



KITCHENER  
FINANCIAL  
REPORT  
Year Ended December 31, 2013

Prepared by: Accounting Division  
Finance and Corporate  
Services Department  
Kitchener, Ontario, Canada





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# Innovative leadership

**K**itchener is a city that leads, that innovates, and is future-focused. We are also committed to sound financial management. We have found that balance between innovation and affordability. By exploring ideas and opportunities – and having the conviction to follow-through on decisions – Kitchener continues to position itself as a forward-looking city that knows how to take responsible risks in its financial and community investments.

Kitchener's track record of innovative leadership and decision making is legendary. We are only one of two Ontario municipalities that retained ownership of our gas utility. We created the \$110 million Economic Development Investment Fund which has helped generate more than \$1 billion in investment in the downtown since 2004. We implemented Canada's first impervious area based stormwater utility – something more and more municipalities are moving towards. Over 100 years of innovation, while always keeping firmly grounded in our roots of prudence, fiscal accountability and transparency.



# & fiscal accountability

Many of our bold decisions were not always popular. It took a lot of hard work to see success, a lot of conviction to stay the course, and a lot of planning - visionary planning - with an eye clearly on a picture of a better Kitchener. Kitchener City Council and staff showed vision, collaboration, respect, and accountability in making these tough decisions that impact our tax base.

And, with the recent launch of a new open data portal, the city is strengthening its commitment to transparency and accessibility to information. As the open data portal evolves, it will be exciting to see the connection between the community's access to information about the business of the city and how everyone can get even more involved in decision making.

Talk to us, work with us – we're open!

Kitchener's track record of innovative leadership and decision making is legendary.

# Kitchener City Council

**K**itchener city council is an elected body, made up of one mayor and 10 city councillors. All council members are elected for a four-year term. The mayor is elected by voters from all parts of the city; and councillors are elected by voters within specific wards.

The 22nd largest city in Canada, with the quality of life usually found in a small town

Members of city council meet at regularly scheduled council and committee meetings throughout the year to discuss issues facing the city and its residents - as well as day-to-day operational business, and to make decisions on those items based on information presented by city staff as well as their own knowledge and beliefs, and the opinions expressed by constituents.

Public hearings, special council meetings, business license hearings and courts of revision are also held as needed to consider specific matters.

As a collective group, representing the interests of citizens, council is responsible for:

- Representing the public and considering the well-being and interests of the municipality.
- Developing and evaluating the policies and programs of the municipality.
- Determining which services the municipality provides.
- Ensuring administrative policies, practices and procedures and controllership policies, practices and procedures are in place to implement the decisions of council.
- Ensuring the accountability and transparency of the operations of the municipality, including the activities of the senior management of the municipality.
- Maintaining the financial integrity of the municipality.



**Mayor  
Carl Zehr**



**Councillor  
Scott Davey  
Ward 1**



**Councillor  
Berry Urbanovic  
Ward 2**



**Councillor  
John Gazzola  
Ward 3**



**Councillor  
Yvonne Fernandes  
Ward 4**



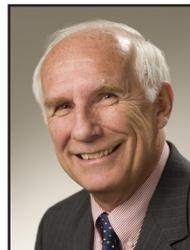
**Councillor  
Kelly Galloway-Sealock  
Ward 5**



**Councillor  
Paul Singh  
Ward 6**



**Councillor  
Bil Ioannidis  
Ward 7**



**Councillor  
Zyg Janecki  
Ward 8**



**Councillor  
Frank Etherington  
Ward 9**



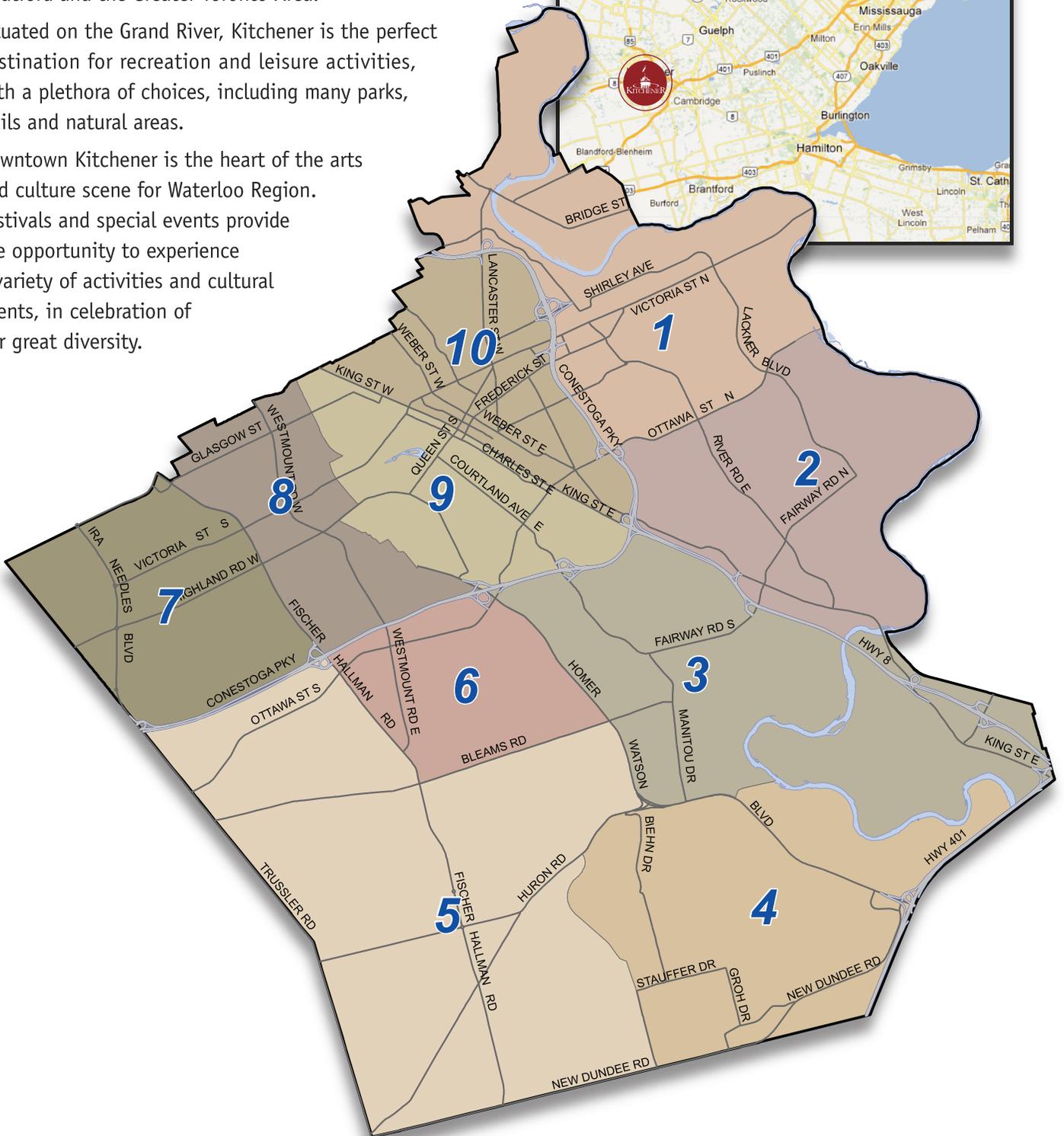
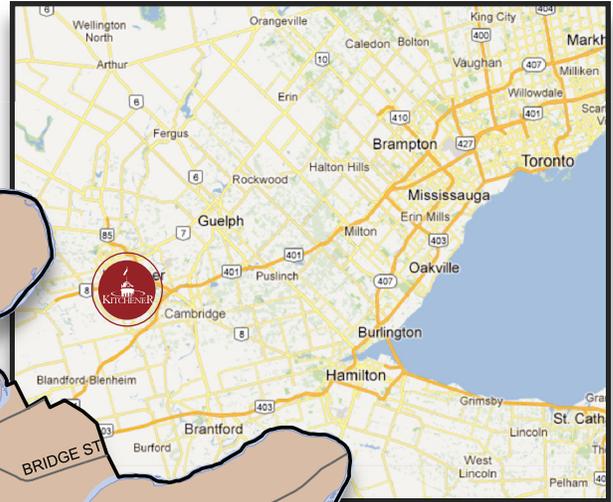
**Councillor  
Dan Glenn-Graham  
Ward 10**

# Where we are

As the largest municipality in Waterloo Region, Kitchener is situated in the heart of Southwestern Ontario, close to major highways - including Canada's super highway, 401 - that easily connects to London, Stratford and the Greater Toronto Area.

Situated on the Grand River, Kitchener is the perfect destination for recreation and leisure activities, with a plethora of choices, including many parks, trails and natural areas.

Downtown Kitchener is the heart of the arts and culture scene for Waterloo Region. Festivals and special events provide the opportunity to experience a variety of activities and cultural events, in celebration of our great diversity.





# Message from the Mayor

**O**n behalf of council, I am pleased to introduce the 2013 Annual Financial Report. Beyond any legislated requirements, we at the City of Kitchener are proud to produce reports like these each year demonstrating our commitment to openness and transparency.

In 2013, staff undertook an extensive project that looked at the principles of open government and developed a four-year action plan to move the city to a philosophy of “open by default”. Beginning in 2014 a number of new initiatives will get underway that will support accountability, transparency and community participation.

Each year, difficult decisions must be made to deliver a balanced budget. We strive to ensure that process is open and transparent. There are few decisions that matter more than setting the financial goals that help build a better community. We know our citizens expect responsible management of all of the city’s resources – including our finances. Our commitment to openness demonstrates that we, too, believe in accountability and transparency.

But, council and staff shouldn’t – and can’t – do it alone. I encourage the members of this community to be engaged and involved, not only at budget time but every day. It matters.

Talk to each other. Talk to your elected officials. Share your vision and play your part in building our city.

