



Grant Thornton

Financial Report

City of Port Colborne

2007

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Grant Thornton

Auditors' report

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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, 2007 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, 2007 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.

Port Colborne, Ontario
May 22, 2008

Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants

City of Port Colborne

Consolidated Statement of Financial Position

As at December 31

2007

2006

Assets

Cash and temporary investments (Note 3)	\$ 4,403,225	\$ 1,402,700
Taxes receivable	2,012,699	2,059,995
User charges receivable	1,139,141	1,097,138
Other receivables	766,430	1,403,824
Other assets	58,255	63,490
Investment in subsidiary (Note 4)	<u>7,470,393</u>	<u>7,414,740</u>
	\$ 15,850,143	\$ 13,441,887

Liabilities

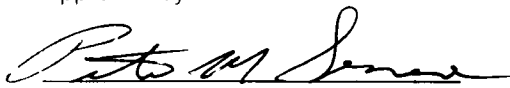
Bank indebtedness (Note 5)	\$ 471,214	\$ 902,066
Payables and accruals	1,404,679	1,360,939
Other liabilities	298,723	300,320
Deferred revenue (Note 6)	339,572	541,412
Long term debt (Note 7)	8,756,779	8,871,437
Employee benefit obligations (Notes 8 and 18)	<u>5,343,121</u>	<u>5,220,232</u>
	16,614,088	17,196,406

Municipal position

Current fund (Note 9)	(168,063)	308,792
Capital fund (Note 9)	(800,004)	(937,425)
Reserves and reserve funds (Note 10)	6,833,629	3,551,043
Equity in subsidiary investment (Note 4)	<u>7,470,393</u>	<u>7,414,740</u>
Fund balances	13,335,955	10,337,150
Liabilities to be recovered in future (Note 11)	<u>(14,099,900)</u>	<u>(14,091,669)</u>
	<u>(763,945)</u>	<u>(3,754,519)</u>
	\$ 15,850,143	\$ 13,441,887

Contingencies (Note 20)

Approved by


(Treasurer)


(Chief Administrative Officer)

See accompanying notes to the consolidated financial statements

City of Port Colborne

Consolidated Statement of Financial Activities

For the Year Ended December 31, 2007

	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Revenue			
Taxation (Note 12)	\$ 11,186,115	\$ 11,235,653	\$ 10,696,592
User charges (Note 13)	4,644,865	4,352,828	4,032,919
Grants (Note 15)	2,343,569	5,525,943	3,425,323
Other (Note 16)	<u>882,902</u>	<u>1,771,656</u>	<u>2,016,883</u>
	<u>19,057,451</u>	<u>22,886,080</u>	<u>20,171,717</u>
Expenditures			
Current			
General government	2,810,289	2,787,105	2,661,185
Protection to persons and property	2,736,499	2,686,452	2,756,838
Transportation services	3,528,849	3,671,710	3,365,513
Environmental services	1,679,291	1,679,866	1,417,117
Health services	49,250	18,304	34,992
Social and family services	9,950	9,950	9,950
Recreation and cultural services	3,352,861	3,534,302	3,232,123
Planning and development	<u>1,634,113</u>	<u>1,682,655</u>	<u>1,312,444</u>
	<u>15,801,102</u>	<u>16,070,344</u>	<u>14,790,162</u>
Capital			
General government	45,000	627,045	902,783
Protection to persons and property	25,000	112,077	768,699
Transportation services	982,085	1,143,758	1,575,048
Environmental services	1,627,905	1,048,854	965,266
Recreation and cultural services	408,100	567,266	1,003,908
Planning and development	<u>750,000</u>	<u>383,118</u>	<u>230,869</u>
	<u>3,838,090</u>	<u>3,882,118</u>	<u>5,446,573</u>
	<u>19,639,192</u>	<u>19,952,462</u>	<u>20,236,735</u>
Net revenue (expenditures)	(581,741)	2,933,618	(65,018)
Issue of long term debt (Note 7)	850,000	845,000	1,079,466
Repayment of long term debt	(959,658)	(959,658)	(900,300)
Increase in employee benefit obligations (Note 8)		<u>124,192</u>	<u>4,831</u>
Change in fund balances before change in equity in subsidiary	(691,399)	2,943,152	118,979
Change in equity in subsidiary (Note 4)		<u>55,653</u>	<u>46,846</u>
Change in fund balances	<u>\$ (691,399)</u>	<u>\$ 2,998,805</u>	<u>\$ 165,825</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31

