

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION OF

**CORPORATION OF THE
CITY OF KINGSTON**

YEAR ENDED DECEMBER 31, 2011

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION OF**

CORPORATION OF THE CITY OF KINGSTON

Year ended December 31, 2011

	<u>Page</u>
AUDITED FINANCIAL STATEMENTS	
Management's Responsibility for the Consolidated Financial Statements	1
Independent Auditors' Report	2
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations	5
Consolidated Statement of Changes in Net Assets (Debt)	6
Consolidated Schedule of Municipal Equity	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9
Consolidated Schedule of Tangible Capital Assets - by Major Asset Class	34
Consolidated Schedule of Segmented Information	35
TRUST FUNDS	
Independent Auditors' Report	36
Statement of Financial Position and Statement of Continuity	38
Notes to Financial Statements	39

Management's Responsibility for the Consolidated Financial Statements

The accompanying consolidated financial statements of the Corporation of the City of Kingston (the "City") are the responsibility of the City's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in Note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

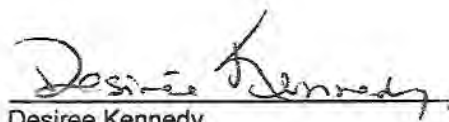
The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Administrative Policies Committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to council approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the City. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the City's consolidated financial statements.



Gerard Hunt
Chief Administrative Officer



Desiree Kennedy
City Treasurer



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Kingston

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kingston, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Kingston as at December 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP



Chartered Accountants, Licensed Public Accountants

June 5, 2012

Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010

(IN THOUSANDS OF DOLLARS)

	2011	2010
FINANCIAL ASSETS:		
Cash and short-term investments	\$ 78,206	\$ 75,628
Taxes receivable	10,734	12,147
Accounts receivable	25,630	33,106
Inventories for resale	13,275	9,999
Notes receivable from government business enterprises (note 18)	14,846	15,446
Long-term investments (note 4)	109,344	96,895
Investment in government business enterprises (notes 18)	24,202	21,248
	276,237	264,469
LIABILITIES:		
Temporary loans (note 7)	(48,761)	(11,200)
Accounts payable and accrued liabilities	(41,113)	(41,260)
Due (to) from government business enterprises:		
Utilities Kingston (note 18)	(997)	(183)
Kingston Hydro Corporation (note 18)	555	(2,279)
Employee future benefit obligations (note 10(d))	(2,705)	(2,653)
Deferred revenue - obligatory reserve funds (note 12)	(40,309)	(38,685)
Deferred revenues	(5,002)	(4,470)
Accrued interest on long-term debt	(2,192)	(2,303)
Long-term liabilities (note 11)	(207,780)	(217,168)
Employee future benefit obligations (note 10(d))	(34,279)	(32,712)
Landfill closure and post closure liabilities (note 14)	(6,711)	(6,566)
	(389,294)	(359,479)
NET FINANCIAL ASSETS (DEBT)	(113,057)	(95,010)
NON-FINANCIAL ASSETS:		
Tangible capital assets (note 19)	1,180,402	1,115,432
Inventories of supplies	1,345	1,500
Prepaid expenses	5,021	5,178
	1,186,768	1,122,110
Contingent liabilities (note 15)		
Commitments (note 16)		
MUNICIPAL EQUITY	\$ 1,073,711	\$ 1,027,100

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

	Budget 2011	Actual 2011	Actual 2010
	(Unaudited, note 17)		
REVENUE:			
Property taxation	\$ 173,628	\$ 175,804	\$ 167,018
Taxation from other governments	14,147	14,082	14,647
User charges	102,617	100,906	99,042
User charges – gas commodity	40,000	22,006	17,098
Government grants	67,748	65,277	65,299
Grants from other municipalities	3,436	3,336	4,135
Investment income	6,212	6,629	7,347
Lot levies	6,200	7,769	6,758
Other	121	2,226	1,996
Transfers from deferred obligatory reserve funds (note 12)	–	2,678	2,021
Government business enterprises net earnings (note 18)	–	2,954	1,567
TOTAL REVENUES	414,109	403,667	386,928
EXPENSES:			
General government	27,437	28,006	29,424
Protection services	63,465	64,078	61,352
Transportation services	51,871	52,933	52,164
Environmental services	58,679	57,536	51,191
Health services	21,953	21,427	20,903
Social and family services	64,382	64,400	70,552
Social housing	25,222	24,391	23,677
Recreational and cultural services	37,717	37,930	35,084
Planning and development	6,474	5,907	3,219
Gas utility	46,588	27,717	23,164
TOTAL EXPENSES	403,788	384,325	370,730
NET REVENUES	10,321	19,342	16,198
OTHER REVENUES:			
Grants and transfers related to capital:			
Government grants		9,264	16,141
Capital grants from other municipalities		58	–
Transfers from deferred obligatory reserve funds (note 12)		13,689	13,135
Donations and other		214	626
Contributed tangible capital assets (note 19(a))		4,044	6,872
		27,269	36,774
ANNUAL SURPLUS		46,611	52,972
MUNICIPAL EQUITY, BEGINNING OF YEAR		1,027,100	974,128
MUNICIPAL EQUITY, END OF YEAR		\$ 1,073,711	\$ 1,027,100

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (DEBT)
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

	Actual 2011	Actual 2010
ANNUAL SURPLUS	\$ 46,611	\$ 52,972
Amortization of tangible capital assets	44,527	42,190
Acquisition of tangible capital assets	(110,823)	(94,840)
Loss on tangible capital assets transactions	1,325	1,751
	(18,360)	2,073
Acquisition of prepaid expenses	157	(1,061)
Acquisition of supplies inventories	156	(45)
DECREASE IN NET ASSETS	(18,047)	967
NET ASSETS (DEBT), BEGINNING OF YEAR	(95,010)	(95,977)
NET ASSETS (DEBT), END OF YEAR	\$ (113,057)	\$ (95,010)

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF MUNICIPAL EQUITY
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