Carl Zehr, Mayor, City of Kitchener

June 30, 2014



# Message from the CAO

Each year I have the honour of presenting the Annual Financial Report which details the city's financial position and demonstrates responsible accounting practices. Once again, I think we have produced an excellent report that highlights some of the great projects undertaken by the city in the past year, and celebrates our successes and significant achievements.

I am proud of the work the people of this organization do. Not simply city workers – people. We are people who are honoured to serve this community. People who are proud of what we do. And people who know that what we do is every bit as important as how we do it.

Staff and council make difficult decisions all the time in service to this great community. Making tough decisions – around budget, policy, and community priorities – and supporting those choices takes courage.

We must continue making difficult decisions that help build a better community. We are proud of our tradition of innovation and industriousness; let's keep working together in that tradition to achieve our community's priorities.



Jeff Willmer, City of Kitchener  
June 30, 2014

# Organizational Structure

## City Council

### Office of the Chief Administrative Officer

Jeff Willmer: Chief Administrative Officer

Corporate Communications and Marketing  
Corporate Customer Service  
Economic Development  
Office of the Mayor and Council  
Project Planning and Integration  
Strategic and Business Planning

### Community Services

Michael May: Deputy CAO

Building  
Bylaw Enforcement  
Community Programs and Services  
Enterprise  
Fire  
Planning

### Infrastructure Services

Pauline Houston: Deputy CAO

Asset Management  
Engineering Services  
Facilities Management  
Fleet  
Operations  
Transportation Services  
Utilities

### Finance & Corporate Services

Dan Chapman: Deputy CAO

Accounting  
Financial Planning  
Human Resources  
Information Technology  
Legal Services  
Legislated Services  
Revenue  
Supply Services



# 2013 in Review

## HIGHLIGHTS AND MILESTONES

**I**n 2013, the City of Kitchener along with many other municipalities in Ontario experienced adverse weather activity that unexpectedly had a significant impact on many operations. The wind storm in the summer of 2013 and the December ice storm forced City crews to respond urgently to the conditions and reprioritize other bodies of work.

Throughout the balance of the year, the City continued to accomplish many other significant capital projects as well as provide valued programs and services to our citizens.

### Major Projects

The City spent approximately \$70 million on capital project work in 2013. Some of the major projects include:

- **Infrastructure** – The annual program of “core” infrastructure replacement and renewal continued in 2013. The City invested \$12.6 million on full reconstruction of City streets including replacement of sanitary sewers, storm sewers, watermains, asphalt, curb and sidewalks, \$2.1 million on the City’s portion of Regional roads (e.g. Courtland and Weber Street), and \$5.4 million on pavement rehabilitation and reconstruction. This work is funded through utilities and federal gas tax resources, rather than the property tax base.
- **Margaret Avenue Bridge** - The bridge was closed in June of 2013 due to structural concerns noted during a routine inspection. The bridge was built in 1959 and this specific bridge design is no longer used. The demolition work was safely completed in the fall of 2013, and a new bridge is being designed in 2014. The City owns 122 bridges which are routinely inspected every two years, in accordance with legislation.



- Kitchener Public Library - Work continued throughout the year on Kitchener Public Library's Central Library Expansion Project. In March the new 20,000-square-foot addition at the rear of the building was completed and opened to the public. Collections and staff were moved into the new addition so that renovation work could begin on the original section of the building. The \$40 million Central Library project began in 2010 and is expected to be complete in 2014. The completed library will feature over 100,000 square feet of new or renovated space, including a digital media lab and new children's area.
- Emerald Ash Borer (EAB) – EAB was discovered in Kitchener in 2010 and continues to rapidly spread across the City. Staff continue to implement an adaptive approach to the management of EAB to minimize the risks and financial costs by removing hazardous trees, protect part of the mature tree canopy by using chemical injections, and put a sustainable replanting plan in place. In 2013, Council approved \$4.3M in the 10 year capital forecast to remove or inject ash trees along city streets and in active parkland. Staff are continuing to develop capital budget requests for additional funding for 2015-2024 replanting and stumping programs.



- Civic District Parking Garage - Centrally located in the Civic District, Phase II of the underground Civic District Parking Garage opened in December 2013. With the opening of phase II, 412 parking spaces in this three-level underground parking garage accommodates parking needs for the library, Centre in the Square and our Civic District partners. The \$24 million project started in 2010 in conjunction with the Central Library Expansion Project.
- Light Rail - The Region's Light Rail Transit initiative, now named the ION, will have a significant impact to City of Kitchener services. City staff have been working closely with Regional staff to identify and resolve utility conflicts, and refine the route alignment. Regional and City staff have been working collaboratively to establish a cost sharing agreement regarding underground infrastructure improvements and betterments. This effort has culminated in a cost sharing agreement which is to be executed in 2014.



## Your Kitchener Working for You

In addition to the capital projects undertaken by the City in 2013, the City is proud to offer numerous public facilities, programs and services, offering value for the citizens of Kitchener. Here is just an example of the ongoing services provided by the City in 2013.

### **Government services**

- 700 burials, 600 cremations at City cemeteries
- 60,000 calls in the Corporate Contact Centre
- 3,000 business/lottery licenses issued
- 2,300 building permits issued
- 14,900 citizen complaints reported to bylaw
- 10,500 emergency responses from Fire Department
- 52,000 citizens involved in public education put on by the Fire Department
- 1,250 marriage licenses issued

### **Recreation, leisure and culture**

- 5,000 aquatics program registrations per week
- 40,000 visitors to Kiwanis Park
- 44 affiliated sports groups with 19,000 participants
- 30 neighbourhood associations with 100,000 participants
- 3,290 summer playground program participants



- 280,000 attendance at the Aud and Arenas
- 18,000 ice time hours
- 80,000 rounds of golf
- 180 events with an audience of over 190,000 at Centre In The Square
- 6.1 million resources accessed at Kitchener public libraries
- 600,000 customers at the Kitchener Market

### **Infrastructure maintenance**

- 1,450 lane km of roads inspected and maintained
- 805 km of sanitary sewer maintained
- 960 km of storm sewers maintained
- 1,100 km of sidewalk inspected annually with 2,800 repairs performed
- 12,182 catchbasins maintained
- 100 watermain breaks repaired

### **Facilities and amenities**

- 143 sports fields and outdoor courts maintained
- 313 km of City trails maintained
- 176 facilities and structures maintained
- 60,000 street trees in existence
- 128 acres of cemeteries maintained



# City Treasurer's Message

I am pleased to present the Annual Financial Report for the City of Kitchener for the year ended December 31, 2013. The purpose of this report is to communicate to Council, residents and other interested parties the 2013 financial results for the City of Kitchener. These results demonstrate Kitchener's continued sound financial management and fiscal prudence.

Together, staff and Council will continue to build an innovative, caring and vibrant Kitchener

## FINANCIAL MANAGEMENT

The preparation and presentation of the financial statements and related information contained in this annual report are the responsibility of the management team of the City of Kitchener. Management has instituted a system of internal controls which is intended to safeguard assets and to provide accurate, timely and complete financial information for both internal decision making and external reporting.

The City has the following foundations in place to ensure appropriate financial controls and accountability are maintained and to take a proactive approach to identify and address financial challenges.

### Strategic Plan - Focus on Effective and Efficient Government

The key strategic priorities related to effective and efficient government cover five specific areas: financial management; asset management; information technology; communications, marketing and customer service; and organizational governance.

The City of Kitchener is constantly exploring ways to improve its financial sustainability through a balanced approach to financial management. The City looks at how to use public monies in the most responsible



manner while ensuring fair levels of taxation - in order to create a sustainable financial position today, tomorrow and for generations to come.

In order to preserve its infrastructure, the City has dedicated itself to effectively managing its assets. Understanding the health and status of capital assets, like roads, bridges, and facilities, positions the City well to ensure the community can prosper as it did in past generations, by building upon a strong foundation of core infrastructure.

As the world of technology moves forward at a rapid pace, the City's Information Technology group supports the technological infrastructure for many of the City's financial and operational services. With increasing demands for real-time information, the City is looking to bolster the use of mobile technology to help staff report on activities remotely from the field.

The City believes in transparency as a core element to delivering high-quality customer service to citizens. This is exemplified by the fact that the City provides accessible, plain language access through a variety of formats to citizens on pressing and emerging issues affecting the City. It is through being open and accessible that the City believes it can improve its engagement with the community on a broader suite of issues.

Finally, the City works to deliver on the programs and services that matter most to the citizens of Kitchener. This is demonstrated by the fact that all City work undertaken is aligned directly with a strategic priority pulled from the community's strategic plan. Yet, it is not just important to simply deliver what matters most to citizens, but also to support that delivery through a robust governance and management approach, including a close eye on risk management and legislative compliance.

## **Business Plan and Budgetary Process**

The business planning process manages and supports the development of departmental business plans and integrated corporate business plans to outline a clear path for the organization for each term of Council. The Plan represents a unified blueprint for the full scope of work that is to be done, one that strikes a balance between our commitment to meet new expectations and respond to emerging issues, while managing within our capacity to deliver.

The business planning process involves the development, communication and facilitation of a process that engages City staff, management, the Corporate Leadership Team and City Council in establishing operational priorities. The Plan includes a description of the City's 47 core services, which account for more than 90% of the operating capacity of the organization and describe the day-to-day services that the community has come to rely on. In addition to the ongoing commitment to delivering valued services to the community, the City also makes a commitment to more than 100 strategic projects that are driven by the priorities of the Strategic Plan, continuous improvement initiatives and other Council directives.

Progress on projects included in the Business Plan is reported to Council and the public three times per year to demonstrate full transparency and accountability on the commitments the organization has made to the public through the Business Plan. The status updates illustrate the degree to which the organization has stayed focused on priorities, is making meaningful progress towards goals and is managing the process to successfully follow through to completion on projects that are started while responding to unanticipated demands along the way.