2007

2006

Increase (decrease) in cash and cash equivalents

Operating activities

Net revenue (expenditures)	\$ 2,933,618	\$ (65,018)
Decrease in taxes receivable	47,296	831,387
Decrease (increase) in user charges receivable	(42,003)	341,371
Decrease (increase) in accounts receivables	637,394	(207,201)
Decrease (increase) in other assets	5,235	(7,054)
Increase (decrease) in accounts payable and accrued liabilities	43,740	(400,439)
Decrease in payable to Region of Niagara		(228,837)
Decrease in other liabilities	(1,597)	(39,678)
Increase (decrease) in deferred revenue	(201,840)	97,427
Increase in employee benefit obligations	124,192	4,831
	<u>3,546,035</u>	<u>326,789</u>

Financing activities

Decrease in bank indebtedness	(430,852)	(583,451)
Issue of long term debt	845,000	1,079,466
Repayment of long term debt	(959,658)	(900,300)
	<u>(545,510)</u>	<u>(404,285)</u>

Net increase (decrease) in cash and cash equivalents **3,000,525** **(77,496)**

Cash and cash equivalents

Beginning of year	<u>1,402,700</u>	<u>1,480,196</u>
End of year	<u>\$ 4,403,225</u>	<u>\$ 1,402,700</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne

Schedule of Current Fund Operations

For the Year Ended December 31, 2007

	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Revenue			
Taxation (Note 12)	\$ 11,186,115	\$ 11,235,653	\$ 10,696,592
User charges (Note 13)	4,644,865	4,240,111	3,938,276
Grants (Note 15)	1,911,569	2,014,109	1,836,132
Other (Note 16)	820,902	1,338,589	1,357,672
	<u>18,563,451</u>	<u>18,828,462</u>	<u>17,828,672</u>
Expenditures			
General government	2,810,289	2,787,105	2,661,185
Protection to persons and property	2,736,499	2,686,452	2,756,838
Transportation services	3,528,849	3,671,710	3,365,513
Environmental services	1,679,291	1,679,866	1,417,117
Health services	49,250	18,304	34,992
Social and family services	9,950	9,950	9,950
Recreation and cultural services	3,352,861	3,534,302	3,232,123
Planning and development	1,634,113	1,682,655	1,312,444
	<u>15,801,102</u>	<u>16,070,344</u>	<u>14,790,162</u>
Net revenues	<u>2,762,349</u>	<u>2,758,118</u>	<u>3,038,510</u>
Financing and transfers			
Repayment of long term debt	(959,658)	(959,658)	(900,300)
Transfers to capital fund	(1,907,600)	(1,911,345)	(1,379,378)
Transfers from (to) reserves and reserve funds	104,909	(488,162)	(570,809)
Increase in employee benefit obligations (Note 8)		124,192	4,831
	<u>(2,762,349)</u>	<u>(3,234,973)</u>	<u>(2,845,656)</u>
Net financing and transfers	<u>(2,762,349)</u>	<u>(3,234,973)</u>	<u>(2,845,656)</u>
Change in current fund balance	Nil	(476,855)	192,854
Current fund			
Beginning of year	<u>308,792</u>	<u>308,792</u>	<u>115,938</u>
End of year	<u>\$ 308,792</u>	<u>\$ (168,063)</u>	<u>\$ 308,792</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne

Schedule of Capital Fund Operations

For the Year Ended December 31, 2007

	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Revenue			
User charges (Note 13)		\$ 112,717	\$ 94,643
Grants (Note 15)	\$ 432,000	3,511,834	1,589,191
Other (Note 16)	<u>62,000</u>	<u>247,363</u>	<u>587,365</u>
	<u>494,000</u>	<u>3,871,914</u>	<u>2,271,199</u>
Expenditures			
General government	45,000	627,045	902,783
Protection to persons and property	25,000	112,077	768,699
Transportation services	982,085	1,143,758	1,575,048
Environmental services	1,627,905	1,048,854	965,266
Recreation and cultural services	408,100	567,266	1,003,908
Planning and development	<u>750,000</u>	<u>383,118</u>	<u>230,869</u>
	<u>3,838,090</u>	<u>3,882,118</u>	<u>5,446,573</u>
Net expenditures	<u>(3,344,090)</u>	<u>(10,204)</u>	<u>(3,175,374)</u>
Financing and transfers			
Issue of long term debt (Note 7)	850,000	845,000	1,079,466
Transfers from current fund	1,907,600	1,911,345	1,379,378
Transfers from (to) reserves and reserve funds	<u>508,350</u>	<u>(2,608,720)</u>	<u>596,935</u>
Net financing and transfers	<u>3,265,950</u>	<u>147,625</u>	<u>3,055,779</u>
Change in capital fund balance	<u>\$ (78,140)</u>	<u>137,421</u>	<u>(119,595)</u>
Capital fund			
Beginning of year		<u>(937,425)</u>	<u>(817,830)</u>
End of year		<u>\$ (800,004)</u>	<u>\$ (937,425)</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne

Schedule of Reserves and Reserve Funds

For the Year Ended December 31, 2007

	Budget <u>2007</u> (Unaudited)	Actual <u>2007</u>	Actual <u>2006</u>
Revenue			
Other (Note 16)		<u>\$ 185,704</u>	<u>\$ 71,846</u>
Transfers			
Transfers from (to) current fund	\$ (104,909)	488,162	570,809
Transfers from (to) capital fund	<u>(508,350)</u>	<u>2,608,720</u>	<u>(596,935)</u>
Total net transfers	<u>(613,259)</u>	<u>3,096,882</u>	<u>(26,126)</u>
Change in reserves and reserve funds balance	(613,259)	3,282,586	45,720
Reserves and reserve funds			
Beginning of year	<u>3,551,043</u>	<u>3,551,043</u>	<u>3,505,323</u>
End of year	<u>\$ 2,937,784</u>	<u>\$ 6,833,629</u>	<u>\$ 3,551,043</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

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 4). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated.

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

(b) Basis of accounting

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

(c) Fund accounting

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

(d) Region and school board transactions

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

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

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, 2007

2. Tangible capital assets

(a) Transitional provisions

Effective January 1, 2007, the City adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants ("CICA") with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009.

During 2007, the City continued to work towards compliance with the new recommendations for accounting for tangible capital assets. As of December 31, 2007, the City has substantially completed a listing of assets, but has not yet determined all the values of those assets. The accumulation of data is currently underway and is expected to be completed by December 31, 2008.

(b) Determination of costs

Tangible capital assets are to be initially recorded at cost. Cost will include all directly attributable expenditures in the acquisition, construction, development and/or betterment of the asset required to install the asset at the location and in the condition necessary for its intended use. Donated assets are to be capitalized at their estimated fair value upon acquisition. Works of art for display in municipal property are not included as capital assets.

On transition to PS-3150, certain capital assets for which historical cost information is not available, will be recorded at current fair market value discounted by a relevant inflation factor.

The City will not capitalize interest as part of the costs of its capital assets.

(c) Amortization

Amortization is recorded to reflect the cost, net of anticipated salvage value, associated with the use of the asset in providing government services over the estimated useful life of the asset. Amortization expense is expected to be presented in the financial statements for the year ended December 31, 2009 and will be calculated on a straight-line basis over the assets' estimated useful lives. The determination of the useful lives of all these assets has not yet been determined.

3. Cash and temporary investments

2007

2006

Cash and temporary investments are comprised of:

Cash on hand	\$ 3,225	\$ 2,700
Temporary investments	<u>4,400,000</u>	<u>1,400,000</u>
	<u>\$ 4,403,225</u>	<u>\$ 1,402,700</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

4. 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 deposits 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>2007</u>	<u>2006</u>
Financial position		
Current assets	\$ 1,616,860	\$ 1,356,406
Inventory	550,000	550,000
Investment	375,000	375,000
Loan receivable from City of Port Colborne	412,730	384,829
Capital assets	4,992,376	5,506,199
Future payments in lieu of taxes	<u>437,615</u>	<u>438,902</u>
Total assets	<u>8,384,581</u>	<u>8,611,336</u>
Current liabilities	373,412	588,138
Non-current liabilities	540,776	608,458
Note payable	<u>3,225,070</u>	<u>3,225,070</u>
Total liabilities	<u>4,139,258</u>	<u>4,421,666</u>
Net assets	<u>\$ 4,245,323</u>	<u>\$ 4,189,670</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

