,560</u>	<u>5,446,573</u>	<u>4,369,596</u>
	<u>19,160,500</u>	<u>20,236,735</u>	<u>18,193,747</u>
Net revenue (expenditures)	(1,247,954)	(65,018)	1,117,736
Issue of long term debt (Note 6)	710,000	1,079,466	-
Repayment of long term debt	(903,841)	(900,300)	(861,917)
Increase in employee benefit obligations	-	4,831	107,144
Change in fund balances before change in equity in subsidiary	(1,441,795)	118,979	362,963
Change in equity in subsidiary (Note 3)	-	46,846	(237,476)
Change in fund balances	<u>\$ (1,441,795)</u>	<u>\$ 165,825</u>	<u>\$ 125,487</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

2006

2005

## Increase (decrease) in cash and cash equivalents

### Operating activities

Net revenue (expenditures)	\$ (65,018)	\$ 1,117,736
Decrease in taxes receivable	831,387	41,353
Decrease in user charges receivable	341,371	179,301
Increase in accounts receivables	(207,201)	(130,473)
Decrease (increase) in other assets	(7,054)	19,177
Increase (decrease) in accounts payable and accrued liabilities	(400,439)	835,700
Decrease in payable to Region of Niagara	(228,837)	(228,837)
Increase (decrease) in other liabilities	(39,678)	48,272
Increase in deferred revenue	97,427	129,154
Increase in employee benefit obligations	4,831	107,144
	<u>326,789</u>	<u>2,118,527</u>

### Financing activities

Decrease in bank indebtedness	(583,451)	(1,229,184)
Issue of long term debt	1,079,466	-
Repayment of long term debt	(900,300)	(861,917)
	<u>(404,285)</u>	<u>(2,091,101)</u>

**Net increase (decrease) in cash and cash equivalents** (77,496) 27,426

### Cash and cash equivalents

Beginning of year	<u>1,480,196</u>	<u>1,452,770</u>
End of year	<u>\$ 1,402,700</u>	<u>\$ 1,480,196</u>

See accompanying notes to the financial statements

# City of Port Colborne

## Schedule of Current Fund Operations

For the Year Ended December 31, 2006

	Budget <u>2006</u> (Unaudited)	Actual <u>2006</u>	Actual <u>2005</u>
<b>Revenue</b>			
Taxation (Note 11)	\$ 10,586,513	\$ <b>10,696,592</b>	\$ 10,383,441
User charges (Note 12)	3,795,925	<b>3,938,276</b>	4,040,113
Grants (Note 14)	1,767,662	<b>1,836,132</b>	2,004,871
Other (Note 15)	<u>926,648</u>	<u><b>1,357,672</b></u>	<u>1,430,810</u>
	<u>17,076,748</u>	<u><b>17,828,672</b></u>	<u>17,859,235</u>
<b>Expenditures</b>			
General government	2,655,227	<b>2,661,185</b>	2,506,333
Protection to persons and property	2,774,963	<b>2,756,838</b>	2,441,707
Transportation services	3,365,790	<b>3,365,513</b>	3,168,613
Environmental services	1,533,707	<b>1,417,117</b>	1,245,549
Health services	70,400	<b>34,992</b>	53,548
Social and family services	9,950	<b>9,950</b>	9,950
Recreation and cultural services	3,014,848	<b>3,232,123</b>	3,055,998
Planning and development	<u>1,390,055</u>	<u><b>1,312,444</b></u>	<u>1,342,453</u>
	<u>14,814,940</u>	<u><b>14,790,162</b></u>	<u>13,824,151</u>
<b>Net revenues</b>	<u>2,261,808</u>	<u><b>3,038,510</b></u>	<u>4,035,084</u>
<b>Financing and transfers</b>			
Repayment of long term debt	(903,841)	<b>(900,300)</b>	(861,917)
Transfers to capital fund	(1,339,500)	<b>(1,379,378)</b>	(1,856,717)
Transfers to reserves and reserve funds	(18,467)	<b>(570,809)</b>	(1,243,711)
Increase in employee benefit obligations	<u>-</u>	<u><b>4,831</b></u>	<u>107,144</u>
<b>Net financing and transfers</b>	<u>(2,261,808)</u>	<u><b>(2,845,656)</b></u>	<u>(3,855,201)</u>
<b>Change in current fund</b>	-	<b>192,854</b>	179,883
<b>Current fund</b>			
Beginning of year	<u>115,938</u>	<u><b>115,938</b></u>	<u>(63,945)</u>
End of year	<u>\$ 115,938</u>	<u><b>\$ 308,792</b></u>	<u>\$ 115,938</u>