In addition to the business planning process, City Council approves the operating and capital budgets for the property tax supported operations as well as all City enterprises. To provide transparency in the budget process, budget information is posted on the City's website and budget meetings are held in a public forum. Citizens are able to provide their input through a number of channels including social media, the City's interactive budget website, or in person at a public delegation night.

Management staff review their budgets regularly. Detailed variance reports are prepared and presented to Council three times per year at the same time as the progress reports on business planning. These reports ensure departmental accountability for financial results and are a key tool to allow management to respond to financial pressures during the year.

## **External Audit**

As required by the Municipal Act, City Council has appointed a public accounting firm, KPMG LLP, to express an independent audit opinion on management's Consolidated Financial Statements. Their reports to the members of Council, inhabitants and ratepayers of the Corporation of the City of Kitchener accompany the various financial statements in the financial section of this report.

## **Audit Committee**

The Audited Consolidated Financial Statements are presented to the Audit Committee for approval. The Audit Committee provides a focal point for communications between Council, the external auditor, the internal auditor and management, and facilitates an impartial, objective and independent review of management practices through the internal and external audit functions.



## **FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

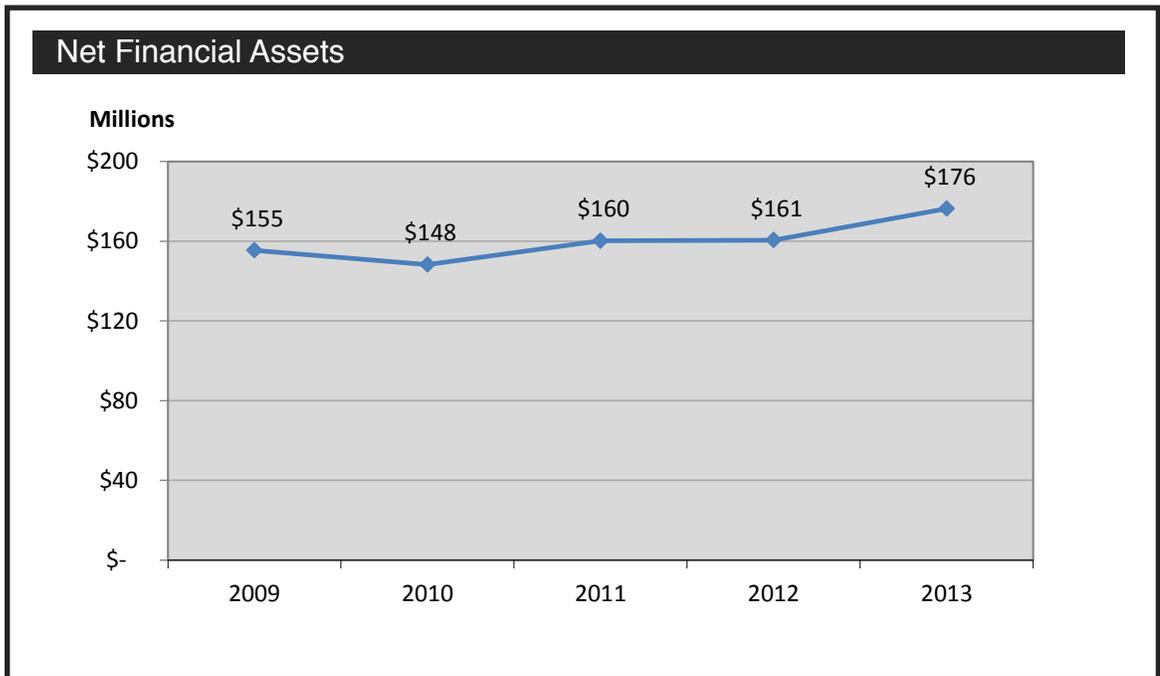
The City of Kitchener's Consolidated Financial Statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. KPMG LLP have audited the financial statements and provided the accompanying Auditors' Report. The financial statements and auditors' report satisfy a legislated reporting requirement as set out in the Municipal Act of Ontario.

The following financial statement discussion and analysis has been prepared by management and should be read in conjunction with the audited Consolidated Financial Statements and Financial & Statistical Review.

There are four required financial statements:

- statement of financial position
- statement of operations
- statement of change in net financial assets, and
- statement of cash flow

The Consolidated Financial Statements reflect the assets, liabilities, reserves, surpluses/deficits, revenues, and expenditures of the City funds and governmental functions or entities. These functions and entities have been determined to comprise a part of the aggregate City operations based upon control exercised by the City. The exception is the City's government business enterprises which are accounted for on the modified equity basis of accounting. References to the "City" below include all activity for the consolidated entity.



### **Consolidated Statement of Financial Position (Balance Sheet)**

The Consolidated Statement of Financial Position highlights four key figures that together describe the financial position of a government: 1) cash resources, 2) net financial asset position, 3) non-financial assets that are normally held for service provision such as tangible capital assets, and 4) accumulated surplus (deficit). The statement is used to evaluate the City’s ability to meet its financial obligations and commitments.

The City’s net financial asset balance is \$176 million (2012 \$161 million), an increase of \$15 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations. The increase year over year is due to the culmination of changes in the various balance sheet accounts which are described in the paragraphs below.

#### **Cash Position**

The City’s cash position is closely managed and remains adequate along with short-term investments to meet ongoing cash requirements. The cash position remains consistent with 2012 at \$56 million. The Consolidated Statement of Cash Flows summarizes the sources and uses of cash in both 2013 and 2012.

#### **Trade and Other Accounts Receivable**

Receivables increased \$8.7 million in 2013 for various reasons, one being an increase in the receivable from another area municipality’s portion of the new Civic District parking garage. In addition, there has been a significant increase in utilities receivable due to the cold weather experienced in late 2013 compared to 2012.



### **Loans Receivable**

Loans receivable decreased to \$14 million from \$17 million in 2012. The decline is primarily due to a decrease in use of the Appliance Financing Program administered by Kitchener Utilities. Details of loans receivable are included in Note 4 of the Consolidated Financial Statements.

### **Investments**

It is the policy of the City of Kitchener to invest public funds in a manner that provides the highest investment return while protecting and preserving capital, maintaining liquidity to meet the daily cash flow demands and to conform to all legislation governing the investment of public funds.

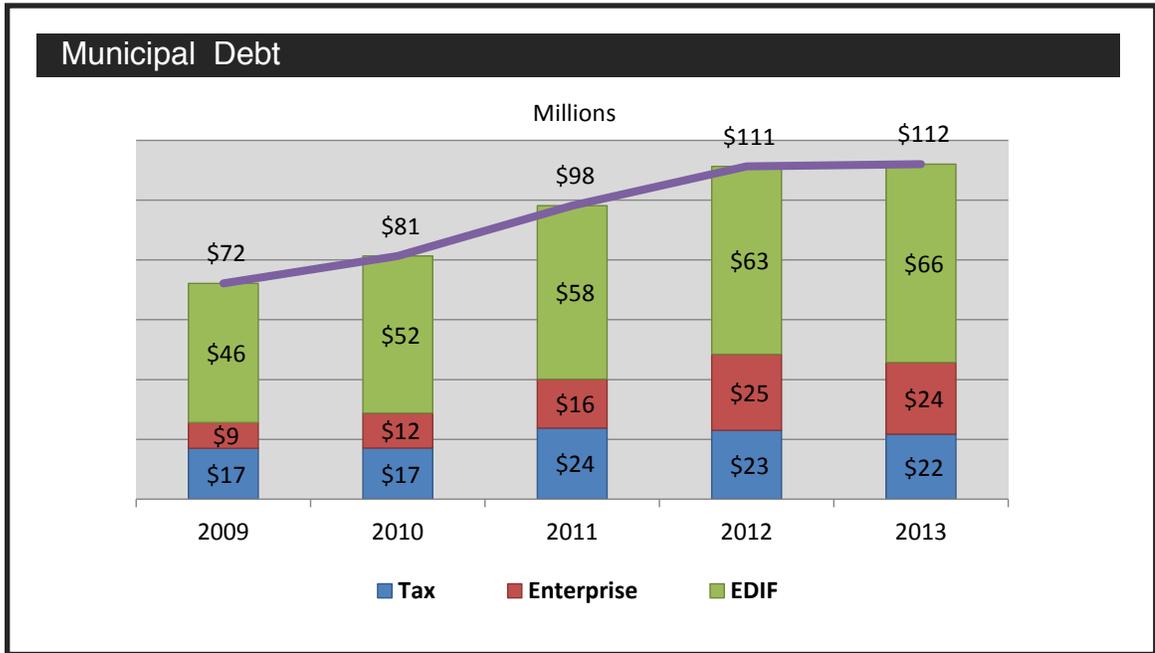
The balance in investments grew in 2013 to \$89 million from \$74 million in 2012. This increase relates primarily to the timing of funding receipts and the outgoing expenditures for capital projects. There are a few projects that have received funding for which expenditures will be made in future years.

### **Investment in Kitchener Power Corp. & Kitchener Generation Corporation**

The City's investment in both Kitchener Power Corp. and its affiliates and Kitchener Generation Corporation is made up of the City's initial investment and its share of net income since acquisition less dividends received. See Notes 6 and 7 to the Consolidated Financial Statements for further details.

### **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of all vendor related payable balances, accrued liabilities, payroll related liabilities, intercompany payables and sales tax payables. The combined balance of \$85 million in 2013 is comparable to 2012.



### Municipal Debt

The City has three components that comprise the overall debt total. Debt has been issued to fund:

- a portion of the tax-supported capital program
- capital improvements to Enterprises, where the debt charges will be funded through user fees or external sources, such as the Parking Enterprise or the Kitchener Rangers
- the Economic Development Investment Fund (EDIF)

The City’s capital investment philosophy ensures that any increases in debt charges from one year to the next do not exceed assessment growth (excluding the impact of the debt associated with EDIF). As well, the overall contribution from the tax base through taxes and debt charges will not increase more than assessment growth plus inflation from one year to the next.