	2011	2010
Current Fund Surplus (Deficit):		
General operating surplus	\$ 3,573	\$ 5,157
Accumulated operating surplus - water	1,563	2,803
Accumulated operating surplus - sewer	1,515	3,284
Accumulated operating surplus - gas	6,511	6,154
Downtown Business Improvement Area	21	(61)
Kingston & Frontenac Housing Corporation	486	113
Kingston Frontenac Public Library Board	259	(77)
Total Current Fund Surplus	13,928	17,373
Investment in Tangible Capital Assets:		
Tangible capital assets (note 19)	1,180,402	1,115,432
Long-term liabilities (note 11)	(226,768)	(227,058)
Unfinanced capital expenditures:		
To be financed from long-term liabilities	(57,321)	(27,296)
To be financed from transfers from reserves and reserve funds	(5,369)	(7,182)
To be financed from taxation or user charges	(10,709)	(8,005)
Unapplied capital receipts	6,263	12,770
Total Investment in Tangible Capital Assets	886,498	858,661
Investment in Government Business Enterprises (note 18)	24,202	21,248
Unfunded Liabilities:		
Employee future benefit obligations (note 10(d))	(35,565)	(33,884)
Landfill closure and post-closure liabilities (note 14)	(6,710)	(6,566)
Accrued interest on long-term debt	(2,192)	(2,303)
Total Unfunded Liabilities	(44,467)	(42,753)
Reserves and Reserve Funds:		
Reserves set aside for specific purpose:		
Working funds	13,426	8,608
Reserve funds set aside for specific purpose:		
Replacement of equipment	18,504	17,609
Replacement & renewal of facilities	5,442	4,200
Municipal capital replacement & renewal	13,655	11,665
Other capital	2,500	1,602
Sanitary sewer system	40,405	33,976
Storm sewer system	311	302
Parks and recreation	2,946	3,760
Libraries	970	407
Waterworks system	17,766	16,960
Planning and development	2,579	3,027
Roads	-	860
Transit	7,825	5,166
Gas utility	10,311	9,653
Sick leave	7,873	7,200
Protective services	4,743	3,511
Environmental Services	2,890	2,162
Social and family services	765	869
Social housing	5,938	8,175
Parking	4,388	5,115
Impost fees for water and wastewater capital	30,313	27,744
	193,550	172,571
MUNICIPAL EQUITY	\$ 1,073,711	\$ 1,027,100

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

	2011	2010
Operations transactions:		
Annual surplus	\$ 46,611	\$ 52,972
Net change in non-cash working capital items:		
Decrease (increase) in taxes receivable	1,413	(1,205)
Decrease (increase) in accounts receivable	7,476	(12,386)
Decrease (increase) in inventories for resale	(3,276)	1,743
Decrease (increase) in inventories of supplies	155	(45)
Decrease (increase) in prepaid expenses	157	(1,062)
Increase (decrease) in accounts payable and accrued liabilities	(147)	2,341
Increase (decrease) in due to government business enterprises	(1,967)	128
Increase in deferred obligatory reserve funds	1,624	1,342
Increase in deferred revenue	532	1,735
Increase (decrease) in accrued interest on long-term debt	(111)	308
	5,856	(7,101)
Items not involving cash:		
Amortization of tangible capital assets	44,527	42,190
Donation of assumed assets	(4,044)	(6,872)
Loss on tangible capital assets transactions	1,325	1,751
Change in landfill closure and post closure liabilities	145	(358)
Change in employee future benefit obligations	1,567	2,090
Equity in government business enterprise from net earnings	(2,954)	(1,567)
Repayment of note receivable by government business enterprise	600	-
	41,166	37,234
Net change in cash from operating transactions	93,633	83,105
Capital transactions:		
Purchase of tangible capital assets	(106,779)	(87,967)
Investment transactions:		
Net purchase of long-term investments	(12,449)	(3,855)
Financing transactions:		
Proceeds from new debt issue	-	38,622
Debt principal repayments	(9,389)	(10,072)
Temporary loan proceeds (repayments)	37,562	(31,800)
Net change in cash from financing transactions	28,173	(3,250)
Increase (decrease) in cash and short-term investments	2,578	(11,967)
Cash and short-term investments, beginning of year	75,628	87,595
Cash and short-term investments, end of year	\$ 78,206	\$ 75,628

The City considers cash and short-term investments to be highly liquid investments with original maturities of three months or less.

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation of the City of Kingston (the "City") are prepared by management in accordance with Canadian Public Sector accounting standards 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 City are as follows:

(a) Reporting Entity:

- i. The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards which are accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City. Interdepartmental and inter-organizational transactions and balances between these organizations have been eliminated.

These consolidated financial statements include:

Downtown Business Improvement Area

Kingston-Frontenac Public Library Board

Kingston & Frontenac Housing Corporation

Kingston, Frontenac and Lennox & Addington Public Health (proportionately consolidated)

1425447 Ontario Limited (consolidated on a modified equity basis)

Kingston Hydro Corporation (consolidated on a modified equity basis)

- ii. Consolidated by proportionate consolidation:

Kingston, Frontenac and Lennox & Addington Public Health is accounted for using the proportionate consolidation method of accounting and reporting, whereby the municipality's pro-rata share of each of the assets, liabilities, revenue and expenses is combined on a line-by-line basis in the financial statements.

- iii. Consolidated on a modified equity basis:

The City's investment in 1425447 Ontario Limited and Kingston Hydro Corporation is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprises' accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(a) Reporting Entity (continued):

iii. Consolidated on a modified equity basis (continued):

The City recognizes its equity interest in the annual income or loss of 1425447 Ontario Limited and Kingston Hydro Corporation in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends that the City may receive from 1425447 Ontario Limited and Kingston Hydro Corporation will be reflected as reductions in the investment asset account.

iv. The charges for long-term liabilities assumed by consolidated entities or by individuals in the case of the drainage and shoreline property assistance loans are reflected in the financial statements.

v. Accounting for school board transactions:

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

vi. Trust funds:

Trust funds and their related operations administered by the City are not included in these financial statements but are reported on separately on the Trust Funds Statement of Continuity and Statement of Financial Position.

(b) Basis of accounting:

Revenue and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the period in which transactions or events occurred that gave rise to the revenue; expenditures are recognized in the period the goods and services are acquired and/or there is a legal obligation to pay.

(c) Investments:

Short-term and long-term investments are recorded at cost plus accrued interest and amortization of purchase premiums and discounts. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

Investment income earned on available current funds and reserve funds (other than obligatory funds) are reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balance.

CORPORATION OF THE CITY OF KINGSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(d) Deferred revenues – obligatory reserve funds:

The City receives restricted contributions under the authority of federal and provincial legislation and City by-laws. These funds by their nature are restricted in their use and until applied to applicable costs are recorded as deferred revenue. Amounts applied to qualifying expenses are recorded as revenue in the fiscal period they are expended.

