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swallow*

**THE CORPORATION OF THE CITY
OF ST. CATHARINES**

Consolidated Financial Statements

December 31, 2008



THE CORPORATION OF THE CITY OF ST. CATHARINES

Consolidated Financial Statements

December 31, 2008

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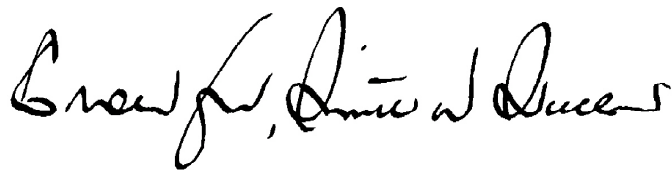
AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the City of St. Catharines

We have audited the consolidated statement of financial position of The Corporation of the City of St. Catharines as at December 31, 2008 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 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 city as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



St. Catharines, Ontario
April 6, 2009

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

LICENSED PUBLIC ACCOUNTANTS

THE CORPORATION OF THE CITY OF ST. CATHARINES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2008
(In thousands of dollars)

	2008 \$	2007 \$
Financial Assets		
Cash - note 2	93,657	72,029
Taxes receivable - note 3	11,647	9,410
Accounts receivable	13,681	14,695
Note receivable - St. Catharines Hydro Inc. - note 5	7,754	7,754
Investment in St. Catharines Hydro Inc. - note 5	52,054	52,566
	178,793	156,454
Liabilities		
Accounts payable and accrued liabilities - note 7	23,459	21,641
Deferred revenue - obligatory reserve funds - note 8	7,962	5,649
Other current liabilities	1,001	805
Employee future benefits - note 9	12,330	11,722
Landfill post-closure liability - note 17	3,442	4,183
Net long-term liabilities - note 10	54,097	50,329
	102,291	94,329
Net Financial Assets	76,502	62,125
Non Financial Assets		
Inventories	1,417	1,461
Other current assets	529	402
	1,946	1,863
Net Assets	78,448	63,988
Municipal Position		
Operating fund - note 11(a)	7,191	7,662
Capital fund - note 11(b)	(7,086)	(17,315)
Reserves and reserve funds - note 11(c)	88,404	79,555
St. Catharines Hydro Inc. net equity - note 11(d)	59,808	60,320
	148,317	130,222
Amounts to be recovered		
Employee future benefits - note 9	(12,330)	(11,722)
Landfill post-closure liability - note 17	(3,442)	(4,183)
Net long-term liabilities - note 10	(54,097)	(50,329)
	(69,869)	(66,234)
	78,448	63,988

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
for the year ended December 31, 2008
(In thousands of dollars)

	2008	2007
	\$	\$
Revenues		
Taxation	71,541	66,089
Taxation from other governments	2,364	2,346
User fees and charges	29,704	33,116
Government grants	23,768	14,127
Contributions from developers	3,389	5,765
Interest and penalties	2,136	1,853
Investment income	3,971	4,795
Donations	408	384
Other	5,701	5,356
St. Catharines Hydro Inc. net income	3,355	3,294
	146,337	137,125
Expenditures		
General government	10,053	10,624
Protection to persons and property	23,819	21,038
Transportation services	44,843	50,515
Environmental services	20,840	37,121
Health services	1,411	1,346
Social and family services	1,774	1,755
Recreation and cultural services	23,130	23,031
Planning and development	6,007	4,758
	131,877	150,188
Net Revenues (Expenditures)	14,460	(13,063)
Financing - new debt issued	10,308	8,602
Financing - debt principal repayments	(6,540)	(6,180)
Employee future benefits	608	405
Landfill post-closure liability	(741)	91
Increase in amounts to be recovered	3,635	2,918
Change in Fund Balances	18,095	(10,145)

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 2008

(In thousands of dollars)