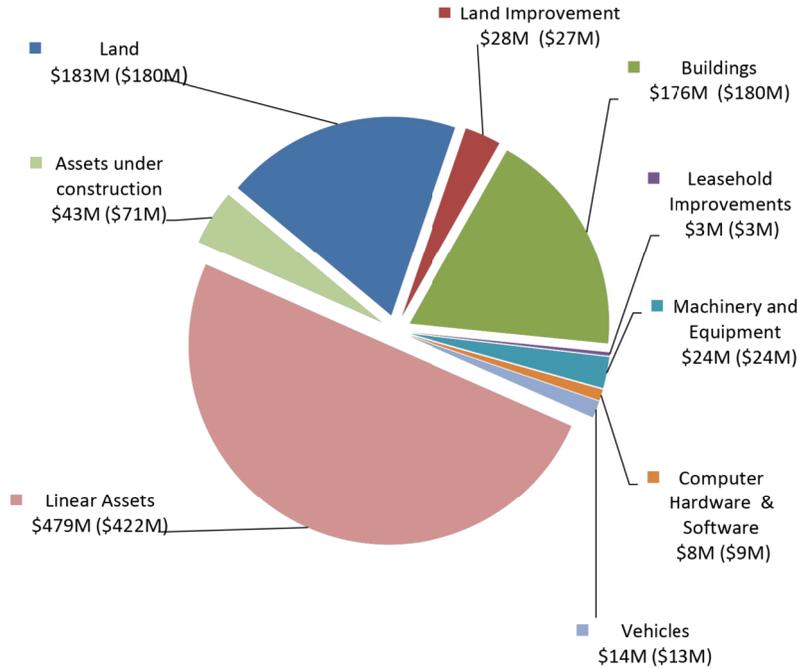
This philosophy has ensured that the impact on the taxpayer does not exceed inflation and that the City must prioritize projects to fit the funding available.

The City created EDIF in 2004 as a \$110 million commitment to invest in catalyst projects to strengthen the local economy and stimulate urban development in Downtown Kitchener. The fund has provided dollars for major strategic investment projects including the University of Waterloo School of Pharmacy, Communitch Hub, and King Street streetscaping. EDIF investments have had a remarkable positive impact on the City, increasing the City’s recognition as a location for innovation, entrepreneurship, and a sought-after urban lifestyle.

Municipal debt has increased to \$112 million in 2013 from \$111 million in 2012. The change in debt is a result of new debt issuance of \$10.5 million offset by repayment of \$9.7 million of existing debt. The new debt is mostly attributable to a major equipment purchase for Fire, Williamsburg Cemetery Phase II Development, and the 2013 component of EDIF.

## Tangible Capital Assets by Asset Type

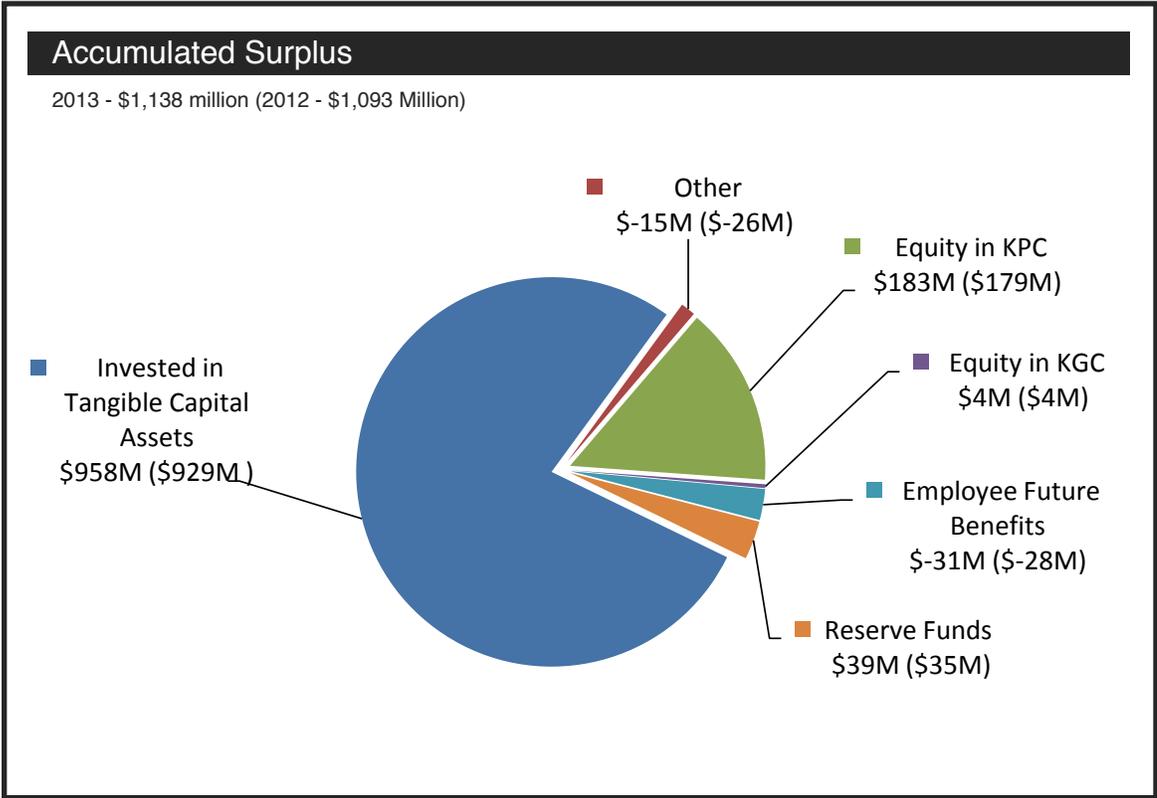
2013 Net Book Value - \$958 million (2012 Net Book Value - \$929 Million)



### Tangible Capital Assets

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 cost less residual value of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives ranging from 1 to 100 years.

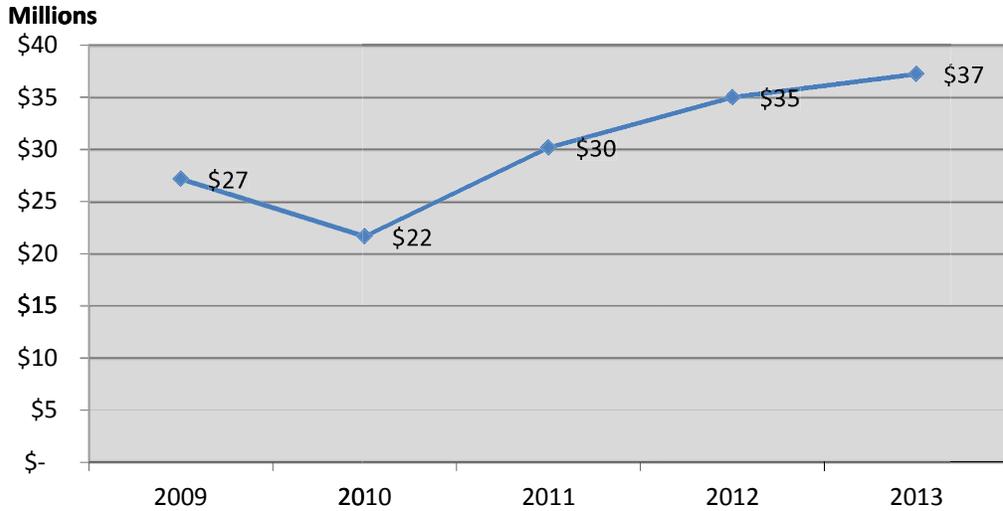
During 2013, the City acquired \$70 million in tangible capital assets (2012 \$101 million). Amortization of assets was \$37 million (2012 \$34 million). Refer to Note 13 and Schedule A of the Consolidated Financial Statements for a detailed breakdown of tangible capital asset activity for 2013. The net book value of tangible capital assets at December 31, 2013 is \$958 million, up from \$929 million in 2012.



**Accumulated Surplus**

The City’s accumulated surplus for fiscal 2013 is \$1.14 billion (2012 \$1.09 billion). The accumulated surplus reflects the resources that have been built over time at the City and the balance includes items such as tangible capital assets, equity in Kitchener Power Corp. and Kitchener Generation Corporation and various reserves.

## Reserve Funds



### Reserve Funds

Reserve funds are included as part of accumulated surplus and these balances are disclosed in Note 14 to the financial statements. Reserve fund balances have increased during 2013 to \$37 million (\$35 million in 2012).

Under the authority of the Municipal Act, the City has established reserve funds to set aside funds to be used for future purposes.

Reserve funds are established to ensure future liabilities can be met, capital assets are properly maintained and sufficient financial flexibility exists to respond to economic cycles or unanticipated financial requirements. Council is responsible for exercising discretion with respect to the use of reserve funds, subject to the terms of Council policy, as well as statutory and legal requirements.