4. Subsidiary operations (continued)

Change in equity investment in subsidiary

Revenue	\$ 1,618,422	\$ 1,692,580
Expenses	(1,070,986)	(1,186,640)
Income taxes and financing expenses	<u>(231,783)</u>	<u>(109,094)</u>
Equity earnings from operations	315,653	396,846
Dividends	<u>(260,000)</u>	<u>(350,000)</u>
Change in net assets	<u>\$ 55,653</u>	<u>\$ 46,846</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>4,245,323</u>	<u>4,189,670</u>
	<u>\$ 7,470,393</u>	<u>\$ 7,414,740</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.
- (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, 2007 and December 31, 2006. The results of operations is as reported by Port Colborne Energy Inc. for the years ended December 31, 2007 and December 31, 2006.

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.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2006

4. Subsidiary operations (continued)	<u>2007</u>	<u>2006</u>
Interest received on loan receivable	\$ 27,901	\$ 18,364
Interest paid on note payable	233,818	233,818
Management fees paid	140,000	108,750

5. Bank indebtedness

An operating line of credit of \$ 3,950,000 has been established with the CIBC, of which \$ 471,214 (2006 - \$ 902,066) was used at December 31, 2007. 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.

6. Deferred revenue	<u>2007</u>	<u>2006</u>
Development Charges Act	\$ 339,572	\$ 367,319
Recreational land (Planning Act)		6,139
Gas tax revenues		167,954
	<u>\$ 339,572</u>	<u>\$ 541,412</u>

7. Long term debt	<u>2007</u>	<u>2006</u>
(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	\$ 8,390,313	\$ 8,504,971
Port Colborne Hydro Inc. loan, due in 2011	<u>366,466</u>	<u>366,466</u>
Net long term debt	<u>\$ 8,756,779</u>	<u>\$ 8,871,437</u>

City of Port Colborne
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2007

7. **Long term debt** (continued)

(b) The net long term debt:

<u>Debenture Number</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>2007</u>	<u>2006</u>
100-2002	Various	3.25 to 6%	2011	\$ 2,389,713	\$ 2,911,371
74-2003	Various	2.95 to 5.65%	2013	1,367,000	1,562,000
			2018	3,058,000	3,264,000
89-2005	Marina	2.65 to 5.30%	2014	51,600	54,600
57-2006	Fire truck	4.70 to 5.15%	2016	679,000	713,000
	Industrial land	7.25%	2011	366,466	366,466
72-2007	Various	4.90 to 5.10%	2017	845,000	
				<u>\$ 8,756,779</u>	<u>\$ 8,871,437</u>

Subsequent to year end, the portion of debenture 100-2002 relating to the Weir Bridge was transferred to the Region of Niagara. The City of Port Colborne is no longer responsible for future payments related to this debt. The principal remaining on December 31, 2007 was \$ 1,310,647.

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

2008	\$ 771,672
2009	807,701
2010	849,668
2011	893,589
2012	630,652

(d) The Municipality paid \$ 451,362 (2006 - \$ 455,243) interest on long term debt during the year.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

8. Liability for future benefits	<u>2007</u>	<u>2006</u>
Workplace Safety and Insurance Board future benefits	\$ 466,628	\$ 468,515
Vested sick leave benefits	260,502	229,557
Post-employment benefits	<u>4,658,789</u>	<u>4,563,655</u>
	5,385,919	5,261,727
Less: sick leave funded by reserve	<u>42,798</u>	<u>41,495</u>
	<u>\$ 5,343,121</u>	<u>\$ 5,220,232</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 \$ 30,762 (2006 - \$ 30,220) 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, 2007 of \$ 260,502 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.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

8. Liability for future benefits (continued)	<u>2007</u>	<u>2006</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 229,557	\$ 148,266
Actuarial adjustment		52,374
Actuarial loss	2,897	2,897
Current service cost	14,540	13,847
Interest cost	<u>13,508</u>	<u>12,173</u>
Balance, end of year	<u>\$ 260,502</u>	<u>\$ 229,557</u>
Funded status		
Deficit	\$ 283,678	\$ 255,630
Unamortized loss	<u>(23,176)</u>	<u>(26,073)</u>
	<u>\$ 260,502</u>	<u>\$ 229,557</u>

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

Current service cost	\$ 14,540	\$ 13,847
Interest cost	13,508	12,173
Actuarial loss	<u>2,897</u>	<u>2,897</u>
Net benefit expense	<u>\$ 30,945</u>	<u>\$ 28,917</u>

During the year \$ Nil (2006 - \$ Nil) was paid to employees who left the Municipality's employment. The Municipality has set aside \$ 42,798 (2006 - \$ 41,495) 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, 2007 of \$ 4,658,789 (2006 - \$ 4,563,655) 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 \$ 239,734 (2006 - \$ 204,442) 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.