See accompanying notes to the financial statements

# City of Port Colborne

## Schedule of Capital Fund Operations

For the Year Ended December 31, 2006

	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Revenue</b>			
User charges (Note 12)	-	\$ 94,643	\$ 135,990
Grants (Note 14)	\$ 789,298	1,589,191	732,986
Other (Note 15)	46,500	587,365	532,811
	<u>835,798</u>	<u>2,271,199</u>	<u>1,401,787</u>
<b>Expenditures</b>			
General government	61,900	902,783	172,312
Protection to persons and property	775,000	768,699	52,152
Transportation services	1,542,036	1,575,048	1,697,528
Environmental services	1,158,462	965,266	414,574
Recreation and cultural services	773,162	1,003,908	1,954,325
Planning and development	35,000	230,869	78,705
	<u>4,345,560</u>	<u>5,446,573</u>	<u>4,369,596</u>
<b>Net expenditures</b>	<u>(3,509,762)</u>	<u>(3,175,374)</u>	<u>(2,967,809)</u>
<b>Financing and transfers</b>			
Transfers from current fund	1,339,500	1,379,378	1,856,717
Transfers from reserves and reserve funds	432,200	596,935	1,173,517
Issue of long term debt (Note 6)	710,000	1,079,466	-
<b>Net financing and transfers</b>	<u>2,481,700</u>	<u>3,055,779</u>	<u>3,030,234</u>
<b>Change in capital fund balance</b>	<u>\$ (1,028,062)</u>	<u>(119,595)</u>	62,425
<b>Capital fund</b>			
Beginning of year		<u>(817,830)</u>	<u>(880,255)</u>
End of year		<u>\$ (937,425)</u>	<u>\$ (817,830)</u>

See accompanying notes to the financial statements

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## City of Port Colborne

### Schedule of Reserves and Reserve Funds

For the Year Ended December 31, 2006

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	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Revenue</b>			
Other (Note 15)	-	\$ <u>71,846</u>	\$ <u>50,461</u>
<b>Transfers</b>			
Transfers from current fund	\$ 18,467	<b>570,809</b>	1,243,711
Transfers to capital fund	<u>(432,200)</u>	<u>(596,935)</u>	<u>(1,173,517)</u>
<b>Total net transfers</b>	<u>(413,733)</u>	<u>(26,126)</u>	<u>70,194</u>
<b>Change in reserves and reserve funds balance</b>	(413,733)	<b>45,720</b>	120,655
<b>Reserves and reserve funds</b>			
Beginning of year	<u>3,505,323</u>	<u><b>3,505,323</b></u>	<u>3,384,668</u>
End of year	<u>\$ 3,091,590</u>	<u><b>\$ 3,551,043</b></u>	<u>\$ 3,505,323</u>

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See accompanying notes to the financial statements

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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### 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  
Port Colborne Economic and Tourism Development Corporation

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 18).

#### (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.

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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**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**

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.