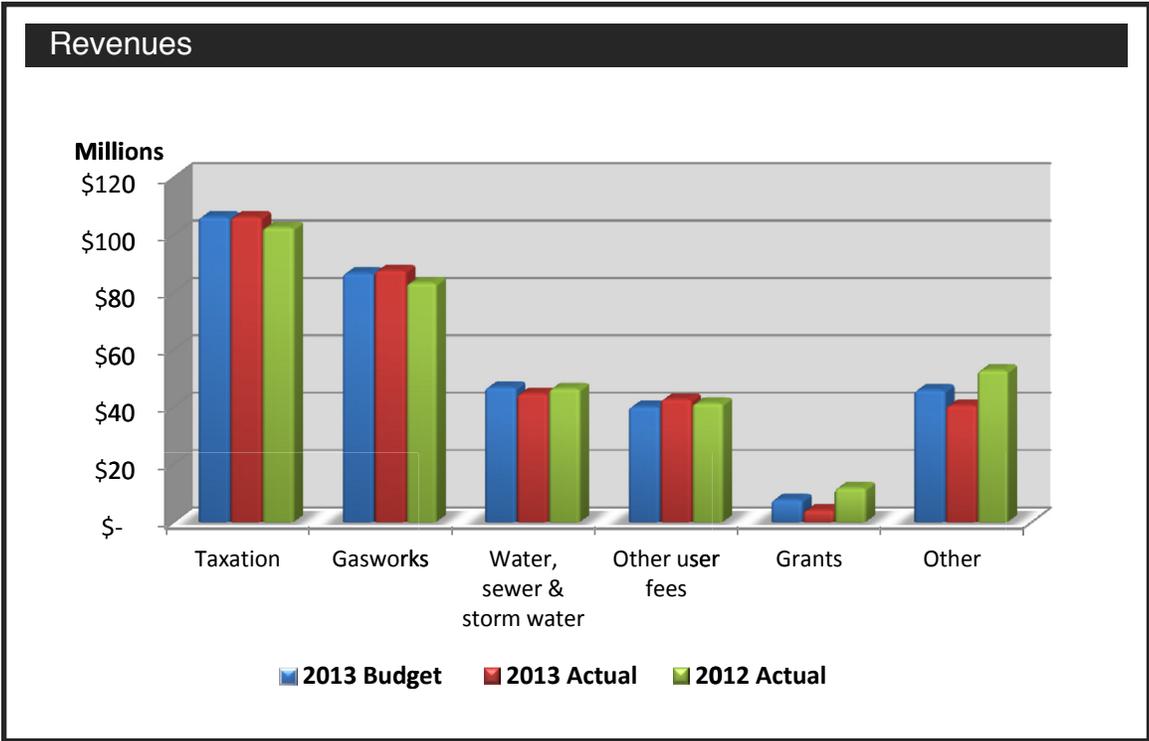
A comprehensive review of the reserve policy was undertaken in 2012 with new guiding principles for reserves developed to ensure the reserves continue to support the financial goals and serve the highest priority needs of the City and its citizens.



### **Consolidated Statement of Operations**

The Consolidated Statement of Operations reports the revenues collected by the City, the cost of providing municipal services and the resulting annual surplus/deficit.

This year, overall assessment growth was 1.69%. While this new assessment creates revenue for the City, there is also a cost to provide services to new development. In addition, cost increases in excess of inflation, public demand for new services and unreliable revenue sources all place significant pressure on the City budget. The tax rate increase for 2013 operations was 0.32%. A special capital levy increase of 1.07% was also added to fund the City's Economic Development Investment Fund. This marks the final year of the ten-year fund.



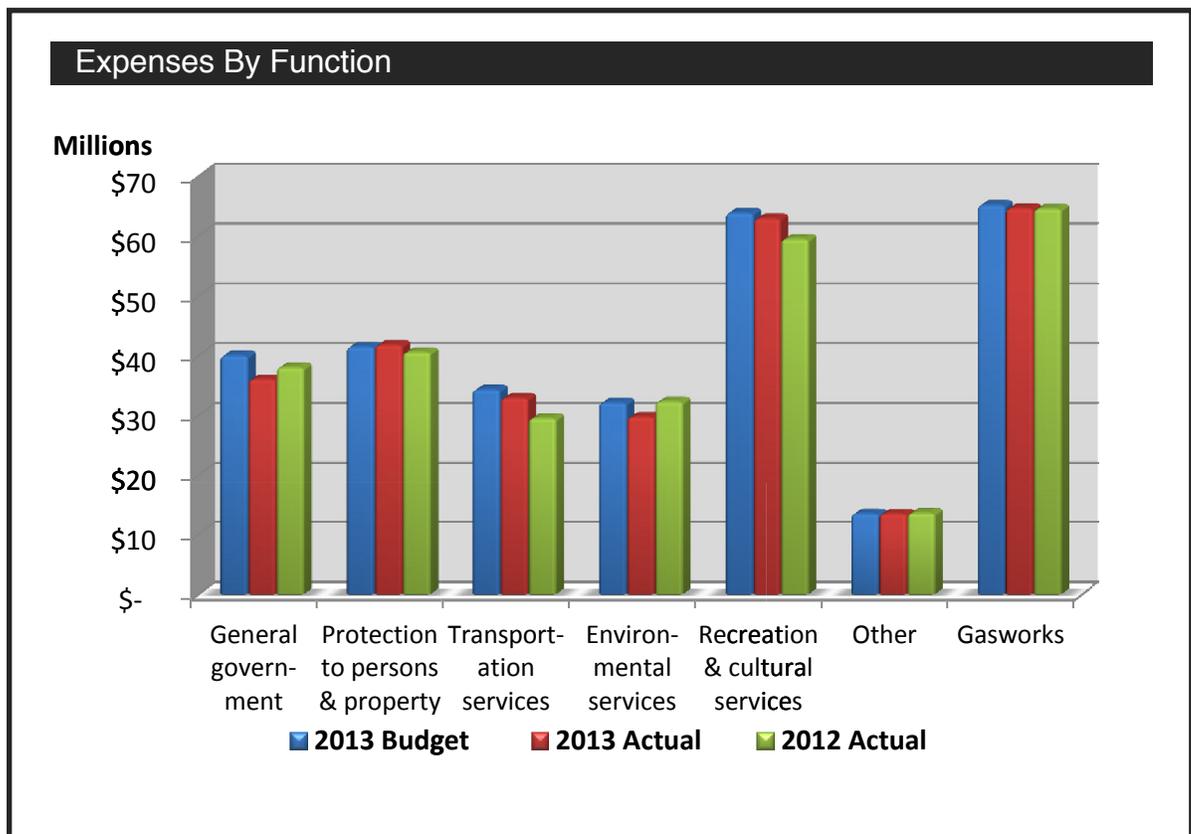
**Revenues**

Revenues are received from the following sources: taxation, users fees, grants and other. Kitchener is one of only two municipalities in Ontario that own and operate a natural gas utility.

Natural gas volumes were up significantly this year due to the colder weather, which resulted in 2013 Gasworks revenues being \$4M higher than 2012.

Grants revenue decreased from 2012 due to a decrease in the amount of Federal Gas Tax revenue recognized as more work remains outstanding in 2013 on these projects compared to 2012. In addition, 2012 contained a one-time grant for construction of the Civic District Parking Garage and a sizable grant for Showcasing Water Innovation.

The 'Other' category in the chart above includes contribution of tangible capital assets, investment income, penalties and interest on taxes, obligatory reserve funds revenue recognized, and share of net income of Kitchener Power Corp. and Kitchener Generation Corporation. Revenues are notably lower in this category for 2013 compared to 2012, due to the Kitchener Memorial Auditorium expansion project in 2012, which resulted in donated assets of \$10.4 million from the Kitchener Rangers Junior A Hockey Club in that year.



## Expenses

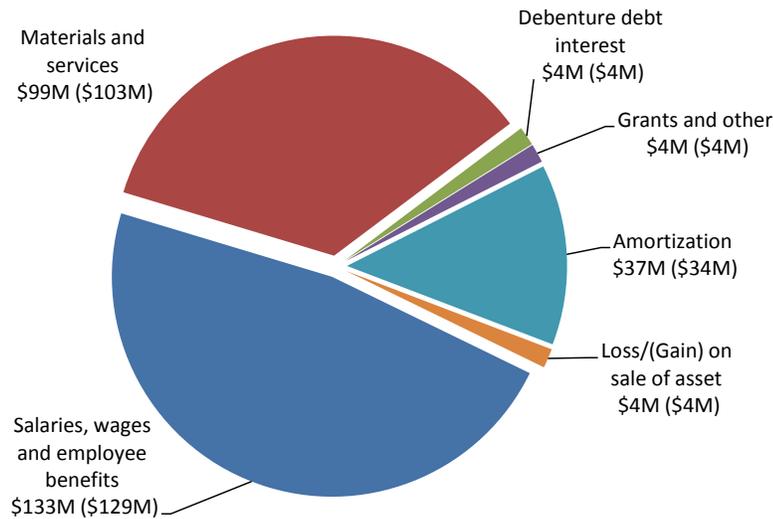
The City of Kitchener is a diversified government institution and provides a wide range of services to its citizens including fire, roads, water, sewer, natural gas, libraries, and community services. Schedule B of the Consolidated Financial Statements breaks the expenses into major functional activities, consistent with provincially-legislated requirements.

As is common with most Ontario municipalities, the City of Kitchener does not budget for amortization of tangible capital assets or gains and losses on disposal of assets. In order that the actual results may be compared to budget in a meaningful way, the Council-approved budgets have been adjusted to include amortization expense and other accounting adjustments mandated by the Public Sector Accounting Board to express the financial statements on an accrual basis. This provides greater clarity for all readers in assessing budget to actual variances.

General government expenses are \$1.9 million lower in 2013 than 2012. This is primarily due to a contingent liability accrual that was booked in 2012.

## Expenses By Object

2013 - \$281 million (2012 - \$278 Million)



Transportation services expenses were \$3.4 million higher in 2013 due to increased amortization related to the recent construction of the Civic District Parking garage and recent road replacements and additions, as well as increased costs for winter maintenance due to the severe winter weather in 2013.

Environmental Services expenses have decreased \$2.6 million from 2012, mostly due to two factors that contributed to expenses in 2012, but were not required in 2013. The first is the Victoria Park Lake rehabilitation project work done in 2012, and secondly there has been less uptake than anticipated for the storm water utility credit program which resulted in less expense for 2013.

In 2013, Recreation and Cultural services increased \$3.4 million over 2012. This was largely a result of an increase in amortization due to 2012 additions to the Kitchener Memorial Auditorium and Kitchener Public Library.