(e) Deferred revenue:

Deferred revenue represents certain user charges and fees which have been collected but for which the related services have yet to be performed. Deferred revenue also represents contributions that the City has received pursuant to legislation, regulation or agreement that may only be used for certain programs or in the competition of specific work. These amounts are recognized as revenue in the fiscal year the services are performed or related expenses incurred.

(f) Employee future benefit obligations:

The City accrues for certain employee benefits which will require funding in future periods. These benefits include sick leave, life insurance, extended health and dental benefits for early retirees and benefits under the Workplace Safety and Insurance Board Act.

The costs of these benefits earned by employees are actuarially determined using management's best estimate of salary escalation, retirement ages of employees, accumulated sick days, expected health care costs and long term inflation rates and discount rates.

For self-insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as compensated absences and health, dental and life insurance benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains and losses, which can arise from changes in actuarial assumptions, are amortized over the expected average remaining service life of the employee group.

For those self-insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to these benefits are amortized over a period linked to the specific benefit plan.

CORPORATION OF THE CITY OF KINGSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(g) Landfill closure and post-closure liabilities:

The municipality accrues landfill closure and post-closure care requirements that have been defined in accordance with industry standards including final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability has been recognized based on management's best estimate of future expenses, long term inflation rates and discount rates.

Future events may result in significant changes to the estimated total expenses, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

(h) Tangible capital assets:

- i. Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.
- ii. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt or transfer with an offsetting amount recorded as revenue.
- iii. The cost, less residual value, of the tangible capital assets is amortized on a straight line basis over estimated useful lives as follows:

Asset	Useful Life – Years
Land improvements	18 to 75
Buildings and structures	40
Vehicles, machinery and equipment	5 to 20
Furniture and fixtures	20 to 40
Transportation:	
Roads and related	18 to 50
Bridges and structures	60
Streetlights and traffic signals	35 to 40
Storm sewer networks	50
Water and sewer facilities:	
Building structures	50
Building fixtures	15
Electrical and mechanical equipment	10 to 25
Tankage	75
Water and sewer pipes	50 to 80
Water and sewer equipment, meters, hydrants, manholes	15 to 75
Gas facilities	40
Gas mains and services	50
Gas regulator stations & other equipment	5 to 20

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(h) Tangible capital assets (continued):

iii. (continued):

One half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction or development are classified as capital works in progress and are not amortized until the asset is available for productive use.

- iv. When tangible capital assets are disposed of, either by way of a sale, destruction or loss, or abandonment of the asset, the asset's net book value, historical cost less accumulated amortization, is written off. Any resulting gain or loss, equal to the proceeds on disposal less the asset's net book value, is reported on the consolidated statement of operations in the year of disposal. Transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.
- v. When conditions indicate that a tangible capital asset no longer contributes to the City's ability to provide services or the value or the future economic benefits associated with the tangible capital asset are less than its net book value, and the decline is expected to be permanent, the cost and accumulated amortization of the asset are reduced to reflect the revised estimate of the value of the asset's remaining service potential. The resulting net adjustment is reported as an expense on the consolidated statement of operations.
- vi. The City has a capitalization threshold of \$10,000. Individual tangible capital assets of lesser value are expensed, unless they are pooled when, collectively, they have a significant value.

(i) Inventories:

Inventories for resale represent natural gas inventories and land held for resale, which are stated at the lower of weighted average cost and net realizable value. Costs with respect to land held for resale include amounts for improvements to prepare the land for sale or servicing.

Inventories of supplies held for consumption are stated at the lower of cost and replacement cost.

(j) 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes.

Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

2. OPERATIONS OF SCHOOL BOARDS:

Requisitions were made by the school boards requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	2011	2010
	(In thousands of dollars)	
Taxation and user charges	\$ 52,935	\$ 52,432
Payments in lieu	255	242
Amount transferred to school boards	\$ 53,190	\$ 52,674

3. BANK INDEBTEDNESS

The City's financial agreement with its bank provides for an operating credit facility of up to \$10,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the bank's prime rate less 0.5%. As at December 31, 2011, there was \$Nil (2010 - \$Nil) drawn on the operating credit facility.

4. LONG-TERM INVESTMENTS

Long-term investments, which consist primarily of government and financial institution bonds, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest and amortization of purchase premiums and discounts. They have a market value of \$114,779,088 at December 31, 2011 (2010 - \$99,473,918).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

5. CONTRIBUTIONS TO KINGSTON ECONOMIC DEVELOPMENT CORPORATION:

Kingston Economic Development Corporation is incorporated without share capital under the Ontario Corporations Act and the Ontario Municipal Act to enhance economic development in the greater Kingston Area.

The "Consolidated Statement of Operations" includes the following contributions made by the municipality to the corporation:

	2011	2010
	(In thousands of dollars)	
Kingston Economic Development Corporation Grant	\$ 2,514	\$ 2,465

6. TRUST FUNDS:

Trust funds administered by the municipality amounting to \$279,992 (2010 - \$192,739) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

7. TEMPORARY LOANS:

The City has financial agreements with the Ontario Infrastructure Projects Corporation (OIPC) for temporary capital loans up to a maximum of \$96,000,000 for the interim financing of various water, sewer, roads and building capital projects. As at December 31, 2011, the temporary capital loan balance is \$48,761,417 (2010 - \$11,200,000).

8. PROVINCIAL GRANTS:

Certain provincial grants are subject to annual final reviews and approvals by the Ministry. Any adjustments resulting from the review will be reflected in the year of Ministry approval as an adjustment to provincial grant revenues on the "Consolidated Statement of Operations".

9. PENSION AGREEMENTS:

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 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 2011 was \$8,318,853 (2010 - \$6,796,615) for current service and is included as an expenditure on the "Consolidated Statement of Operations".

CORPORATION OF THE CITY OF KINGSTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS:

(a) Extended health care, dental, life insurance and sick leave benefits:

The City pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age 65. In addition, the City provides for an accumulated sick leave benefit plan for certain employees whereby unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. The City recognizes these post-employment and post-retirement costs in the period in which the employees rendered the services. An independent actuarial study of these benefits was undertaken at December 31, 2010 in order to determine the estimated accrued benefit liability to be reported in these financial statements.

Actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employee groups, which is estimated to be between 11 and 13 years.