	2008 \$	2007 \$
Operations		
Net revenue (expenditures)	14,460	(13,063)
Uses		
Increase in taxes receivable	(2,237)	(362)
Increase in accounts receivable		(1,576)
Increase in other current assets	(127)	(91)
Decrease in deferred revenue - obligatory reserve funds		(623)
Decrease in other current liabilities		(160)
Decrease in landfill post-closure liability	(741)	
	(3,105)	(2,812)
Sources		
Decrease in accounts receivable	1,014	
Decrease in inventories	44	86
Increase in accounts payable and accrued liabilities	1,818	4,104
Increase in deferred revenue - obligatory reserve funds	2,313	
Increase in other current liabilities	196	
Increase in employee future benefits	608	405
Increase in landfill post-closure liability		91
	5,993	4,686
Income from St. Catharines Hydro Inc.	(3,355)	(3,294)
Net increase (decrease) in cash from operations	13,993	(14,483)
Investing		
Dividends received - St. Catharines Hydro Inc.	3,867	2,189
Financing		
Long-term debt issued	10,308	8,602
Long-term debt repaid	(6,540)	(6,180)
Net increase in cash from financing	3,768	2,422
Increase (Decrease) in Cash Position	21,628	(9,872)
Cash Position, Beginning of Year	72,029	81,901
Cash Position, End of Year	93,657	72,029

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

CONSOLIDATED SCHEDULE OF OPERATING FUND ACTIVITIES

for the year ended December 31, 2008

(In thousands of dollars)

	(Unaudited) Budget 2008 \$	Actual 2008 \$	Actual 2007 \$
Revenues			
Taxation	68,698	71,541	66,089
Taxation from other governments	2,554	2,364	2,346
User fees and charges	33,330	29,704	33,116
Government grants	3,240	3,397	2,937
Interest and penalties	1,850	2,136	1,853
Investment income	2,170	2,975	3,438
Donations	134	112	135
Other	5,800	5,587	5,271
	117,776	117,816	115,185
Expenditures			
General government	11,260	9,601	9,320
Protection to persons and property	21,477	22,184	20,386
Transportation services	31,147	30,263	27,427
Environmental services	11,018	8,861	16,146
Health services	1,514	1,358	1,331
Social and family services	1,370	1,467	1,473
Recreation and cultural services	22,681	20,954	20,621
Planning and development	5,890	5,875	4,678
	106,357	100,563	101,382
Net Revenues	11,419	17,253	13,803
Financing and Transfers			
Payments received from St. Catharines Hydro Inc.	2,754	3,867	2,189
Debt principal repayments	(6,838)	(6,540)	(6,180)
Employee future benefits		608	405
Landfill post-closure liability		(741)	91
Transfers from reserves and reserve funds	2,551	3,360	2,697
Transfers to capital operations	(16,086)	(18,278)	(12,667)
Net financing and transfers	(17,619)	(17,724)	(13,465)
Change in Operating Fund	(6,200)	(471)	338
Operating Fund, Beginning of Year	7,662	7,662	7,324
Operating Fund, End of Year	1,462	7,191	7,662

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

CONSOLIDATED SCHEDULE OF CAPITAL FUND ACTIVITIES

for the year ended December 31, 2008

(In thousands of dollars)

	2008	2007
	\$	\$
Revenues		
Government grants	20,371	11,190
Contributions from developers	482	52
Donations	296	249
Other recoveries	114	85
	21,263	11,576
Expenditures		
General government	452	1,304
Protection to persons and property	1,635	652
Transportation services	14,580	23,088
Environmental services	11,979	20,975
Health services	53	15
Social and family services	307	282
Recreation and cultural services	2,176	2,410
Planning and development	132	80
	31,314	48,806
Net Expenditures	(10,051)	(37,230)
Financing and Transfers		
New debt issued	10,308	8,602
Transfers from operating fund	18,278	12,667
Transfers from (to) reserve fund	(8,306)	1,091
Net financing and transfers	20,280	22,360
Change in Capital Fund	10,229	(14,870)
Capital Fund, Beginning of Year	(17,315)	(2,445)
Capital Fund, End of Year	(7,086)	(17,315)

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

CONSOLIDATED SCHEDULE OF RESERVES AND RESERVE FUNDS

for the year ended December 31, 2008

(In thousands of dollars)

	2008 \$	2007 \$
Revenues		
Contributions from developers	2,907	5,713
Investment income	996	1,357
	3,903	7,070
Financing and Transfers		
Transfers from (to) capital fund	8,306	(1,091)
Transfers to operating fund	(3,360)	(2,697)
Net financing and transfers	4,946	(3,788)
Change in Reserve and Reserve Funds	8,849	3,282
Reserves and Reserve Funds, Beginning of Year	79,555	76,273
Reserves and Reserve Funds, End of Year	88,404	79,555

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

1. Significant Accounting Policies

The consolidated financial statements of the The Corporation of the City of St. Catharines (the "Municipality") are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants with the exception of providing budget figures (note 18).