### **Consolidated Statement of Change in Net Financial Assets**

The Statement of Change in Net Financial Assets explains the difference between a municipality's surplus or deficit for the reporting year and its change in net financial assets in the same reporting year. This statement provides for the reporting of the acquisition of tangible capital assets and other significant items that impact the difference between the annual surplus/deficit and the change in net financial assets.

### **Consolidated Statement of Cash Flow**

The statement of cash flows reports changes in cash and cash equivalents resulting from operations, capital, investing and financing activities and shows how the City financed its activities during the year and met its cash requirements.



## LOOKING AHEAD

Looking ahead to 2014, the City will continue to face pressure from the community to maintain or improve service levels while keeping property tax and user fee increases to an affordable level. A rigorous budget process and the continued development of the City's long-term financial plan will help the City achieve an optimal balance of taxes levied and services provided.

Continuing to focus on building an even stronger financial position through lower debt levels and healthier reserve balances will also position the City favourably to respond to future challenges and opportunities, not just in 2014 but for the years to come.

Dan Chapman, CPA, CA, MPA  
Deputy CAO, Finance and Corporate Services & City Treasurer  
June 30, 2014



**KPMG LLP**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Mayor and Members of Council, Inhabitants and Ratepayers of  
The Corporation of the City of Kitchener

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kitchener, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations, change in net financial assets 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG" International), a Swiss entity.  
KPMG Canada provides services to KPMG LLP.



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*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 Kitchener as at December 31, 2013, 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*

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Chartered Professional Accountants, Licensed Public Accountants

June 30, 2014  
Waterloo, Canada

# THE CORPORATION OF THE CITY OF KITCHENER

## Consolidated Statement of Financial Position

As at December 31, 2013

	2013	2012
<b>Financial assets</b>		
Cash and cash equivalents	\$ 55,826,775	\$ 55,812,011
Taxes receivable	20,610,222	21,586,298
Trade and other accounts receivable	43,453,855	34,751,199
Loans receivable (Note 4)	13,837,516	16,677,789
Inventory for resale	10,739,236	11,033,560
Investments (Note 5)	88,719,532	74,284,454
Investment in Kitchener Power Corp. and its affiliates (Note 6)	183,288,924	179,037,991
Investment in Kitchener Generation Corporation (Note 7)	3,948,281	4,180,532
	<b>420,424,341</b>	<b>397,363,834</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	84,547,833	85,965,905
Deferred revenue - obligatory reserve funds (Note 9)	3,625,077	2,859,353
Deferred revenue - other	12,325,404	8,781,715
Municipal debt (Note 10)	112,039,284	111,262,798
Employee future benefits (Note 12)	31,685,242	27,928,057
	<b>244,222,840</b>	<b>236,797,828</b>
<b>Net financial assets</b>	<b>176,201,501</b>	<b>160,566,006</b>
<b>Non-financial assets</b>		
Tangible capital assets - net (Note 13)	957,932,883	929,404,766
Inventory of supplies	2,407,285	2,062,088
Prepaid expenses	1,114,532	1,403,769
	<b>961,454,700</b>	<b>932,870,623</b>
<b>Accumulated surplus</b>	<b>\$1,137,656,201</b>	<b>\$1,093,436,629</b>

See accompanying notes

# THE CORPORATION OF THE CITY OF KITCHENER

## Consolidated Statement of Operations

Year Ended December 31, 2013

	2013 Budget	2013	2012
<b>Revenues</b>			
Taxation	\$ 106,216,857	\$ 106,218,573	\$ 102,546,937
User fees and charges			
Gasworks	86,568,281	87,529,916	83,262,445
Water, sewer and stormwater	46,792,773	44,611,523	46,366,094
Other	39,997,693	42,638,273	41,270,672
Grants	7,719,751	4,100,928	11,772,687
Contributions of tangible capital assets	10,338,038	10,338,038	22,152,162
Investment income	7,314,387	7,822,633	7,519,550
Penalty and interest on taxes	3,300,000	3,044,161	3,318,267
Obligatory reserve funds revenue recognized	13,507,000	6,891,567	6,876,831
Share of net income of Kitchener Power Corp. and its affiliates (Note 6)	7,639,368	7,639,368	8,447,594
Share of net loss of Kitchener Generation Corporation (Note 7)	-	(57,269)	(33,204)
Other	3,749,909	4,795,674	4,466,893
<b>Total revenues</b>	<b>333,144,057</b>	<b>325,573,385</b>	<b>337,966,928</b>
<b>Expenses</b>			
General government	40,019,214	36,032,962	38,009,987
Protection to persons and property	41,476,322	41,775,579	40,571,694
Transportation services	34,294,051	32,907,678	29,507,603
Environmental services	32,123,404	29,729,557	32,290,967
Health services	1,902,692	2,155,206	1,947,206
Social and family services	2,388,707	2,639,843	2,307,043
Recreation and cultural services	63,857,853	62,907,161	59,490,303
Planning and development	9,133,349	8,600,342	9,243,370
Gasworks	65,172,130	64,605,485	64,550,648
<b>Total expenses</b>	<b>290,367,722</b>	<b>281,353,813</b>	<b>277,918,821</b>
<b>Annual surplus</b>	<b>42,776,335</b>	<b>44,219,572</b>	<b>60,048,107</b>
Accumulated surplus, beginning of year	1,093,436,629	1,093,436,629	1,033,388,522
<b>Accumulated surplus, end of year (Note 14)</b>	<b>\$1,136,212,964</b>	<b>\$1,137,656,201</b>	<b>\$1,093,436,629</b>

See accompanying notes

# THE CORPORATION OF THE CITY OF KITCHENER

## Consolidated Statement of Change in Net Financial Assets

Year Ended December 31, 2013

	2013 Budget	2013	2012
<b>Annual surplus</b>	<b>\$ 42,776,335</b>	<b>\$ 44,219,572</b>	\$ 60,048,107
Amortization of tangible capital assets	37,355,303	37,355,303	34,299,301
Acquisition of tangible capital assets	(63,792,670)	(69,892,632)	(101,281,115)
Loss on disposal of tangible capital assets	302,385	302,385	941,249
Proceeds on disposal of tangible capital assets	3,706,827	3,706,827	2,172,757
Transfer of tangible capital asset to Kitchener Generation Corporation	-	-	4,412,784
Acquisition of supplies of inventories	-	(5,677,191)	(4,176,824)
Acquisition of prepaid expenses	-	(785,873)	(835,053)
Consumption of supplies inventory	-	5,331,994	4,164,182
Use of prepaid expenses	-	1,075,110	542,451
<b>Change in net financial assets</b>	<b>20,348,180</b>	<b>15,635,495</b>	287,839
Net financial assets, beginning of the year	160,566,006	160,566,006	160,278,167
<b>Net financial assets, end of the year</b>	<b>\$ 180,914,186</b>	<b>\$ 176,201,501</b>	\$ 160,566,006

See accompanying notes

# THE CORPORATION OF THE CITY OF KITCHENER

## Consolidated Statement of Cash Flow

Year Ended December 31, 2013

	2013	2012
<b>Operating</b>		
Annual surplus	\$ 44,219,572	\$ 60,048,107
Items not involving cash		
Amortization	37,355,303	34,299,301
Loss on disposal of tangible capital assets	302,385	941,249
Share of net income of Kitchener Power Corp. and its affiliates	(7,639,368)	(8,447,594)
Share of net income of Kitchener Generation Corporation	57,269	33,204
Change in employee future benefits	3,757,185	2,284,868
Contributions of tangible capital assets	(10,338,038)	(22,152,162)
Change in non-cash assets and liabilities		
Taxes receivable	976,076	689,479
Trade and other accounts receivable	(8,702,656)	(2,731,207)
Loans receivables	2,840,273	(8,856,801)
Inventory of supplies	(345,197)	(12,642)
Inventory for resale	294,324	2,837,749
Prepaid expenses	289,237	(292,602)
Deferred revenue - obligatory reserve funds	765,724	1,193,589
Deferred revenue - other	3,543,689	109,563
Accounts payable and accrued liabilities	(1,418,072)	11,702,215
<b>Net change in cash from operating activities</b>	<b>65,957,706</b>	<b>71,646,316</b>
<b>Capital</b>		
Acquisition of tangible capital assets	(59,554,594)	(79,128,953)
Proceeds on disposal of tangible capital assets	3,706,827	2,172,757
<b>Net change in cash from capital activities</b>	<b>(55,847,767)</b>	<b>(76,956,196)</b>
<b>Investing</b>		
Dividends received from Kitchener Power Corp.	3,388,435	3,357,900
Debt and equity payments received from Kitchener Generation Corporation	174,982	199,048
Net acquisition of investments	(14,435,078)	(17,904,510)
<b>Net change in cash from investing activities</b>	<b>(10,871,661)</b>	<b>(14,347,562)</b>
<b>Financing</b>		
Municipal debt issued	10,515,000	21,555,000
Municipal debt repaid	(9,738,514)	(8,480,162)
<b>Net change in cash from financing activities</b>	<b>776,486</b>	<b>13,074,838</b>
<b>Net change in cash and cash equivalents</b>	<b>14,764</b>	<b>(6,582,604)</b>
Cash and cash equivalents, beginning of year	55,812,011	62,394,615
<b>Cash and cash equivalents, end of year</b>	<b>\$ 55,826,775</b>	<b>\$ 55,812,011</b>

See accompanying notes

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

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### 1. Summary of significant accounting policies

These consolidated financial statements of The Corporation of the City of Kitchener (the "City") have been prepared by management in accordance with Canadian generally accepted accounting principles for local governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

#### a. Basis of consolidation

##### i. Consolidated entities

These consolidated financial statements reflect the assets, liabilities, reserves, surpluses/deficits, revenues, and expenditures of those City funds and governmental functions or entities which have been determined to comprise a part of the aggregate City operations based upon control exercised by the City except for the City's government businesses which are accounted for on the modified equity basis of accounting. The following boards, municipal enterprises and utilities have been included in the consolidated financial statements:

- Kitchener Public Library
- Kitchener Downtown Improvement Area Board of Management
- Belmont Improvement Area Board of Management
- The Centre in the Square Inc.
- Waterworks Enterprise
- Gasworks Enterprise
- Sewer Surcharge Enterprise
- Storm Water Management Enterprise
- Building Enterprise
- Golf Enterprise
- Parking Enterprise

All inter-organizational and inter-fund transactions and balances have been eliminated.