At December 31, 2011, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$24,963,448 (2010 - \$23,470,961).

The significant actuarial assumptions adopted in estimating the City's accrued benefit liability for extended health, dental, life insurance and sick leave benefits are as follows:

Discount rate	4.75% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	7.0% per annum in 2011, decreasing to 4.0% over 9 years

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

(a) Extended health care, dental, life insurance and sick leave benefits (continued):

Information with respect to the City's post-retirement and post-employment obligations is as follows:

	2011	2010
	(In thousands of dollars)	
Accrued benefit liability, January 1	\$ 23,471	\$ 22,079
Expense recognized for the period	2,747	2,764
Benefits paid for the period	(1,890)	(2,049)
Amortization of actuarial gains/losses	635	677
Accrued benefit liability, December 31	\$ 24,963	\$ 23,471

The accrued benefit liability at December 31 includes the following components:

	2011	2010
	(In thousands of dollars)	
Accrued benefit obligation	\$ 28,799	\$ 28,469
Unamortized actuarial losses	(4,359)	(5,564)
Unamortized actuarial gain	523	566
Accrued benefit liability, December 31	\$ 24,963	\$ 23,471

(b) Workplace Safety and Insurance Board ("WSIB") Act:

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board Act, the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund disability payments. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was undertaken at December 31, 2010 in order to determine the estimated liability reported in these financial.

Actuarial gains and losses are amortized on a straight-line basis over the mean term of the liabilities which is estimated to be 10 years.

At December 31, 2011, the City's accrued benefit liability relating to future WSIB claims is \$10,500,994 (2010 - \$10,465,959).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

(b) Workplace Safety and Insurance Board ("WSIB") Act (continued):

The significant actuarial assumptions adopted in estimating the City's accrued benefit obligation for WSIB claims are as follows:

Discount rate	4.75% per annum
Inflation rate	2.0% per annum
Compensation costs, including loss of earnings benefits, health care costs and non-economic loss awards	0% to 6% per annum, depending on benefit type
Administration costs	24% of compensation expense

Information with respect to the City's Workplace Safety and Insurance Board future payments is as follows:

	2011	2010
(In thousands of dollars)		
Accrued benefit liability, beginning of year	\$ 10,466	\$ 9,684
Expense recognized for the period	1,468	2,511
Benefits paid for the period	(1,516)	(1,907)
Amortization of net actuarial loss	83	178
Accrued benefit liability, end of year	\$ 10,501	\$ 10,466

The accrued benefit liability at December 31 includes the following components:

	2011	2010
(In thousands of dollars)		
Accrued benefit obligation	\$ 10,172	\$ 11,175
Unamortized actuarial losses	(539)	(718)
Unamortized actuarial gain	868	9
Accrued benefit liability, end of year	\$ 10,501	\$ 10,466

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the City's benefit plans for vacation time. Vacation credits earned as at December 31, 2011 amount to \$1,271,596 (2010 - \$1,183,784).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

(d) Total employee benefit obligations:

	2011	2010
	(In thousands of dollars)	
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 22,439	\$ 20,972
Workplace safety and insurance	10,501	10,466
Vacation credits	1,092	1,030
Pension payable	247	244
	34,279	32,712
Health benefits and sick leave – water, sewer and gas utilities (note 18(a))	2,525	2,499
Vacation credits – water, sewer and gas utilities	180	154
	2,705	2,653
Total employee benefit obligations	36,984	35,365
Amounts previously funded from operating revenues	(1,419)	(1,481)
Unfunded employee future benefit obligations	\$ 35,565	\$ 33,884
To be recovered from reserve funds	\$ 7,873	\$ 7,200
To be recovered from future revenues	27,692	26,684
	\$ 35,565	\$ 33,884

The City has established reserve funds to mitigate the future impact of certain sick leave obligations.

Employee future benefit obligations for water, sewer and gas utilities are payable to 1425445 Ontario Limited (operating as Utilities Kingston) and relate to accrued employee costs incurred by the Company in managing these utility operations for the City.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

11. LONG-TERM LIABILITIES:

- (a) The long-term liabilities reported on the "Consolidated Statement of Financial Position" are made up of the following:

	2011	2010
	(In thousands of dollars)	
Long-term liabilities incurred by the municipality, including those incurred on behalf of other municipalities and municipal enterprises, with varying maturities up to 2040 and a weighted average interest rate of 4.5% (2010 4.6%)	\$ 217,771	\$ 217,833
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation, with an interest rate of 5.4%, maturing 2028	4,724	4,819
Proportionate share of KFLA Public Health long-term debt, with an interest rate of 6.1%, maturing 2013	4,273	4,406
Total long-term liabilities	\$ 226,768	\$ 227,058
Less long-term borrowings from own funds	\$ (18,988)	\$ (9,890)
Long-term liabilities to be recovered from future revenues	\$ 207,780	\$217,168
Of the municipal debt shown above, the responsibility for payment of principal and interest charges for the tile drainage loans has been assumed by individuals	\$ (122)	\$ (128)

- (b) Principal due on total long-term liabilities is summarized as follows:

(In thousands of \$)	2012	2013	2014	2015	2016	2017+	Total
Tax sources	\$ 4,799	\$ 4,496	\$ 4,113	\$ 4,189	\$ 3,986	\$ 48,542	\$ 70,125
Utility user fees	2,783	2,763	2,850	2,920	2,423	60,872	74,611
Other user fees	1,769	1,821	1,825	1,747	1,825	64,048	73,035
Public Health	139	152	161	172	183	3,466	4,273
Housing Corp	100	106	111	117	124	4,166	4,724
	\$ 9,590	\$ 9,338	\$ 9,060	\$ 9,145	\$ 8,541	\$ 181,094	\$ 226,768

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

11. LONG-TERM LIABILITIES (CONTINUED):

- (c) The long-term liabilities in (a), issued in the name of the municipality, have been approved by either the Ontario Municipal Board or 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 & Housing.

Approval by by-law has also been obtained for pending issues of long-term liabilities and commitments to be financed by revenues beyond the term of Council. The principal and interest payments required to service pending issues and commitments are also within the debt repayment limit prescribed by the Ministry of Municipal Affairs & Housing.