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

8. 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.

	<u>2007</u>	<u>2006</u>
Accrued benefit obligation		
Balance, beginning of year	\$ 4,563,655	\$ 4,460,156
Actuarial adjustment	(1,398)	(16,237)
Benefit payments	(239,734)	(204,442)
Actuarial gain	(12,333)	(12,333)
Current service cost	126,917	120,873
Interest cost	<u>221,682</u>	<u>215,638</u>
Balance, end of year	<u>\$ 4,658,789</u>	<u>\$ 4,563,655</u>
Funded status		
Deficit	\$ 4,535,458	\$ 4,427,991
Unamortized gain	<u>123,331</u>	<u>135,664</u>
	<u>\$ 4,658,789</u>	<u>\$ 4,563,655</u>

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

Current service cost	\$ 126,917	\$ 120,873
Interest cost	221,682	215,658
Actuarial gain	<u>(12,333)</u>	<u>(12,333)</u>
Net benefit expense	<u>\$ 336,266</u>	<u>\$ 324,198</u>

City of Port Colborne
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2007

9. Municipal fund balances	<u>2007</u>	<u>2006</u>
(a) The current fund balance is comprised of the following:		
To be applied to taxation	\$ (43,863)	\$ 151,726
For benefiting landowners related to special charges and special areas	37,978	39,993
To be applied to user charges	<u>(162,178)</u>	<u>117,073</u>
	<u>\$ (168,063)</u>	<u>\$ 308,792</u>
(b) The capital fund balance is comprised of the following:		
Funding to be provided from future taxation or user charges	\$ (517,824)	\$ (505,929)
Funding to be provided from other entities	(1,129,975)	(793,339)
Funds available for future capital expenditures	1,458,826	872,468
Funding to be provided from reserves	(28,004)	
Funding to be provided from user fees	<u>(583,027)</u>	<u>(510,625)</u>
	<u>\$ (800,004)</u>	<u>\$ (937,425)</u>
10. Reserves and reserve funds	<u>2007</u>	<u>2006</u>
Reserves set aside for specific purposes by Council		
Working capital	\$ 702,957	\$ 702,957
Recreation programs and facilities	18,395	9,695
Acquisition of fixed assets	208,780	260,778
Election expense	31,351	16,351
Administration costs	<u>399,602</u>	<u>402,065</u>
Total reserves	<u>1,361,085</u>	<u>1,391,846</u>
Reserve funds set aside for specific purposes by Council or agreement		
Acquisition of fixed assets	3,717,301	428,100
Accumulated sick leave and disability	42,798	41,495
Administration costs	186,190	207,812
Grain elevator property	1,526,255	1,476,112
Transit	<u></u>	<u>5,678</u>
Total reserve funds	<u>5,472,544</u>	<u>2,159,197</u>
Total reserves and reserve funds	<u>\$ 6,833,629</u>	<u>\$ 3,551,043</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

11. Liabilities to be recovered in future	<u>2007</u>	<u>2006</u>
Long term debt	\$ 8,756,779	\$ 8,871,437
Employee benefit obligations	<u>5,343,121</u>	<u>5,220,232</u>
	<u>\$ 14,099,900</u>	<u>\$ 14,091,669</u>

12. Taxation	Budget <u>2007</u> (Unaudited)	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2006</u>
Real property		\$ 29,064,351	\$ 28,636,716
From other governments			
Payments in lieu of taxes		<u>432,319</u>	<u>409,281</u>
		<u>29,496,670</u>	<u>29,045,997</u>
Less: taxation collected on behalf of (Note 14)			
Region of Niagara		12,144,502	12,020,620
School boards		<u>6,116,515</u>	<u>6,328,785</u>
		<u>18,261,017</u>	<u>18,349,405</u>
Net taxes available for municipal purposes		<u>\$ 11,235,653</u>	<u>\$ 10,696,592</u>
Residential, multi-residential and farm	\$ 8,519,830	\$ 8,554,279	\$ 8,053,438
Commercial and industrial	<u>2,666,285</u>	<u>2,681,374</u>	<u>2,643,154</u>
Net taxes available for municipal purposes	<u>\$ 11,186,115</u>	<u>\$ 11,235,653</u>	<u>\$ 10,696,592</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