##### ii. Government business enterprises

Kitchener Generation Corporation and Kitchener Power Corp. and its affiliates are not consolidated but are accounted for on the modified equity basis which reflects the City of Kitchener's investment in the enterprises and its share of net income since acquisition. Under the modified equity basis, the enterprises' accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

##### 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 Regional Municipality of Waterloo, are not reflected in these consolidated financial statements.

##### iv. Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately on the "Trust Funds Statement of Continuity and Balance Sheet" (see Note 3).

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

---

### 1. Summary of significant accounting policies (continued)

#### b. Basis of accounting

##### i. Accrual basis of accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that gave rise to the revenues. Expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

##### ii. Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturity of 90 days or less as at the end of the year.

##### iii. Trade and other accounts receivable

Trade and other accounts receivable are reported net of any allowance for doubtful accounts.

##### iv. Loans receivable

Loans receivable are reported net of any allowance for doubtful accounts. Interest income is recorded as it accrues. When the value of any loan receivable is identified as impaired, an allowance is set up to offset the carrying amount and any adjustments are included in materials and services expense in the period the impairment is recognized.

##### v. Inventory for resale

Inventory for resale is valued at the lower of cost or net realizable value on an average cost basis.

##### vi. Investments

Portfolio investments are carried at cost, net of accumulated amortization on premiums and discounts. Premiums and discounts are amortized on a straight line basis over the term to maturity. Interest income is recorded as it accrues. When the value of any portfolio investment is identified as impaired, the carrying amount is adjusted to the estimated realizable amount and any adjustments are included in investment income in the period the impairment is recognized.

##### vii. Deferred revenue

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs, in the completion of specific work or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

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### 1. Summary of significant accounting policies (continued)

#### viii. Employee future benefits

The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due. The costs of post-employment benefits are recognized when the event that obligates the City occurs. Costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The costs of post-employment benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Liabilities are actuarially determined using discount rates that are consistent with the market rates of high quality debt instruments. Any gains or losses from changes in assumptions or experience are amortized over the average remaining service period for active employees.

#### ix. Non-financial assets

Non-financial assets are not available to discharge liabilities and are held for use in the provision of services. They have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated change in net financial assets for the year.

##### a. Tangible capital assets

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 cost less residual value of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

<b>Assets</b>	<b>Amortization period</b>
Land	The original cost of land is not amortized
Land improvements	10 to 100 years
Building & building improvements	15 to 50 years
Leasehold improvements	Over the useful life of the improvement or the lease term, whichever is shorter
Machinery & equipment	1 to 20 years
Computer hardware	3 to 10 years
Computer software	1 to 10 years
Linear assets	2 to 100 years
Vehicles	1 to 25 years

##### b. Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at time of receipt and are recorded as revenue.

##### c. Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all the risks and benefits incidental of ownership are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

---

### 1. Summary of significant accounting policies (continued)

d. Inventory of supplies

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

e. Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

x. 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.

Government transfers and developer contributions-in-kind related to capital acquisitions are required to be recognized as revenue in the consolidated financial statements in the period in which the tangible capital assets are acquired.

xi. Use of estimates

Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments. Actual results could differ from these estimates.

### 2. Operations of school boards and the Regional Municipality of Waterloo

Further to Note 1 a) iii, the taxation, other revenues and requisitions for the school boards and the Regional Municipality of Waterloo are comprised of the following:

	School Boards	Region	Total
Taxation and user charges	\$ 84,640,560	\$ 205,966,983	\$ 290,607,543
Share of payments in lieu of taxes	4,346	1,298,321	1,302,667
Share of linear properties	63,470	123,074	186,544
Amounts requisitioned	\$ 84,708,376	\$ 207,388,378	\$ 292,096,754

### 3. Trust funds

Trust funds administered by the City have not been included in the Consolidated Statement of Financial Position, nor have their operations been included in the Consolidated Statement of Operations. The trust funds under administration are comprised of cemetery perpetual care and prepaid internment funds totaling \$11,956,505 (2012 - \$11,405,651).

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 4. Loans receivable

Loans receivable are made up of the following:

	2013	2012
Major capital improvement loans receivable	\$ 9,894,449	\$ 10,400,000
Loans receivable with forgiveness provisions	162,200	239,242
Minor capital improvement and other loans receivable	3,780,867	6,038,547
	<b>\$ 13,837,516</b>	<b>\$ 16,677,789</b>

Major capital improvement loans are individual loans in excess of \$500,000 when issued with no forgiveness provision built into the loan. These loans have repayment terms ranging from 12 to 15 (2012 - 12 to 15 years). All major capital improvement loans are unsecured and bear interest at rates ranging from 1.40% to 2.55% (2012 - 1.40% to 2.55%).

Forgivable loans are those initially offered with forgiveness provisions built into the agreement. All loans in this category are unsecured and have repayment terms of five to ten (2012 - five to ten years). The forgiveness provisions range from 15% to 100% (2012 - 15% to 100%). The balances recorded are net of the allowance for forgiveness. Interest rates on these loans range from 0% to 8% (2012 - 0% to 8%).

Minor capital improvement and other loans receivable comprise any loan receivable not fitting into the first two categories. There is a variety of terms related to these loans with payment terms ranging from six months to 25 years (2012 - six months to 25 years). The majority of these loans are secured by the asset the loan was granted to finance, but others are unsecured. The interest rates on these loans range from 0% to 12.9% (2012 - 0% to 12.9%).

### 5. Investments

Investments are made up of the following:

	2013 Cost	2013 Market Value	2012 Cost	2012 Market Value
Guaranteed investment certificates	\$ 79,906,051	\$ 80,566,788	\$ 61,655,641	\$ 62,374,715
Bonds and debentures	7,919,721	8,200,388	11,680,942	11,528,841
Common stock	893,760	1,252,788	947,871	1,157,228
	<b>\$ 88,719,532</b>	<b>\$ 90,019,964</b>	<b>\$ 74,284,454</b>	<b>\$ 75,060,784</b>

### 6. Investment in Kitchener Power Corp. and its Affiliates

Under the provincial government's Electricity Competition Act (Bill 35), Kitchener Power Corp., a holding company, along with its wholly owned subsidiaries, including Kitchener-Wilmot Hydro Inc., was incorporated on July 1, 2000.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 6. Investment in Kitchener Power Corp. and its Affiliates (continued)

On August 1, 2000, under by-laws passed by the City and the Township of Wilmot, the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot were transferred to the new corporation. The City took back a 92.25% share in the common shares of Kitchener Power Corp. and a 92.25% share in long-term notes payable by the affiliates for the assets transferred. Certain surplus property assets and cash funds were excluded from the transfer and turned over to the City and the Township.

The investment is comprised of the following:

	2013	2012
Kitchener Power Corp. common shares	\$ 61,244,208	\$ 61,244,208
Kitchener - Wilmot Hydro Inc. long-term notes receivable	70,997,576	70,997,576
Share of net income and prior period adjustments due to changes in accounting policies since acquisition, net of dividends	51,047,140	46,796,207
	<b>\$ 183,288,924</b>	<b>\$ 179,037,991</b>

The Kitchener-Wilmot Hydro Inc. notes are unsecured and bear interest at the rate of 5.87%. There are no repayment terms and there is no intent to redeem the notes or the shares.

The following table provides condensed financial information with respect to Kitchener Power Corp.:

	2013	2012
Current assets	\$ 77,749,312	\$ 65,083,948
Capital assets	181,051,618	172,564,699
Regulatory assets	923,358	13,865,077
Future income taxes	6,782,009	6,737,762
<b>Total assets</b>	<b>266,506,297</b>	<b>258,251,486</b>
Current liabilities	43,653,334	33,528,260
Long-term debt	82,980,595	83,932,076
Regulatory liabilities	8,539,337	14,195,249
Other liabilities	9,607,990	9,478,918
<b>Total liabilities</b>	<b>144,781,256</b>	<b>141,134,503</b>
Net assets	121,725,041	117,116,983
<b>Results of operations</b>		
Revenues	228,895,834	213,732,054
Expenses	(220,614,676)	(204,574,770)
<b>Net income</b>	<b>8,281,158</b>	<b>9,157,284</b>
<b>City's share of net income - 92.25%</b>	<b>\$ 7,639,368</b>	<b>\$ 8,447,594</b>

### 7. Investment in Kitchener Generation Corporation

Under the Business Corporation Act (Ontario), Kitchener Generation Corporation was incorporated on December 9, 2011.

Effective January 1, 2012, the City transferred the solar roof asset constructed on the surface of the Kitchener Operations Facility to Kitchener Generation Corporation in exchange for 100% of its common shares and interest bearing debt.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 7. Investment in Kitchener Generation Corporation (continued)

The investment in Kitchener Generation Corporation is comprised of the following:

	2013	2012
Kitchener Generation Corporation common shares	\$ 403,875	\$ 421,374
Kitchener Generation Corporation long-term notes receivable	3,634,879	3,792,362
Share of net income and prior period adjustments due to changes in accounting policies since acquisition, net of dividends	(90,473)	(33,204)
	\$ 3,948,281	\$ 4,180,532

The notes receivable are unsecured and bear interest at the rate of 5.01%. To the extent that Kitchener Generation Corporation has positive annual cash flows after any dividend payment, the cash will be returned to the City as repayment of the outstanding debt and return of capital. The proportion to which they contribute is 90% debt, 10% equity.