- (d) Total debt charges incurred during the year with respect to the long-term liabilities in (a), are as follows:

	2011	2010
	(In thousands of dollars)	
Principal payments	\$ 9,389	\$ 10,072
Interest	11,471	10,141
	<u>\$ 20,860</u>	<u>\$ 20,213</u>

Interest charges are included on the "Consolidated Statement of Operations", classified under the appropriate functional expenditure headings.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

12. DEFERRED REVENUE – OBLIGATORY RESERVE FUNDS:

A requirement of the public sector accounting standards of the Canadian Institute of Chartered Accountants is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial and municipal legislation restricts how these funds may be used. The balances in the obligatory reserve funds of the City are summarized below:

	2011	2010
(In thousands of dollars)		
Balance, beginning of year	\$ 38,685	\$ 37,343
Revenues:		
Development contributions	7,582	6,254
Federal gasoline tax	7,191	7,214
Provincial gasoline tax	1,984	1,971
Building Code Act	–	17
Recreational Land (Planning Act)	120	70
Investment income	1,114	971
Utilization:		
Transfers for operating	(2,678)	(2,020)
Transfers for capital	(13,689)	(13,135)
Balance, end of year	\$ 40,309	\$ 38,685

	2011	2010
(In thousands of dollars)		
Analyzed as follows:		
Development charges	\$ 23,218	\$ 19,035
Cash in lieu of parkland	251	235
Provincial gasoline tax	298	297
Federal gasoline tax	6,384	6,709
Infrastructure Ontario Act	5,750	7,671
Building Code Act	4,408	4,738
	\$ 40,309	\$ 38,685

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

13. PROVINCIAL OFFENCES ADMINISTRATION (POA):

Effective March 13, 2000, the City of Kingston assumed the administration of the Provincial Offences Office in Kingston. The transfer of administration from the Ministry of Attorney General to the City was a result of Provincial Offences Act (POA) 1977, which provides the framework for the transfer of responsibility and administration of POA courts.

The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Compulsory Automobile Insurance Act, Trespass to Property Act, Liquor Licence Act, Municipal By-Laws and minor federal offences. The POA governs all aspects of legal process from serving notice to a defendant, to conducting trials, including sentencing and appeals.

Balances arising from operation of the POA office have been consolidated with these financial statements effective from the March 13, 2000 assumption of this operation by the City. The revenue of the court office consists of fines levied under Parts I and III (including delay penalties) for POA charges filed in the Kingston court.

Offenders may pay their fines at any court office in Ontario, at which time their receipt is recorded in the Integrated Courts Operation Network System ("ICON") operated by the Province of Ontario. Revenue is recognized when receipt of funds is recorded by the provincial ICON system regardless of the location where payment is made. Total revenue and expenditures of the POA office are as follows:

	2011	2010
	(In thousands of dollars)	
Gross revenues received	\$ 1,974	\$ 2,054
Gross expenditures	998	974
Net revenues	\$ 976	\$ 1,080

14. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY:

The Environmental Protection Act sets out the regulatory requirements to properly close and maintain all active and inactive landfill sites. Under environmental law, there is a requirement for closure and post-closure care of solid waste landfill sites. This requirement is to be provided for over the estimated remaining life of the landfill site based on usage.

Landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a twenty-seven year period using the best information available to management. Future events may result in significant changes to the estimated total expenditures, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

14. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY (CONTINUED):

The City currently has one active and two inactive landfill sites. The Kingston East site was closed to use by the public by December 31, 2010, but will remain open to dispose of waste collected by the municipality until filled, estimated to be in 2013. Estimated total landfill closure and post-closure care requirements include closure activities as well as annual post-closure maintenance and monitoring requirements for a 25 year period.

The Kingston West site was closed in 1989. The Belle Park Landfill site was closed in 1976. Post-closure care requirements include additional closure costs anticipated for these sites as well as annual post-closure maintenance and monitoring requirements, calculated for a 25 year period.

Estimated total expenditures represent the sum of the discounted future cash flows for closure and post-closure care activities discounted at the City's average long-term borrowing rate of 4.75% and using an assumed rate of 2.0% for inflation. The estimated total landfill closure and post-closure care expenditures are calculated to be approximately \$6.9 million. For sites that are still active, the estimated liability for these expenditures is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities on the Consolidated Statement of Financial Position at December 31, 2011 is an amount of \$6,710,472 (2010 - \$6,565,524) with respect to landfill closure and post-closure liabilities recognized to date.

15. CONTINGENT LIABILITIES:

- (a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2011, management believes that the City has valid defences and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.
- (b) The City operated a coal gasification plant within the downtown area of the City from the mid-1800's through to the 1950's. Coal tar, a by-product of the coal gasification process, may have led to the contamination of soils and groundwater in the area of the former plant.

In some cases, private properties may have coal tar or coal compounds in the deep groundwater beneath them in which case some years ago the City provided written notice to the owner and at the same time confirmed that there were no risks to human health related to coal tar. The City has a community improvement brownfields program in place that may provide funding for incremental costs, if any, that are directly related to coal tar. In addition, the City may enter into agreements that provide for indemnities to landowners against any third party claims or Ministry of Environment orders should any such claim or order arise.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

15. CONTINGENT LIABILITIES (CONTINUED):

(b) (continued):

Existing agreements related to coal tar do not establish any current financial obligation for the City. The amount of any potential liability or the likelihood thereof with respect to any potentially contaminated properties is not determinable, therefore no amount has been accrued in the financial statements.

16. COMMITMENTS:

- (a) The City of Kingston has negotiated a non-exclusive long-term contract with Waste Management of Canada (formerly Canadian Waste Disposal) for handling and disposal of garbage which expires on January 31, 2014. Annual charges under the contract are determined by reference to certain waste volumes handled. Payments made under the contract for the year 2011 were approximately \$1,727,148 (2010 - \$1,684,790).
- (b) 1425445 Ontario Limited (operating as Utilities Kingston) has entered into operating contracts to provide gas transportation, gas storage and purchases of natural gas as part of the management agreement with the City of Kingston. Costs incurred have been reimbursed and are reported as expenditures on the Consolidated Statement of Operations.
- (c) The City previously entered into an agreement with the County of Frontenac to share in the capital cost of the reconstruction project for Fairmount Home for the Aged. The majority of total project cost of \$18.2 million has been financed by long-term debt in the amount of \$17.2 million. The City is responsible for 68% of the related debt repayment costs and incurred related debt charges in 2011 in the amount of \$712,503 (2010 - \$712,503).
- (d) In 2008, the Corporation of the City of Kingston pledged to the University Hospitals Kingston Foundation, a joint fundraising appeal undertaken by the Foundation on behalf of local hospitals, \$10,000,000 plus 50% of the costs of development charges and impost fees up to a maximum of \$6,000,000. The City has paid \$4,750,000 of this 10-year commitment as of December 31, 2011.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