(a) Basis of consolidation

- (i) These consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the operating fund, capital fund, reserves and reserve funds and include the activities of all committees of council and the following boards, municipal enterprises and utilities which are under the control of council:

St. Catharines Public Library Board
St. Catharines Downtown Association
Port Dalhousie Business Improvement Area
St. Catharines Transit Commission - Urban Service
St. Catharines Transit Commission - Paratransit System
St. Catharines Hydro Inc.

All inter-fund assets and liabilities and sources of financing and expenditures have been eliminated.

St. Catharines Hydro Inc. (the "Company") is accounted for on a modified equity basis, consistent with the accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the Municipality, and inter-organizational transactions and balances are not eliminated. The Municipality recognizes its equity interest in the annual income or loss of the Company in its "Consolidated Statement of Financial Activities" with a corresponding increase or decrease in its investment asset account. Any dividends that the Municipality may receive from the Company will be reflected as reductions in the investment asset account.

- (ii) Partial-consolidated entities

The following joint local board is proportionately consolidated. See note 16.

Niagara District Airport Commission (Joint Board)

- (iii) Accounting for Region and School Board transactions

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

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

1. Significant Accounting Policies - continued

(iv) Trust funds

Trust funds and their related operations administered by the Municipality are not consolidated, but are reported separately on the trust funds "Consolidated Statement of Financial Position and Consolidated Statement of Financial Activities and Changes in Fund Balances".

(b) Basis of accounting

(i) Revenues 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 measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(iii) Inventories

Inventories are valued at average cost.

(iv) Capital assets

The historical cost and accumulated depreciation for capital assets are not recorded for municipal purposes. Capital assets are recorded as an expenditure on the "Consolidated Statement of Financial Activities" in the year of acquisition. See note 21.

(v) Government Transfers

Government transfers are recognized in the financial statements in the period in which the 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.

(vi) Deferred revenue

Funds received for specific purposes are accounted for as deferred revenue until the Municipality discharges the obligation which led to the receipt of the funds.

(vii) Investment income

Investment income earned on current surplus funds, capital funds, reserves and reserve funds (other than obligatory reserve funds) are recorded as revenue in the period earned. Investment income earned on obligatory reserve funds are recorded directly to each fund balance.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

1. Significant Accounting Policies - continued

(viii) Use of estimates

The preparation of the 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Cash

This represents cash and short term investments from both the operating fund and the reserve funds (including those funds set aside in deferred revenue):

	(in thousands of dollars)	
	2008	2007
	\$	\$
Operating fund	90,437	68,687
Reserve funds	3,220	3,342
	93,657	72,029

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

3. Taxes Receivable and Revenues

Property tax billings are prepared by the Municipality based on an assessment roll prepared by the Municipal Property Assessment Corporation ("MPAC"). The property tax receivables and tax revenue of the Municipality are subject to measurement uncertainty as a significant number of appeals submitted by ratepayers have yet to be heard. The taxes receivable balance, including penalties and interest, is as follows:

	(in thousands of dollars)	
	2008	2007
	\$	\$
Current year	8,045	7,687
Arrears previous years	6,399	4,520
	14,444	12,207
Less allowance	(2,797)	(2,797)
	11,647	9,410

The Province of Ontario instituted a mandatory capping program through the provisions of Bill 79, which limited assessment related increases to 10% in 1998, and an additional 5% in each of 1999 and 2000. Multi-residential, commercial and industrial property owners experiencing decreases were also capped at appropriate levels to fund the phasing-in of increases. The Province has enacted Bill 140, which serves to extend the capping provisions of Bill 79 indefinitely. The new legislation will limit assessment related increases in property tax bills to 5%.

4. Interfund Receivables

As a means of financing certain activities, funds are borrowed by the operating fund from several reserve funds. Both financing and repayments are reflected as interfund transfers and therefore are eliminated from the "Consolidated Statement of Financial Activities". Likewise interfund receivable and payable balances are not reflected on the "Consolidated Statement of Financial Position". The interfund receivable and payable balance as at December 31, 2008 was \$ 57,526,610 (\$ 51,810,319 - 2007).