13. User charges	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Current fund			
Fees and service charges	\$ 2,048,570	\$ 1,903,652	\$ 1,821,149
Direct water billings	3,580,576	3,263,514	3,028,722
Sewer surcharges	3,776,524	3,550,108	3,486,953
Licences and permits	<u>220,300</u>	<u>195,323</u>	<u>233,003</u>
	9,625,970	8,912,597	8,569,827
Less: water and sewer collections on behalf of the Region of Niagara (Note 14)	<u>4,981,105</u>	<u>4,672,486</u>	<u>4,631,551</u>
	<u>4,644,865</u>	<u>4,240,111</u>	<u>3,938,276</u>
Capital fund			
Special charges		<u>112,717</u>	<u>94,643</u>
	<u>\$ 4,644,865</u>	<u>\$ 4,352,828</u>	<u>\$ 4,032,919</u>

14. Collections for the Region of Niagara and school boards

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

	2007	2006
Region of Niagara (Notes 12 and 13)	\$ 16,816,988	\$ 16,652,171
School boards	<u>6,116,515</u>	<u>6,328,785</u>
	<u>\$ 22,933,503</u>	<u>\$ 22,980,956</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, 2007

15. Grants	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Current fund			
Government of Canada	\$ 7,560	\$ 79,440	\$ 83,772
Province of Ontario	<u>1,904,009</u>	<u>1,934,669</u>	<u>1,752,360</u>
	<u>1,911,569</u>	<u>2,014,109</u>	<u>1,836,132</u>
Capital fund			
Government of Canada	232,000	413,046	307,430
Province of Ontario		3,098,788	880,455
Municipal	<u>200,000</u>		<u>401,306</u>
	<u>432,000</u>	<u>3,511,834</u>	<u>1,589,191</u>
	<u>\$ 2,343,569</u>	<u>\$ 5,525,943</u>	<u>\$ 3,425,323</u>

City of Port Colborne**Notes to the Consolidated Financial Statements**For the Year Ended December 31, 2007

16. Other revenue	Budget 2007 (Unaudited)	Actual 2007	Actual 2006
Current fund			
Penalties and interest on taxes	\$ 320,000	\$ 337,973	\$ 385,297
Fines	20,700	13,148	14,437
Interest income	40,352	86,690	60,612
Rental income	14,000	17,356	16,600
Income from subsidiary operations	364,000	603,818	654,568
Contributions from developers		59,276	29,000
Other	<u>61,850</u>	<u>220,328</u>	<u>197,158</u>
	<u>820,902</u>	<u>1,338,589</u>	<u>1,357,672</u>
Capital fund			
Contributions from developers	60,000	97,592	197,099
Donations		24,135	86,444
Sale of land		123,636	301,099
Trust funds			723
Other	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
	<u>62,000</u>	<u>247,363</u>	<u>587,365</u>
Reserves and reserve funds			
Investment income		<u>185,704</u>	<u>71,846</u>
	<u>\$ 882,902</u>	<u>\$ 1,771,656</u>	<u>\$ 2,016,883</u>

City of Port Colborne

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

17. Expenditures by object

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

	<u>2007</u>	<u>2006</u>
Salaries, wages and employee benefits	\$ 8,932,533	\$ 8,342,895
Operating materials and supplies	5,042,783	4,767,055
Contracted services	1,535,985	1,161,754
External transfers to others	107,681	63,216
Tangible capital assets	3,882,118	5,446,573
Debt service	<u>451,362</u>	<u>455,242</u>
Total expenditures by object	<u>\$ 19,952,462</u>	<u>\$ 20,236,735</u>

18. Pension agreements

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

Contributions to OMERS are made at rates ranging from 6.5% to 9.6% depending on the proposed retirement age and the level of earnings. As a result \$ 854,064 (2006 - \$ 831,014) was contributed to OMERS for current service, of which \$ 427,032 (2006 - \$ 415,507) represents the employees' portion.