16. COMMITMENTS (CONTINUED):

(e) The Corporation of the City of Kingston and 1425445 Ontario Limited (operating as Utilities Kingston) on behalf of the City of Kingston have entered into capital contracts during 2011 for the following projects:

Description of project	Total contract price	Costs incurred to date
	(In thousands of dollars)	
Lake Ontario Park Revitalization	\$ 4,322	\$ --
Fire Training Centre	\$ 2,699	\$ 1,435
Solar Panel Installation	\$ 1,440	\$ 733
701 Division- Public Works Facility	\$ 6,636	\$ 5,398

17. BUDGET FIGURES:

Budget figures have not been audited and are presented for information purposes only. Budget figures reported on the Consolidated Statement of Operations are based on the 2011 municipal and utility operating budgets as approved by Council on March 1, 2011, and include subsequent council approved amendments.

Approved budget figures also include council approved budget estimates for Public Sector Accounting Board (PSAB) reporting requirements. The chart below reconciles the approved City operating budgets and PSAB budget estimates to the total consolidated budget figures as reported on the Consolidated Statement of Operations.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

17. BUDGET FIGURES (CONTINUED):

	Budget Amount (In thousands of dollars)
Total approved operating budget revenues	\$ 384,098
Consolidated external agency budgets	14,689
Social Housing Renovation and Retrofit Funding	5,205
PSAB reporting adjustments:	
Reserve fund revenues	11,200
Less transfers from reserves / reserve funds	(1,083)
Net operating budget revenues	414,109
Total approved operating budget expenses	384,098
Consolidated external agency budgets	14,058
Social Housing Renovation and Retrofit Funding transfers	5,205
PSAB reporting adjustments:	
Amortization of tangible capital assets	40,000
Non-tangible capital asset expenditures	11,000
Reserve fund expenditures for debt interest	10,500
Unfunded accruals for employee future benefit obligations, landfill closure and post-closure liabilities and accrued interest on long term debt	2,400
Less transfers to reserves / reserve funds	(63,149)
Less debt principal repayments	(324)
Net operating budget expenses	403,788
Annual operating surplus before capital investment	\$ 10,321

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES:

- (a) 1425447 Ontario Limited and Kingston Hydro Corporation are government business enterprises of the City and accounted for on a modified equity basis in these financial statements.

The principal business of Kingston Hydro Corporation is to distribute electric power to City residents and to manage the City's electric distribution system. 1425447 Ontario Limited holds the shares of 1425445 Ontario Limited (operating as Utilities Kingston), which manages the electric operations for Kingston Hydro Corporation and the water, sewer and gas operations for the City of Kingston. 1425445 Ontario Limited (operating as Utilities Kingston) also owns and operates the fibre optics business.

The following table provides condensed supplementary financial information for 1425447 Ontario Limited, which includes the operations of 1425445 Ontario Limited (operating as Utilities Kingston), and for Kingston Hydro Corporation.

	2011	2010
(In thousands of dollars)		
Financial position		
Current assets	\$ 17,634	\$ 17,109
Due from City of Kingston:		
Utilities Kingston	997	183
Kingston Hydro Corporation	(555)	2,279
Post employment benefit obligation	2,525	2,499
Accrued vacation liabilities	243	211
Capital assets	36,666	34,870
Regulatory assets	8,623	3,930
Deferred charges	1,895	2,441
Total assets	68,028	63,522
Current liabilities	20,472	17,581
Post employment benefit obligation	3,809	3,759
Accrued vacation and pension liabilities	166	164
Accrued liabilities non-current	2,497	3,008
Long-term loan payable	2,036	2,316
Long-term notes payable to City of Kingston (note 18 (c))	14,846	15,446
Total liabilities	43,826	42,274
Net assets	\$ 24,202	\$ 21,248
Common shares	\$ 12,381	\$ 12,381
Redeemable preferred shares	3,465	3,465
Accumulated earnings	8,356	5,402
Investment in government business enterprises	\$ 24,202	\$ 21,248

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES (CONTINUED):

(a) (continued):

	2011	2010
	(In thousands of dollars)	
Results of operations:		
Net utility revenues	\$ 80,397	\$ 90,609
Operating expenses	(74,065)	(84,633)
Interest on debt	(1,245)	(1,203)
Capital tax	--	(7)
Depreciation	(2,854)	(3,036)
Net earnings before income taxes	2,233	1,730
Payments in lieu of corporate income taxes	330	528
Net earnings	1,903	1,202
Increase in contributed surplus	1,051	365
	2,954	1,567
Accumulated earnings, beginning of year	5,402	3,835
Accumulated earnings, end of year	\$ 8,356	\$ 5,402

(b) In accordance with related party reporting requirements, 1425445 Ontario Limited (operating as Utilities Kingston) reported contract expense recoveries during the year from Kingston Hydro Corporation and the City of Kingston in the amounts of \$12,584,240 (2010 - \$9,944,539) and \$48,795,725 (2010 - \$61,693,210) respectively.

In addition, the City contracted to provide financial, human resources, legal and information technology services to both 1425445 Ontario Limited (operating as Utilities Kingston) and Kingston Hydro Corporation in the amount of \$2,661,853 (2010 - \$2,252,950).

As at December 31, 2011, the City had a balance owing to 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$997,381 (2010 - \$182,532) and a balance due from (to) Kingston Hydro Corporation in the amount of \$554,774 (2010 - (\$2,279,091)), representing the net balance of cash receipts and disbursements processed on behalf of the Companies.

Charges for the above services are recorded at exchange amounts established and agreed to by the related parties.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES (CONTINUED):

(c) On January 1, 2000, the City of Kingston took a note payable for an amount equivalent to 50% of the value of net assets transferred for both Kingston Hydro Corporation and 1425445 Ontario Limited (operating as Utilities Kingston). As at December 31, 2011, the City had a note payable from Kingston Hydro in the amount of \$10,880,619 (2010 - \$10,880,619), bearing interest at 5.87% (2010 - 7.25%) per annum and due from 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$965,010 (2010 - \$965,010), bearing interest at 7.25% per annum. Both notes payable have no fixed terms of repayment before January 1, 2013.