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

5. Investment in St. Catharines Hydro Inc.

	(in thousands of dollars)	
	2008	2007
	\$	\$
Statement of Financial Position		
Current assets	9,142	11,758
Investments	37,942	35,864
Capital assets	13,901	13,792
Total Assets	60,985	61,414
Current liabilities	1,039	901
Other liabilities	13	11
Long-term note payable	7,754	7,754
Future income tax liabilities	125	182
Total Liabilities	8,931	8,848
Net Assets	52,054	52,566

	(in thousands of dollars)	
	2008	2007
	\$	\$
Statement of Financial Activities		
Revenues	6,192	5,212
Operating expenses	2,837	2,333
Net Income before Discontinued Operations	3,355	2,879
Discontinued Operations		415
Net Income	3,355	3,294

The Company has received approval from the board of directors to reclassify the digester gas demonstration project assets previously recorded as held for sale, to available for use, effective in 2008.

The water heater and sentinel lighting equipment were sold on December 31, 2007 for proceeds of \$ 650,000.

6. Credit Facility

The Municipality has an authorized operating loan of \$ 20,000,000 of which NIL has been drawn upon as at December 31, 2008.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

7. Accounts Payable and Accrued Liabilities

The accounts payable balance is as follows:

	(in thousands of dollars)	
	2008	2007
	\$	\$
Trade accounts payable	5,494	6,510
Payables to other governments	7,828	6,622
Payables to school boards	630	179
Other	9,507	8,330
	23,459	21,641

8. Deferred Revenue - Obligatory Reserve Funds

The following balances are reflected as deferred revenue - obligatory reserve funds as provincial legislation restricts how these funds may be used and under certain circumstances these funds may be refunded.

	(in thousands of dollars)	
	2008	2007
	\$	\$
Impost and development	3,219	3,342
Subdivider deposits	475	457
Federal Public Transit Funds		81
Revenue under the Planning Act	934	709
Future sidewalks	892	845
Gasoline tax	2,442	215
	7,962	5,649

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

9. Employee Future Benefits

The Municipality provides certain employee benefits which will require funding in future periods. Under the sick-leave benefit plan, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Municipality's employment.

The Municipality pays certain medical, dental and life insurance benefits on behalf of its retired employees. The Municipality recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation was determined by actuarial valuation using a discount rate of 5.25% (5.25% - 2007).

The Municipality has established a reserve for the accumulated sick leave liability. The balance as at December 31, 2008 is \$ 3,101,521 (\$ 3,107,234 - 2007).

Defined Benefit Plan Information

	(in thousands of dollars)	
	2008	2007
	\$	\$
Employee benefit plan assets		
Employee benefit plan liabilities	12,330	11,722
Employee benefit plan deficit	12,330	11,722
Accrued benefit obligation, beginning of year	11,722	11,317
Expense for the year	1,169	1,113
Amortization of actuarial losses	37	37
Benefits paid during the year	(598)	(745)
Accrued benefit obligation, end of year	12,330	11,722

As a result of an actuarial valuation conducted in 2008 for the year ending December 31, 2007, it was determined that an actuarial loss of \$ 441,840 existed. This amount is being amortized over the expected average remaining service lives of several employee groups. The unamortized value remaining is \$ 366,929. The actual obligation is \$ 12,697,359.

The next actuarial valuation required is for December 31, 2010.

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

General Inflation - Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2008 and thereafter.

Salary Levels - Future salary and wage levels were assumed to increase at 3.3% per annum.

Medical Costs - Medical costs were assumed to increase at a rate of 10.0% graded down by 1.0% in 2008 and each year thereafter to 5.0% in 2012 and thereafter.

Dental Costs - Dental costs were assumed to increase at a rate of 5.0%.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

10. Net Long-Term Liabilities

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

	(in thousands of dollars)	
	2008	2007
	\$	\$
The Municipality has assumed responsibility for the payment of principal and interest charges on certain long-term liabilities issued by other municipalities. At the end of the year the outstanding principal amount of this liability is	54,097	50,331
Of the long-term liabilities shown above, the responsibility for payment of principal and interest charges for tile drainage and shoreline property assistance has been assumed by individuals. At the end of the year, the outstanding principal amounts of this liability is		(2)
Net long-term liabilities, end of year	54,097	50,329

- (b) Of the net long-term liabilities reported in (a) of this note, \$ 33,533,903 in principal payments are payable from 2009 to 2013, \$ 16,345,386 from 2014 to 2018 and \$ 4,217,551 from 2019 to 2026 .
- (c) The long-term liabilities in (a) issued in the name of the Municipality 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 and Housing.
- (d) Interest expense on long-term debt amounted to \$ 2,678,498 (\$ 2,545,000 - 2007).