**(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.

**(k) Employee future benefits**

The Municipality pays certain benefits on behalf of its retired employees. These post-employment costs are recognized in the period in which the employees rendered their services to the Municipality. The actuarial determination of the accrued benefit obligations for pension benefits earned by employees uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

### 2. Cash and temporary investments 2006 2005

Cash and temporary investments are comprised of:

Cash on hand	\$ 2,700	\$ 2,725
Temporary investments	<u>1,400,000</u>	<u>1,477,471</u>
	<u>\$ 1,402,700</u>	<u>\$ 1,480,196</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. (Hydro) 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>2006</u>	<u>2005</u>
<b>Financial position</b>		
Current assets	\$ 1,356,406	\$ 1,376,808
Inventory	550,000	550,000
Investment	375,000	375,000
Loan receivable from City of Port Colborne	384,829	-
Capital assets	5,506,199	6,046,759
Future payments in lieu of taxes	<u>438,902</u>	<u>323,015</u>
Total assets	<u>8,611,336</u>	<u>8,671,582</u>

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**City of Port Colborne**  
**Notes to the Consolidated Financial Statements**  
For the Year Ended December 31, 2006

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<b>3. Subsidiary operations</b> (continued)	<u>2006</u>	<u>2005</u>
Current liabilities (including current portions of long term debt of \$ Nil (2005 \$ 115,000))	588,138	761,470
Non-current liabilities	608,458	542,218
Note payable	<u>3,225,070</u>	<u>3,225,070</u>
Total liabilities	<u>4,421,666</u>	<u>4,528,758</u>
Net assets	<u>\$ 4,189,670</u>	<u>\$ 4,142,824</u>
<b>Change in equity investment in subsidiary</b>		
Revenue	\$ 1,692,580	\$ 1,564,078
Expenses	(1,186,640)	(1,161,082)
Income taxes and financing expenses	<u>(109,094)</u>	<u>(140,472)</u>
Equity earnings from operations	396,846	262,524
Dividends	<u>(350,000)</u>	<u>(500,000)</u>
Change in net assets	<u>\$ 46,846</u>	<u>\$ (237,476)</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>4,189,670</u>	<u>4,142,824</u>
	<u>\$ 7,414,740</u>	<u>\$ 7,367,894</u>

**Contingent liabilities**

- (a) Port Colborne Energy Inc. has provided a \$ 675,000 guarantee as its share of security for a guarantee by Cygnal to NRBN for \$ 2.7 million in commercial revenue. The \$ 2.7 million represents a portion of the financing NRBN requires over a ten year term.

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2005

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### 3. Subsidiary operations (continued)

- (b) 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 representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

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 Municipal Electric 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 the company. During the period in question the commission charged \$ 858,700 in late payment charges on overdue utility bills.

The financial position information is as reported by Port Colborne Energy Inc. at December 31, 2006 and December 31, 2005. The results of operations is as reported by Port Colborne Energy Inc. for the years ended December 31, 2006 and December 31, 2005.

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 by the parties.

	<u>2006</u>	<u>2005</u>
Interest received on loan receivable	\$ 18,364	-
Interest paid on note payable	233,818	\$ 233,818
Management fees paid	108,750	108,750

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### 4. Bank indebtedness

An operating line of credit of \$ 3,950,000 has been established with the CIBC, of which \$ 902,066 (2005 - \$ 1,485,517) was used at December 31, 2006. An executed borrowing by-law in form and content satisfactory to CIBC is in effect to a limit of \$ 4,000,000. 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.

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### 5. Deferred revenue

	<u>2006</u>	<u>2005</u>
Development Charges Act	\$ 367,319	\$ 436,182
Recreational land (Planning Act)	6,139	7,803
Gas Tax Revenues	<u>167,954</u>	<u>-</u>
	<u>\$ 541,412</u>	<u>\$ 443,985</u>

# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

### 6. Long term debt 2006 2005

- (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

**\$ 8,504,971** \$ 8,807,271

Port Colborne Hydro Inc. loan, due in 2011

**366,466** -

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

- (115,000)

Net long term debt

**\$ 8,871,437** **\$ 8,692,271**

- (b) The net long term debt:

<u>Debenture Number</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>2006</u>	<u>2005</u>
8419-96	Library	7.5 to 8%	2006	-	\$ 81,000
100-2002	Various	3.25 to 6%	2011	<b>\$ 2,911,371</b>	3,341,671
74-2003	Various	2.95 to 5.65%	2013	<b>1,562,000</b>	1,749,000
			2018	<b>3,264,000</b>	3,463,000
89-2005	Marina	2.65 to 5.30%	2014	<b>54,600</b>	57,600
57-2006	Fire truck	4.70 to 5.15%	2016	<b>713,000</b>	-
	Industrial land	7.25%	2011	<b>366,466</b>	-
				<b><u>\$ 8,871,437</u></b>	<b><u>\$ 8,692,271</u></b>

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

2007	\$ 959,658
2008	1,006,321
2009	1,055,584
2010	1,111,559
2011	1,536,714

- (d) The Municipality paid \$ 455,243 (2005 - \$ 493,557) interest on long term debt during the year.