On January 1, 2010, the City exchanged the investment of \$3,000,000 in Class D shares held in 1425445 Ontario Limited (operating as Utilities Kingston) for a \$3,000,000 note payable bearing interest at 5% with no fixed terms of repayment. The dividend receivable of \$600,000 was exchanged for a note receivable from 1425445 Ontario Limited (operating as Utilities Kingston) bearing no interest and no fixed terms of repayment and was repaid to the City of Kingston during 2011.

19. TANGIBLE CAPITAL ASSETS:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
(In thousands of dollars)				
GENERAL ASSETS				
Land	\$ 73,643	\$ —	\$ 73,643	\$ 72,290
Land improvements	37,757	11,370	26,387	17,270
Buildings	284,496	74,017	210,479	188,098
Vehicles and machinery	59,761	32,997	26,764	28,848
Furniture, fixtures and equipment	56,453	24,443	32,010	23,827
INFRASTRUCTURE ASSETS				
Land	8,922	—	8,922	8,744
Land improvements	34,080	21,713	12,367	13,755
Plants and facilities	278,415	97,691	180,724	185,961
Roads	334,310	181,309	153,001	149,656
Bridges and culverts	31,608	8,318	23,290	19,783
Utility networks	370,262	86,292	283,970	276,462
Other	188,371	77,313	111,058	106,891
	1,758,078	615,463	1,142,615	1,091,585
Assets under construction	37,787	—	37,787	23,847
	\$ 1,795,865	\$ 615,463	\$ 1,180,402	\$ 1,115,432

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

19. TANGIBLE CAPITAL ASSETS (CONTINUED):

The Consolidated Schedule of Tangible Capital Assets provides additional information on the tangible capital assets and accumulated amortization of the City by major asset class. The following information relates to other valuation and reporting aspects of the City's tangible capital assets.

(a) Contributed tangible capital assets:

The City records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or the date of transfer of risk and responsibility. In 2011, a total of \$4,044,113 (2010 - \$6,872,357) was recorded as tangible capital asset additions with respect to contributed capital assets which was comprised of roads infrastructure in the amount of \$2,347,934 (2010 - \$4,985,788) and water and wastewater infrastructure in the amount of \$1,696,179 (2010 - \$1,886,569).

(b) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2010 \$Nil).

(c) Works of art and historical treasures:

The definition of tangible capital assets specifically excludes museum and gallery collections and other works of art. The City owns a number of paintings, other pieces of artwork and museum artifacts that are displayed in various City buildings. These assets are not recorded as tangible capital assets and are not amortized.

(d) Capitalization of interest:

As per City policy, interest costs incurred with respect to financing the acquisition or construction of a tangible capital asset up to the date that the asset goes into use are not capitalized. In 2011, these interest costs are included as expenses on the "Consolidated Statement of Operations" in the amount of \$1,246,687 (2010 - \$960,437).

20. SEGMENTED INFORMATION:

The City is a municipal government institution, responsible for providing a range of services to its citizens. For management reporting purposes the City's operations and activities are organized and reported by department. These departments are reported by functional area in the body of the financial statements similar to reporting reflected in the Ontario Financial Information Return. These functional areas represent segments for the City of Kingston and expanded disclosure by object has been reflected in the Consolidated Schedule of Segment Information.

For each segment separately reported, the segment revenue and expenditures represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis. Therefore, certain allocation methodologies are employed in the preparation of segmented financial information.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

20. SEGMENTED INFORMATION (CONTINUED):

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

A brief description of each segment follows:

- (a) General government: Includes corporate services and governance of the City. Administration as a segment includes operating and maintaining city owned buildings, human resource management, support to Council for policy development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as frontline reception and customer service.
- (b) Protection services: Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.
- (c) Transportation services: Includes administration and operation of traffic, airport, parking and transit services for the municipality as well as winter and summer road maintenance services, repair and construction of the municipal roads system including bridges and culverts, and operation and maintenance of a fleet of vehicles and equipment for use in providing services to the city.
- (d) Environmental services: Includes waste collection, disposal and recycling services.
- (e) Wastewater: Own and operate waste water facilities and infrastructure and provide sanitary sewer services within the municipality.
- (f) Water: Own and operate a water treatment and distribution network within the municipality.
- (g) Health services: Provides funding for local Public health organizations and land ambulance operations.
- (h) Social and family services and housing: Manages social assistance as well as funding for childcare and housing. In addition, the municipality owns and operates a long term care residence for seniors.
- (i) Recreation and cultural services: Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields, arena, the Grand Theatre and the K-Rock Centre.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(IN THOUSANDS OF DOLLARS)

20. SEGMENTED INFORMATION (CONTINUED):

- (j) Planning and development services: Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. Also facilitates economic development by providing services for the approval of all land development plans and the application and enforcement of the zoning by-law and official plan.
- (k) Gas works: Own and operate a natural gas distribution network within specific areas of the municipality.

21. COMPARATIVE FIGURES:

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS – BY MAJOR ASSET CLASS
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

	GENERAL ASSETS					INFRASTRUCTURE ASSETS							TOTALS		
	Land	Land Improvements	Buildings	Vehicles and Machinery	Furniture, Fixtures and Equipment	Land	Land Improvements	Plants and Facilities	Roads	Bridges and Culverts	Utility Networks	Other	Capital Works in Progress	2011	2010
Cost															
Balance, beginning of year	\$ 72,290	\$ 27,853	\$ 255,439	\$ 53,234	\$ 44,710	\$ 8,744	\$ 34,080	\$ 275,411	\$ 327,180	\$ 27,950	\$ 359,656	\$ 180,274	\$ 23,648	\$ 1,689,667	\$ 1,621,199
Add: Additions	1,353	9,904	29,058	2,030	12,384	178	-	3,426	12,224	4,224	13,281	8,822	13,939	110,823	94,839
Less: Disposals	-	-	-	(5,503)	(641)	-	-	(422)	(5,094)	(566)	(1,675)	(725)	-	(14,826)	(16,371)
Balance, end of year	\$ 73,643	\$ 37,757	\$ 284,496	\$ 59,761	\$ 56,453	\$ 8,922	\$ 34,080	\$ 278,415	\$ 334,310	\$ 31,608	\$ 370,262	\$ 188,371	\$ 37,787	\$ 1,795,864	\$ 1,699,667
Accumulated Amortization															
Balance, beginning of year	-	10,594	67,340	34,387	20,883	-	20,325	89,450	177,524	8,167	82,194	73,383	-	594,236	556,666
Add: Amortization	-	786	6,677	3,948	4,194	-	1,388	8,625	8,073	476	5,773	4,587	-	44,527	42,190
Less: Accumulated amortization on disposals	-	-	-	(5,338)	(634)	-	-	(384)	(4,288)	(325)	(1,675)	(657)	-	(13,301)	(14,620)
Balance, end of year	-	11,370	74,017	32,997	24,443	-	21,713	97,691	181,309	8,318	86,292	77,313	-	615,462	564,235
Net Book Value of Tangible Capital Assets	\$ 73,643	\$ 26,387	\$ 210,479	\$ 26,764	\$ 32,010	\$ 8,922	\$ 12,367	\$ 180,724	\$ 153,001	\$ 23,290	\$ 283,970	\$ 111,058	\$ 37,787	\$ 1,180,402	\$ 1,115,432