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

11. Municipal Fund Balances at the End of the Year

(a) Operating fund balance

	(in thousands of dollars)	
	2008	2007
	\$	\$
To be applied in the following year to operations of the:		
Operating fund	4,128	4,284
Transit	25	25
Library	145	120
Airport Commission	306	247
To be applied to water operations for the following year	2,587	2,986
	7,191	7,662

(b) Capital fund balance

	(in thousands of dollars)	
	2008	2007
	\$	\$
Acquisition of capital assets to be recovered through taxation or user charges	(9,124)	(9,420)
Acquisition of capital assets to be financed from the proceeds of long-term liabilities		(14,617)
Funds available for the acquisition of capital assets	2,038	6,722
	(7,086)	(17,315)

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

11. Municipal Fund Balances at the End of the Year - continued

(c) Reserves and reserve fund balances

	(in thousands of dollars)	
	2008	2007
	\$	\$
Reserves set aside by council for specific purposes:		
Working capital	613	613
Replacement of equipment	10,714	10,818
Cumulative sick leave	3,102	3,107
Library purposes	1,850	1,585
Transit purposes	860	466
Encumbrances	19,485	19,515
Sewer capital	390	2,046
Fire training		24
Move Ontario	299	299
Brownfield	937	1,000
Roads and sewers	160	
Provincial surplus	6,334	
	44,744	39,473
Reserve Funds set aside by council for specific purposes:		
Actifest	8	7
Aquatic facility	39	29
Business improvement purposes	99	99
Community development	39,929	38,728
Hospital levy	2,040	
Mausoleum	656	536
OBRP capital reserve		111
Paratransit capital purposes	3	75
Parking	886	497
	43,660	40,082
	88,404	79,555

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

11. Municipal Fund Balances at the End of the Year - continued

(d) St. Catharines Hydro Inc. net equity

	(in thousands of dollars)	
	2008	2007
	\$	\$
Balance, beginning of year	60,320	59,215
Changes during the year		
Net income for the year	3,355	3,294
Dividends paid during the year	(3,867)	(2,189)
	(512)	1,105
Balance, end of year	59,808	60,320

12. Trust Funds

Trust funds administered by the Municipality amounting to \$ 8,085,000 (\$ 7,850,000 - 2007) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Financial Activities".

13. Pension Agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of 879 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2008 was \$ 3,350,086 (\$ 3,123,461 - 2007) for current service and is included as an expenditure in the "Consolidated Statement of Financial Activities".

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

14. Contractual Obligations and Commitments

Capital expenditures

The estimated future capital expenditures based on projects in progress at December 31, 2008 is approximately \$ 25,376,000 (\$ 17,360,000 - 2007) after deducting the expenditures incurred as at December 31, 2008. These projects will be financed by grants, subsidies and long-term liabilities in future years.

Niagara Health System St. Catharines Hospital

The Municipality is committed to funding \$ 31,200,000 (net present value) of the local share amounting to \$ 60,000,000 to construct a new Niagara Health System ("NHS") hospital complex to be located in St. Catharines. The Municipality has approved a plan which results in an additional annual "tax" levy in the amount of \$ 2,029,605 for the next 3 years and \$ 2,208,959 per year for 15 years thereafter. The schedule of payments to the NHS is anticipated to consist of a lump sum payment of \$ 8,271,760 in 2011 and annual installments of \$ 2,208,959 from 2012 to 2026.

As at December 31, 2008, there is a Hospital Levy reserve fund in the amount of \$ 2,039,492.

15. Contingent Liabilities

From time to time, the Municipality is subject to claims and other lawsuits that arise in the ordinary course of business, some of which may seek damages in substantial amounts, including punitive or extraordinary damages. These claims may be covered by the Municipality's insurance up to a maximum of \$ 20,000,000 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.

16. Contributions to Joint Board

Further to note 1 (a)(ii) the following contributions were made by the Municipality to:

	(in thousands of dollars)	
	2008	2007
	\$	\$
Niagara District Airport Commission	145	111

The Municipality's share of the net assets of the Niagara District Airport Commission is approximately 55%.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

17. Landfill Post Closure Liability

The Municipality currently monitors several landfill sites which were closed in prior years. The liability for post-closure care has been recognized based on monitoring costs included in the 2008 budget and inflation adjusted at 1.2% per annum. These costs were then discounted to December 31, 2008 using a discount rate of 5.25%.

The liability for post-closure care as at December 31, 2008 is \$ 3,441,989 (\$ 4,182,911 - 2007). Estimated annual expenditures for post-closure care are \$ 187,000 (\$ 200,000 - 2007) and are expected to be incurred for the next 34 years.