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**City of Port Colborne**  
**Notes to the Consolidated Financial Statements**  
For the Year Ended December 31, 2006

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<b>7. Liability for future benefits</b>	<u><b>2006</b></u>	<u><b>2005</b></u>
Workplace Safety and Insurance Board future benefits	\$ 468,515	\$ 648,474
Vested sick leave benefits	229,557	148,266
Post-employment benefits	<u>4,563,655</u>	<u>4,460,156</u>
	<b>5,261,727</b>	5,256,896
Less: sick leave funded by reserve	<u>41,495</u>	<u>40,805</u>
	<u><b>\$ 5,220,232</b></u>	<u><b>\$ 5,216,091</b></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 \$ 30,220 (2005 - \$ 32,490) 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, 2006 of \$ 229,557 was determined by an actuarial valuation using a discount rate of 5%.

The most recent actuarial valuation for the vested sick leave was prepared at December 31, 2006.

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%.

**(ii) Interest (discount) rate**

The obligations as at January 1, 2006 of the present value of future liabilities were determined using a discount rate of 5%.

**(iii) Salary increase rate**

The rate used to increase salaries is assumed to be 3.0% per annum. This rate reflects management's best estimate of future salary increases.

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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### 7. Liability for future benefits (continued)

Accrued benefit obligation	
Balance, beginning of year	\$ 148,266
Actuarial adjustment	52,374
Actuarial loss	2,897
Current service cost	13,847
Interest cost	<u>12,173</u>
 Balance, end of year	 <u>\$ 229,557</u>
 Funded status	
Deficit	\$ 255,630
Unamortized loss	<u>(26,073)</u>
	 <u>\$ 229,557</u>

The net benefit expense for the employee benefit plan is as follows:

Current service cost	\$ 13,847
Interest cost	12,173
Actuarial loss	<u>2,897</u>
 Net benefit expense	 <u>\$ 28,917</u>

During the year \$ Nil (2005 - \$ Nil) was paid to employees who left the Municipality's employment. The Municipality has set aside \$ 41,495 (2005 - \$ 40,805) in a reserve.

### (c) Post-employment benefits

The City of Port Colborne pays certain post-employment benefits on behalf of its retired employees. 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, 2006 of \$ 4,563,655 (2005 - \$4,460,156) was determined by an actuarial valuation using a discount rate of 5%.

The City's obligation under the post-employment provision of employment agreements will be funded out of current revenue. During the year benefit payments of \$ 204,442 (2005 - \$ 206,301) were paid to retirees.

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 post-employment benefits were prepared at December 31, 2006.

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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### 7. Liability for future benefits (continued)

The main actuarial assumptions employed for 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%.

(ii) Interest (discount) rate

The obligations as at January 1, 2006 of the present value of future liabilities were determined using a discount rate of 5%.

(iii) Medical costs

Medical costs were assumed to increase 4% in 2006 and 2007, 5% in 2008, and 6% in 2009 and thereafter.

(iv) Dental costs

Dental costs were assumed to increase 4% in 2006 and 2007, 5% in 2008, and 6% in 2009 and thereafter.