19. Trust funds

Trust funds administered by the Municipality amounting to \$ 57,720 (2006 - \$ 56,689) have not been included in the Consolidated Statement of Financial Position nor have these operations been included in the Consolidated Statement of Financial Activities.

20. Contingencies

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

City of Port Colborne
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2007

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.

Auditors' report

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To the Members of Council, Inhabitants and Ratepayers of the

Corporation of the City of Port Colborne

We have audited the consolidated balance sheet of the trust funds of the Corporation of the City of Port Colborne as at December 31, 2007 and the consolidated statement of continuity of trust funds for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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.

The trust funds of the Corporation of the City of Port Colborne derive revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the trust funds and we were not able to determine whether any adjustments might be necessary to donation revenue, assets and fund balances.



In our opinion, except for the effect of adjustments, if any, which we may have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue referred to in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the trust funds of the City of Port Colborne as at December 31, 2007 and the continuity of trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Port Colborne, Ontario
May 22, 2008

Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants

City of Port Colborne Trust Funds

Consolidated Statement of Continuity For the Year Ended December 31, 2007

	<u>Total</u>	<u>Cameron Minor Trust</u>	<u>Local Improvements</u>
Balance at the beginning of the year	<u>\$ 56,689</u>	<u>\$ 12,133</u>	<u>\$ 19,465</u>
Revenue receipts			
Interest earned	1,421	485	777
Trust fund deposit	<u>1</u>	<u> </u>	<u> </u>
	<u>1,422</u>	<u>485</u>	<u>777</u>
Expenditures			
Trust funds released	<u>391</u>		
Balance at the end of the year	<u>\$ 57,720</u>	<u>\$ 12,618</u>	<u>\$ 20,242</u>

Consolidated Balance Sheet As at December 31, 2007

Assets

Cash	\$ 38,602	\$ 12,577	\$ 20,177
Investments	19,000		
Accrued interest	<u>118</u>	<u>41</u>	<u>65</u>
	<u>\$ 57,720</u>	<u>\$ 12,618</u>	<u>\$ 20,242</u>

Liabilities

Fund balances	<u>\$ 57,720</u>	<u>\$ 12,618</u>	<u>\$ 20,242</u>
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<u>Julia Yager Trust</u>	<u>Fulton Trust</u>	<u>Municipal Elections</u>	<u>Sherkston Trust</u>	<u>Can Committee</u>
<u>\$ 9,507</u>	<u>\$ 1,040</u>	<u>\$ Nil</u>	<u>\$ 10,500</u>	<u>\$ 4,044</u>
		<u>1</u>	<u>1</u>	<u>158</u>
		<u>1</u>	<u>1</u>	<u>158</u>
				<u>391</u>
<u>\$ 9,507</u>	<u>\$ 1,040</u>	<u>\$ 1</u>	<u>\$ 10,501</u>	<u>\$ 3,811</u>
\$ 507 9,000	\$ 1,040	\$ 1	\$ 501 10,000	\$ 3,799
<u>12</u>				<u>12</u>
<u>\$ 9,507</u>	<u>\$ 1,040</u>	<u>\$ 1</u>	<u>\$ 10,501</u>	<u>\$ 3,811</u>
<u>\$ 9,507</u>	<u>\$ 1,040</u>	<u>\$ 1</u>	<u>\$ 10,501</u>	<u>\$ 3,811</u>

See accompanying notes to the consolidated financial statements

City of Port Colborne
Trust Funds
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2007

1. Accounting policies

Basis of accounting

Income and capital receipts are reported on the cash basis.

Expenditures are reported on the cash basis of accounting with the exception of administrative expenses which are reported on the accrual basis of accounting, which recognizes expenditures as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

2. Subdividers' deposits

In addition to the cash accounts held by the City and shown as trust funds, bank letters of credit are also held as security to ensure the provision of subdivision services and the completion of contracts:

	<u>2007</u>	<u>2006</u>
Letters of credit, beginning of year	\$ 496,178	\$ 528,606
Net reductions	<u>(16,888)</u>	<u>(32,428)</u>
Letters of credit, end of year	<u>\$ 479,290</u>	<u>\$ 496,178</u>

These letters of credit are not reflected in the accounts.