18. Budget Figures

The approved operating budget for 2008 is reflected on the "Schedule of Operating Fund Activities". These numbers have not been audited but are presented for information purposes only. The budgets established for capital funds, reserves and reserve funds are on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and have not been reflected on their respective schedules.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

19. Financial Instruments

The Municipality's financial instruments consist of cash, taxes and accounts receivable, a note receivable from St. Catharines Hydro Inc., an investment in St. Catharines Hydro Inc., accounts payable and accrued liabilities, obligatory reserve funds, deferred revenue, employee future benefits, landfill post-closure costs and long term debt.

The Municipality is exposed to the following risks:

Credit Risk

The Municipality is exposed to the credit risk on the taxes receivable and accounts receivable from its customers. Allowances are maintained for the potential credit losses. However, because of the large number of customers, credit risk is minimal.

Cash Flow Risk

The Municipality is exposed to the risk that the interest earned on its investments will fluctuate due to the changes in market interest rates. The Municipality manages its investments based on cash flow needs and with a view to optimizing its interest income.

Fair Value

The fair value of the post-employment benefits was determined using an actuarial valuation based on the information presented in note 9 to the financial statements.

Long-term debt is stated at face value. It is not practicable within the constraints of timeliness or cost to determine the fair value of this financial liability with sufficient reliability.

The note receivable and long-term investment are stated at cost. It is not practicable within the constraints of timeliness or cost to determine the fair value of these financial assets with sufficient reliability.

Due to the short-term nature of the Municipality's other financial instruments and the fact that the investments are guaranteed and held until maturity, their face values approximate their carrying values.

20. Comparative Figures

Certain figures have been reclassified to conform with the current year's presentation.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

21. Tangible Capital Assets

Effective January 1, 2008, the Municipality 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. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of Public Sector Accounting Handbook comes into effect on January 1, 2009.

Tangible capital assets are to be initially recorded at historical 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.

Amortization is recorded to reflect the cost, net of anticipated residual value, associated with the use of the asset in providing government services on a straight-line basis over the estimated useful life of the asset. Amortization has not been recorded as an expense within the Municipality's 2008 statement of financial activities. Gains and/or losses on the disposal of an asset will be recorded on the statement of financial activities as "Gain/Loss on Disposal of Assets".

Tangible assets received as contributions are recorded at their fair market value at the date of receipt and are also recorded as revenue.

The historical cost of works of art or historical treasures has not been assigned to these assets nor disclosed in the financial statements.

Asset Class

	<u>Rate</u>	<u>Basis</u>
General Assets		
Land	- NIL	
Land improvements	- 10-75 years	straight line and declining balance
Buildings and building improvements	- 10-75 years	straight line
Machinery and equipment	- 3-75 years	straight line
Furniture and fixtures	- 5-100 years	straight line
Information technology	- 3-12 years	straight line
Vehicles	- 5-20 years	straight line
Infrastructure		
Land	- NIL	
Land improvements	- 10-50 years	straight line and declining balance
Buildings and building improvements	- 15-75 years	straight line
Machinery and equipment	- 7-40 years	straight line
Vehicles	- 7-10 years	straight line
Linear	- 10-100 years	straight line and declining balance

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

21. Tangible Capital Assets - continued

(in thousands of dollars)

	Cost \$	Accumulated Amortization \$	Net Book Value \$
General Assets			
Land	36,726		36,726
Land improvements	35,491	15,363	20,128
Buildings and building improvements	78,737	28,416	50,321
Machinery and equipment	21,682	14,159	7,523
Furniture and fixtures	2,225	902	1,323
Information technology	3,124	1,716	1,408
Vehicles	37,094	13,453	23,641
	215,079	74,009	141,070
Infrastructure			
Land	1,526		1,526
Land improvements	4,336	298	4,038
Buildings and building improvements	20,115	3,426	16,689
Machinery and equipment	12,377	6,484	5,893
Vehicles	7,039	4,581	2,458
Linear	502,669	220,005	282,664
	548,062	234,794	313,268
	763,141	308,803	454,338

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

22. Segmented Reporting

The City of St. Catharines is a lower tier municipality that provides a wide range of services to its citizens. Segments include General Government, Protection, Transportation, Environmental and Recreation and Culture. Major services and activities provided by each segment are as follows:

General Government

Reported in the General Government functional area are the combined functions of general government, health services, social and family services and planning and development.