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION
YEAR ENDED DECEMBER 31, 2011, WITH COMPARATIVE FIGURES FOR 2010
(IN THOUSANDS OF DOLLARS)

Revenue:	General Government	Protection Services	Transportation Services	Environmental Services	Waste Water	Water	Health Services	Social & Family Services	Recreation & Cultural Services	Planning & Development Services	Gas Works	Total 2011	Total 2010
Government grants	\$ 4,000	\$ 1,437	\$ 1,748	\$ 1,229	\$ 1,667	\$ 2,128	\$ 10,054	\$ 52,382	\$ 1,678	\$ 202	\$ -	\$ 76,525	\$ 88,169
Other municipalities	-	164	388	227	-	-	-	1,908	706	-	-	3,384	4,135
User fees and service charges	7,758	4,800	15,051	2,423	23,753	18,534	797	7,350	10,192	1,065	11,895	103,418	99,437
User fees - gas commodity	-	-	-	-	-	-	-	-	-	-	22,006	22,006	17,098
Other	2,435	566	12,454	9,180	-	-	-	-	1,464	-	25	26,124	23,350
	14,193	6,767	29,641	13,059	25,420	20,662	10,851	61,640	14,040	1,267	33,926	231,466	233,189
Expenses:													
Salaries, wages and employee benefits	17,484	51,227	20,768	3,795	-	-	10,181	22,935	17,301	2,819	-	146,510	138,607
Materials	4,280	4,389	11,987	665	-	-	2,379	6,648	5,067	474	19	35,908	32,285
Contracted services	5,727	2,207	4,211	5,434	13,021	9,871	554	1,898	3,771	472	3,174	50,340	53,175
Gas commodity purchases	-	-	-	-	-	-	-	-	-	-	22,006	22,006	17,098
Rents and financial expenses	954	1,459	2,572	1,081	3,323	172	279	472	4,529	124	146	15,113	14,324
External transfers	1,890	1,619	1,968	-	-	-	7,661	53,785	945	2,052	-	69,920	73,116
Amortization	2,807	2,759	13,349	2,232	8,174	6,532	373	1,556	4,898	-	1,848	44,527	42,190
Inter-departmental charges	(5,136)	417	(1,921)	1,605	819	812	-	1,498	1,417	(36)	524	-	-
Excess of expenditures over revenue	28,006	64,078	52,933	14,812	25,336	17,387	21,427	88,792	37,929	5,907	27,717	384,325	370,795
Funded through:	(13,814)	(57,311)	(23,292)	(1,753)	84	3,275	(10,576)	(27,152)	(23,890)	(4,639)	6,209	(152,859)	(137,606)
Taxation												175,804	167,018
Payments in lieu of taxation												14,082	14,647
Investment in Government Business Enterprise												2,954	1,567
Investment Income												6,629	7,346
Annual surplus												199,469	190,578
												\$ 46,611	\$ 52,972



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
Fax (613) 549-6349
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of the Corporation of the City of Kingston

We have audited the financial statements of the trust fund of the Corporation of the City of Kingston, which comprise the statement of financial position as at December 31, 2011 and the statement of continuity of trust fund for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many trust funds, the Corporation of the City of Kingston trust fund derives revenue from residents' deposits, 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 entity and we were not able to determine whether any adjustments might be necessary to contributions, excess of revenues over expenses, current assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Kingston trust fund as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP



Chartered Accountants, Licensed Public Accountants

June 5, 2012

Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON
TRUST FUNDS

Name of Fund	Rideaucrest Residents Funds	Rideaucrest Donations and Endowments	Other	Total 2011	Total 2010
Statements of Financial Position					
As at December 31, 2011, with comparative figures for 2010					
Assets					
Cash and short-term investments	\$ 27,183	\$ 166,536	\$ 86,273	\$ 279,992	\$ 192,739
	\$ 27,183	\$ 166,536	\$ 86,273	\$ 279,992	\$ 192,739
Fund balances:					
Unexpended trust	\$ --	\$ 40,400	\$ 25,000	\$ 65,400	\$ 65,400
Capital/earned surplus	27,183	126,136	61,273	214,592	127,339
	\$ 27,183	\$ 166,536	\$ 86,273	\$ 279,992	\$ 192,739
Statements of Continuity					
Year ended December 31, 2011, with comparative figures for 2010					
Balances, beginning of year	\$ 36,897	\$ 70,912	\$ 84,930	\$ 192,739	\$ 297,667
Donations and other revenue	119,276	137,136	189	256,601	149,882
Interest earned	520	1,629	1,154	3,303	2,457
	156,693	209,677	86,273	452,643	450,006
Expenditures	129,510	43,141	--	172,651	257,267
Balances, end of year	\$ 27,183	\$ 166,536	\$ 86,273	\$ 279,992	\$ 192,739

CORPORATION OF THE CITY OF KINGSTON
TRUST FUNDS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

1. Significant accounting policies:

The financial statements of the Corporation of the City of Kingston Trust Funds 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.

(a) Basis of accounting:

These statements reflect the assets, liabilities, revenue and expenditures of the Trust Funds.

(b) Revenue recognition:

Revenue and expenditures are recorded on an accrual basis.

The accrual basis recognizes revenue 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.

(c) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the period. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

2. Statement of changes in financial position:

A statement of changes in financial position has not been included in these financial statements as it would not provide additional meaningful information.