Accrued benefit obligation	
Balance, beginning of year	\$ 4,460,156
Actuarial adjustment	(16,237)
Benefit payments	(204,442)
Actuarial gain	(12,333)
Current service cost	120,873
Interest cost	<u>215,638</u>
Balance, end of year	<u>\$ 4,563,655</u>
Funded status	
Deficit	\$ 4,427,991
Unamortized gain	<u>135,664</u>
	<u>\$ 4,563,655</u>

The net benefit expense for the employee benefit plan is as follows:

Current service cost	\$ 120,873
Interest cost	215,658
Actuarial gain	<u>(12,333)</u>
Net benefit expense	<u>\$ 324,198</u>

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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<b>8. Municipal fund balances</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
(a) The current fund balance is comprised of the following:		
To be applied to taxation	\$ 151,726	\$ 32,336
For benefiting landowners related to special charges and special areas	39,993	47,050
To be applied to user charges	<u>117,073</u>	<u>36,552</u>
	<b><u>\$ 308,792</u></b>	<b><u>\$ 115,938</u></b>
(b) The capital fund balance is comprised of the following:		
Funding to be provided from future taxation or user charges	\$ (505,929)	\$ (1,150,090)
Funding to be provided from other entities	(793,339)	(1,081,560)
Funds available for future capital expenditures	872,468	1,423,075
Funding to be provided from user fees	(510,625)	(3,055)
Funding to be provided from reserves	<u>-</u>	<u>(6,200)</u>
	<b><u>\$ (937,425)</u></b>	<b><u>\$ (817,830)</u></b>
<hr/>		
<b>9. Reserves and reserve funds</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Reserves set aside for specific purposes by Council		
Working capital	\$ 702,957	\$ 702,957
Recreation programs and facilities	9,695	5,944
Acquisition of fixed assets	260,778	323,167
Election expense	16,351	43,351
Administration costs	<u>402,065</u>	<u>240,448</u>
<b>Total reserves</b>	<b><u>1,391,846</u></b>	<b><u>1,315,867</u></b>
Reserve funds set aside for specific purposes by Council or agreement		
Acquisition of fixed assets	428,100	402,032
Accumulated sick leave and disability	41,495	40,805
Administration costs	207,812	274,157
Grain elevator property	1,476,112	1,439,463
Transit	<u>5,678</u>	<u>32,999</u>
<b>Total reserve funds</b>	<b><u>2,159,197</u></b>	<b><u>2,189,456</u></b>
<b>Total reserves and reserve funds</b>	<b><u>\$ 3,551,043</u></b>	<b><u>\$ 3,505,323</u></b>

# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

10. Liabilities to be recovered in future	<u>2006</u>	<u>2005</u>
Long term debt	\$ 8,871,437	\$ 8,692,271
Employee benefit obligations	<u>5,220,232</u>	<u>5,216,091</u>
	<u>\$ 14,091,669</u>	<u>\$ 13,908,362</u>

11. Taxation	Budget 2006 (Unaudited)	Actual <u>2006</u>	Actual <u>2005</u>
Real property		\$ 28,636,716	\$ 28,786,843
From other governments			
Payments in lieu of taxes		<u>409,281</u>	<u>414,223</u>
		<u>29,045,997</u>	<u>29,201,066</u>
Less: taxation collected on behalf of (Note 13)			
Region of Niagara		12,020,620	12,110,479
School boards		<u>6,328,785</u>	<u>6,707,146</u>
		<u>18,349,405</u>	<u>18,817,625</u>
Net taxes available for municipal purposes		<u>\$ 10,696,592</u>	<u>\$ 10,383,441</u>
Residential, multi-residential and farm	\$ 8,027,550	\$ 8,053,438	\$ 7,683,392
Commercial and industrial	<u>2,558,963</u>	<u>2,643,154</u>	<u>2,700,049</u>
Net taxes available for municipal purposes	<u>\$ 10,586,513</u>	<u>\$ 10,696,592</u>	<u>\$ 10,383,441</u>

# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

12. User charges	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Current fund</b>			
Fees and service charges	\$ 1,825,986	\$ 1,821,149	\$ 1,805,135
Direct water billings	3,168,096	3,028,722	3,069,256
Sewer surcharges	3,566,000	3,486,953	3,636,733
Licences and permits	<u>191,680</u>	<u>233,003</u>	<u>189,961</u>
	8,751,762	8,569,827	8,701,085
Less: water and sewer collections on behalf of the Region of Niagara (Note 13)	<u>4,955,837</u>	<u>4,631,551</u>	<u>4,660,972</u>
	<u>3,795,925</u>	<u>3,938,276</u>	<u>4,040,113</u>
<b>Capital fund</b>			
Special charges	-	<u>94,643</u>	<u>135,990</u>
	<u>\$ 3,795,925</u>	<u>\$ 4,032,919</u>	<u>\$ 4,176,103</u>

### 13. 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>2006</u>	<u>2005</u>
Region of Niagara (Notes 11 and 12)	\$ 16,652,171	\$ 16,771,451
School boards	<u>6,328,785</u>	<u>6,707,146</u>
	<u>\$ 22,980,956</u>	<u>\$ 23,478,597</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, 2006

14. Grants	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Current fund</b>			
Province of Ontario	\$ 1,702,132	\$ 1,752,360	\$ 1,994,465
Government of Canada	<u>65,530</u>	<u>83,772</u>	<u>10,406</u>
	<u>1,767,662</u>	<u>1,836,132</u>	<u>2,004,871</u>
<b>Capital fund</b>			
Federal	359,762	307,430	23,880
Province of Ontario	429,536	880,455	151,484
Municipal	<u>-</u>	<u>401,306</u>	<u>557,622</u>
	<u>789,298</u>	<u>1,589,191</u>	<u>732,986</u>
	<u>\$ 2,556,960</u>	<u>\$ 3,425,323</u>	<u>\$ 2,737,857</u>

# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

15. Other revenue	Budget 2006 (Unaudited)	Actual 2006	Actual 2005
<b>Current fund</b>			
Penalties and interest on taxes	\$ 360,000	\$ 385,297	\$ 401,990
Fines	30,590	14,437	14,539
Interest income	24,280	60,612	24,816
Rental income	1,600	16,600	3,043
Income from subsidiary operations	364,000	654,568	880,568
Contributions from developers	-	29,000	-
Sale of land	-	-	3,600
Trust funds	-	-	4,500
Other	<u>146,178</u>	<u>197,158</u>	<u>97,754</u>
	<u>926,648</u>	<u>1,357,672</u>	<u>1,430,810</u>
<b>Capital fund</b>			
Contributions from developers	46,500	197,099	80,001
Donations	-	86,444	419,939
Sale of land	-	301,099	31,319
Trust funds	-	723	1,085
Other	<u>-</u>	<u>2,000</u>	<u>467</u>
	<u>46,500</u>	<u>587,365</u>	<u>532,811</u>
<b>Reserves and reserve funds</b>			
Investment income	-	<u>71,846</u>	<u>50,461</u>
	<u>\$ 973,148</u>	<u>\$ 2,016,883</u>	<u>\$ 2,014,082</u>

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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### 16. Expenditures by object

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

	<u>2006</u>	<u>2005</u>
Salaries, wages and employee benefits	\$ 8,342,895	\$ 7,804,212
Operating materials and supplies	4,767,055	4,642,024
Contracted services	1,161,754	826,547
External transfers to others	63,216	57,811
Tangible capital assets	5,446,573	4,369,596
Debt service	<u>455,242</u>	<u>493,557</u>
Total expenditures by object	<u>\$ 20,236,735</u>	<u>\$ 18,193,747</u>

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### 17. 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 6.5% to 9.6% depending on the proposed retirement age and the level of earnings. As a result \$ 831,014 (2005 - \$ 720,151) was contributed to OMERS for current service, of which \$ 415,507 (2005 - \$ 360,076) represents the employees' portion.

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### 18. Trust funds

Trust funds administered by the Municipality amounting to \$ 56,689 (2005 - \$ 56,147) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities.

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### 19. 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.

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# City of Port Colborne

## Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

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### 20. Subsequent event

Subsequent to December 31, 2006, the City approved the purchase of the former C. M. Thompson Public School property from the Niagara District School Board in the amount of \$ 380,000.

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### 21. 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.

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### 22. Comparative figures

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