General government includes services relating to governance, corporate management and program support. These are the combined services of the CAO's office, Financial Management, Legal and Corporate Support Services departments.

Health Services includes the administration, operation and maintenance of City cemeteries. Also included here is the City's commitment to the new Niagara Health System hospital.

Social and family services includes the administration, operation and maintenance of seniors programs and facilities. Also included here are Para Transit Services provided by the St. Catharines Transit Commission.

Planning and development services includes services relating to the Official Plan, zoning, community improvement, the attraction and retention of new and existing businesses and tourism. Also included here are the services provided by the Downtown Association and Port Dalhousie Business Improvement Area.

Protection to Persons and Property

Reported in the Protection to Persons and Property functional area are services relating to fire suppression, prevention, training and communication, the issuance of permits, building inspections and property standards, enforcement of applicable municipal bylaws and technical analysis and recommendations for proposed and existing developments.

Transportation Services

Reported in the Transportation Services functional area are services relating to the construction, rehabilitation and maintenance of City's road and sidewalk network, winter control, parking and parking enforcement and street lighting. Also included are Urban Transit Services provided by the St. Catharines Transit Commission and the City's portion of the Niagara District Airport.

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2008

22. Segmented Reporting - continued

Environmental Services

Reported in the Environmental Services functional area are services relating to the construction, rehabilitation and maintenance of the City's storm sewer, sanitary sewer and waterline network, pollution control, environmental monitoring and the implementation of environmental programs.

Recreation/Culture Services

Reported in the Recreation/Cultural Services functional area are services relating to the administration, operations and maintenance of the City's parks, recreation facilities and programs, museum, heritage facilities and cultural programs. Also included are library services provided by the St. Catharines Public Library Board.

THE CORPORATION OF THE CITY OF ST. CATHARINES

SCHEDULE OF SEGMENTED REPORTING

December 31, 2008
(In thousands of dollars)

	General Government		Protection		Transportation		Environmental		Recreation/Culture		SCHI		Total	
	2008 Actual	2007 Actual	2008 Actual	2007 Actual	2008 Actual	2007 Actual	2008 Actual	2007 Actual	2008 Actual	2007 Actual	2008 Actual	2007 Actual	2008 Actual	2007 Actual
Revenues														
Taxation	12,877	10,442	19,102	17,381	22,893	20,620	3,577	2,115	13,092	15,531			71,541	66,089
Taxation from other governments	426	371	631	617	732	732	118	75	433	551			2,364	2,346
User fees and charges	2,400	2,182	1,069	919	10,525	10,045	13,565	17,813	2,145	2,157			29,704	33,116
Government grants	6,843	1,179	52	39	7,149	5,685	4,835	6,543	4,889	681			23,768	14,127
Contributions from developers	411	284			2,510	5,478	454		14	3			3,389	5,765
Interest and penalties	385	293	570	487	683	578	107	59	391	436			2,136	1,853
Investment income	1,786	2,124	819	819	848	975	129	85	521	792			3,971	4,795
Donations	65	94							343	290			408	384
Other	2,110	1,904	34	30	774	806	14	13	2,769	2,603			5,701	5,356
St. Catharines Hydro Inc. net income											3,355	3,294		
	27,303	18,873	22,145	20,292	46,138	44,919	22,799	26,703	24,597	23,044	3,355	3,294	146,337	137,125
Expenditures														
Salaries and wages	11,398	10,952	19,963	18,489	18,361	17,922	3,948	4,123	11,909	11,730			65,579	63,216
Operating materials and supplies	4,356	4,135	1,295	1,013	8,568	7,537	674	1,690	6,377	6,026			21,270	20,401
Contracted services	2,462	1,588	604	623	3,395	2,360	1,352	7,547	1,556	1,740			9,369	13,858
Rents and financial expenses	115	340	1	1	529	230	168	168	192	146			1,005	885
Interfunctional transfer	(618)	(598)	217	142	(1,325)	(1,320)	1,808	1,859	(82)	(83)				
External transfer	474	290					5		183	187			662	477
Tangible capital assets	944	1,681	1,635	652	14,580	23,088	11,978	20,975	2,176	2,410			31,313	48,806
Debt service	114	95	104	118	735	698	907	759	819	875			2,679	2,545
	19,245	18,483	23,819	21,038	44,843	50,515	20,840	37,121	23,130	23,031			131,877	150,188
Net Revenues (Expenditures)	8,058	390	(1,674)	(746)	1,295	(5,596)	1,959	(10,418)	1,467	13	3,355	3,294	14,460	(13,063)

See accompanying notes

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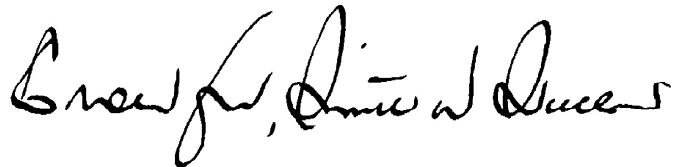
AUDITORS' REPORT - TRUST FUNDS

To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the City of St. Catharines

We have audited the statement of financial position of the trust funds of The Corporation of the City of St. Catharines as at December 31, 2008 and the statement of financial activities and changes in fund balances 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.

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 city as at December 31, 2008 and the continuity of trust funds for year then ended in accordance with Canadian generally accepted accounting principles.



St. Catharines, Ontario
April 6, 2009

CRAWFORD, SMITH AND SWALLOW
CHARTERED ACCOUNTANTS LLP

LICENSED PUBLIC ACCOUNTANTS

THE CORPORATION OF THE CITY OF ST. CATHARINES

STATEMENT OF FINANCIAL POSITION - TRUST FUNDS

December 31, 2008

(In thousands of dollars)

	Total		Cemetery Perpetual Care Fund		Marker Care & Maintenance Fund		Ontario Home Renewal Fund	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Assets								
Cash	178	204	101	32	44	133		
Investments (market value 2008 - \$7,855; 2007 - \$7,628)	7,855	7,628	6,789	6,714	410	302		
Due from operating fund	59	18	43	3	3			
	8,092	7,850	6,933	6,749	457	435		
Liabilities and Fund Balances								
Due to operating fund	7							
Fund balances	8,085	7,850	6,933	6,749	457	435		
	8,092	7,850	6,933	6,749	457	435		

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

STATEMENT OF FINANCIAL POSITION - TRUST FUNDS

December 31, 2008

(In thousands of dollars)

	Winter Games		Memorial Forest		Library Endowment & Trust Fund		Museum Lottery & Bingo	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Assets								
Cash					16	27	17	12
Investments (market value 2008 - \$7,855; 2007 - \$7,628)					656	612		
Due from operating fund			13	14				1
			13	14	672	639	17	13
Liabilities and Fund Balances								
Due to operating fund					7			
Fund balances			13	14	665	639	17	13
			13	14	672	639	17	13

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

STATEMENT OF FINANCIAL ACTIVITIES AND CHANGES IN FUND BALANCES - TRUST FUNDS

for the year ended December 31, 2008

(In thousands of dollars)

	Total		Cemetery Perpetual Care Fund		Marker Care & Maintenance Fund		Ontario Home Renewal Fund	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Balance, Beginning of Year	7,850	7,608	6,749	6,589	435	412		1
Receipts								
Sale of plots, crypts and markers	206	183	184	160	22	23		
Ticket sales	5	8						
Book revenue	15	6						
Interest	368	312	337	269	17	19		
Donations	13	58						
	607	567	521	429	39	42		
Expenditures								
Contribution to operating fund	364	303	337	269	17	19		1
Administration	7	4						
Special projects	1	18						
	372	325	337	269	17	19		1
Balance, End of Year	8,085	7,850	6,933	6,749	457	435		

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

STATEMENT OF FINANCIAL ACTIVITIES AND CHANGES IN FUND BALANCES - TRUST FUNDS

for the year ended December 31, 2008

(In thousands of dollars)

	Winter Games		Memorial Forest		Library Endowment & Trust Fund		Museum Lottery & Bingo	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Balance, Beginning of Year		12	14	17	639	566	13	11
Receipts								
Sale of plots, crypts and markers							5	8
Ticket sales					15	6		
Book revenue					14	24		
Interest					4	47		
Donations			9	11				
			9	11	33	77	5	8
Expenditures								
Contribution to operating fund Administration			10	14	7	4		
Special projects		12					1	6
		12	10	14	7	4	1	6
Balance, End of Year			13	14	665	639	17	13

See accompanying notes

THE CORPORATION OF THE CITY OF ST. CATHARINES

NOTES TO FINANCIAL STATEMENTS - TRUST FUNDS

for the year ended December 31, 2008

1. Significant Accounting Policies

The financial statements of the Municipality's trust funds are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

(a) Basis of accounting

- (i) Revenues 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 measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.
- (iii) Investments are recorded at cost.