The following table provides condensed financial information with respect to Kitchener Generation Corporation:

	2013	2012
Current assets	\$ 40,718	\$ 14,396
Capital assets	3,948,280	4,180,532
<b>Total assets</b>	<b>3,988,998</b>	<b>4,194,928</b>
Current liabilities	0	14,396
Long-term debt	3,634,878	3,792,362
<b>Total liabilities</b>	<b>3,634,878</b>	<b>3,806,758</b>
Net assets	354,120	388,170
<b>Results of operations</b>		
Revenues	379,880	415,394
Expenses	(437,149)	(448,598)
<b>Net loss</b>	<b>(57,269)</b>	<b>(33,204)</b>
<b>City's share of net loss - 100%</b>	<b>\$ (57,269)</b>	<b>\$ (33,204)</b>

### 8. Insurance pool

Liabilities include an amount of \$5,652,303 (2012 - \$6,053,290) which represents funds belonging to the Waterloo Region Municipalities Insurance Pool and administered by the City on behalf of the Pool's members. The members entered an agreement in 1998 to purchase property damage and public liability insurance on a group basis and share a retained level of risk.

The members pay an actuarially determined annual levy to fund insurance, prefund expected losses and contribute to a surplus. The Pool has purchased insurance to fund losses above a predetermined deductible and any losses above a predetermined total in any year.

The City's share of Pool levies is 23.55 % (2012 - 24.34%) and its share of the Pool surplus as at May 31, 2013 was \$1,131,779 (2012 - \$1,341,433). The City's share of the Pool surplus has not been included in the Consolidated Statement of Financial Position.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 9. Obligatory deferred revenue

	2013	2012
Recreational land	3,625,077	2,859,353

The continuity of deferred revenue is as follows:

	2013	2012
Balance, beginning of year	\$ 2,859,353	\$ 1,665,764
Interest earned	74,484	80,177
Other revenue	1,338,483	1,285,632
Contributions used	(647,243)	(172,220)
Balance, end of year	\$ 3,625,077	\$ 2,859,353

### 10. Municipal debt

The City has assumed responsibility for the payment of principal and interest charges on certain long-term debt issued by other municipalities. At the end of the year, the outstanding principal amount of this liability is \$112,039,284 (2012 - \$ 111,262,798).

The annual principal repayments are:

2014	\$ 10,712,243
2015	10,477,385
2016	10,793,352
2017	10,918,256
2018	10,118,151
2019 and thereafter	59,019,897
	\$ 112,039,284

The annual principal and interest payments required to service the long-term debt are within the annual debt repayment limit prescribed by the Ontario Ministry of Municipal Affairs and Housing.

The long-term liabilities carry interest rates ranging from 1.25% to 6.40% (2012 - 1.35% to 5.45%). Interest charges for 2013 relating to municipal debt totaled \$3,940,774 (2012 - \$3,888,957).

### 11. Pension plan

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employee contributions are matched by the City. Contributions were required on account of current service in 2013 amounting to \$9,253,959 (2012 - \$8,152,534).

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 12. Employee future benefits

The estimated liability for employee future benefits is comprised of the following:

	2013	2012
Sick leave benefit plan	\$ 14,344,962	\$ 13,044,324
Post-employment benefits	12,056,880	10,557,733
Future payments required to WSIB	5,283,400	4,326,000
	\$ 31,685,242	\$ 27,928,057

#### a. Sick leave

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to cash payments when they leave the City's employment. The expense for the current year was \$2,508,519 (2012 - \$2,475,094) and is comprised of the following items:

	2013	2012
Current period benefit cost	947,844	\$ 917,398
Amortization of actuarial losses	757,612	757,612
Sick leave benefit expense	1,705,456	1,675,010
Sick leave benefit interest expense	803,063	800,084
Total expenses related to sick leave benefits	\$ 2,508,519	\$ 2,475,094

The actuarial valuation of the future liability for sick leave assumes a discount rate of 4.50% (2012 - 3.75%). The last actuarial valuation for this liability was completed at December 31, 2011, with an actuarial update provided to the end of the current year.

As at December 31, 2013, the unamortized actuarial losses were \$5,858,495 (2012 - \$8,026,802) and are amortized over 12.0 to 13.0 years (2012 - 10.5 to 13.0 years). The amount of benefits paid during the year were \$1,207,881 (2012 - \$2,129,090).

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of \$5,355,187 (2012 - \$4,486,300).

Anticipated undiscounted payments to employees who are eligible to retire are:

2014	\$ 2,013,968
2015	781,009
2016	873,935
2017	855,970
2018	1,073,970
2019 and thereafter	12,682,327
	\$ 18,281,179

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 12. Employee future benefits (continued)

#### b. Post-retirement benefits

The City pays certain health, dental and life insurance benefits on behalf of its retired employees up to the age of 65 if they have at least ten years of service with the City. The expense for the year was \$2,092,008 (2012 - \$2,041,995) and is comprised of the following items:

	2013	2012
Current period benefit cost	\$ 774,910	\$ 746,901
Amortization of actuarial losses	691,831	691,831
Post-employment benefit expense	1,466,741	1,438,732
Post-employment benefit interest expense	625,267	603,263
Total expenses related to post-employment benefits	\$ 2,092,008	\$ 2,041,995

The actuarial valuation of the future liability for post-retirement benefits assumes a discount rate of 4.50% (2012 - 3.75%) and inflation rates for benefit premiums of 4.0% to 7.8 % (2012 - 4% to 8%).

As at December 31, 2013, the unamortized actuarial losses were \$3,497,281 (2012 - \$5,637,570) and are amortized over 10 to 13 years (2012 - 10 to 13 years). The amount of benefits paid during the year were \$592,861 (2012 - \$989,931). The last actuarial valuation for this liability was completed at December 31, 2011, with an actuarial update provided to the end of the current year.

The City holds no reserve in accumulated surplus to meet this liability.

#### c. WSIB

The Workplace Safety and Insurance Board (WSIB) administers injured worker benefits payments on behalf of the City as a Schedule 2 employer. The expense for the current year was \$1,700,900 (2012 - \$1,669,500) and is comprised of the following items:

	2013	2012
Current period benefit cost	\$ 1,168,300	\$ 1,161,300
Amortization of actuarial losses	261,500	261,500
WSIB benefit expense	1,429,800	1,422,800
WSIB benefit interest expense	271,100	246,700
Total expenses related to WSIB benefits	\$ 1,700,900	\$ 1,669,500

The actuarial valuation of the future liability for WSIB assumes a discount rate of 4.50% (2012 - 3.75%). The last actuarial valuation for this liability was completed at December 31, 2010, with an actuarial update provided to the end of the current year.

As at December 31, 2013, the unamortized actuarial losses were \$1,823,700 (2012 - \$2,107,100) and are amortized over 10 years (2012 - 10 years). The amount of benefits paid during the year were \$743,500 (2012 - \$782,700).

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of \$1,044,060 (2012 - \$908,428).

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### 13. Tangible capital assets

See Schedule A

Assets under construction having a value of \$42,750,017 (2012 - \$70,869,342) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Contributed tangible capital assets of \$10,338,038 (2012- \$22,152,162) have been recognized at fair market value at the date of contribution.

The write-down of tangible capital assets during the year was \$2,682,590 (2012 – \$nil).

### 14. Accumulated surplus

The accumulated surplus consists of individual fund surpluses/ (deficits) and reserve funds as follows:

	2013	2012
<b>Surplus:</b>		
Invested in tangible capital assets	\$ 957,932,883	\$ 929,404,766
Other	(13,047,750)	(26,231,630)
Equity in Kitchener Power Corp. and its affiliates	183,288,924	179,037,991
Equity in Kitchener Generation Corporation	3,948,281	4,180,532
Unfunded		
Employee future benefits	(31,685,242)	(27,928,057)
Total surplus	1,100,437,096	1,058,463,602
<b>Reserve funds set aside for specific purpose by Council for:</b>		
Capital	21,373,368	11,319,648
Stabilization	14,221,719	16,823,278
Program specific	3,428,819	5,371,276
Corporate	4,974,217	5,860,683
Development charges	(7,115,239)	(6,714,147)
Kitchener Public Library	186,308	37,000
Kitchener Downtown Business Improvement Area	25,641	29,478
The Centre in the Square Inc.	124,272	2,245,811
Total reserve funds	37,219,105	34,973,027
	<b>\$1,137,656,201</b>	<b>\$1,093,436,629</b>

### 15. Contingent liabilities

a. The City has extended a line of credit not to exceed \$2,000,000 to Kitchener Housing Inc. Interest is charged on the outstanding balance at bank prime plus 1% (rate as at December 31, 2013 was 4%).

b. Legal actions have been undertaken against the City relating to a number of contract disputes and other matters. The outcome of these actions is not presently determinable. It is management's opinion that the City's insurance will adequately cover any potential liability arising from these contract disputes and other matters. Should any liability be determined and not covered by insurance it will be recognized in the period when it is determined.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

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### 16. Segmented information

The City of Kitchener is a diversified municipal government institution that provides a wide range of services to its citizens, including fire, roads, water, sewer, storm sewer, gasworks, libraries, and community services.

Segmented information has been prepared by major functional classification of activities provided, consistent with the Consolidated Statement of Operations and provincially legislated requirements.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

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.

See Schedule B

### 17. Budget figures

The budget figures reflected in these consolidated statements are those approved by Council at a meeting on January 17, 2013. Budget figures have been translated to reflect Public Sector Accounting Board standards.

### 18. Comparative figures

Certain of the prior year's comparative figures have been restated to conform to the current year's presentation.

### 19. Adoption of new accounting policies

On January 1, 2013, the City adopted Public Sector Accounting Standards ("PS") 3410 - Government Transfers and 3510 - Tax Revenue. PS 3410 was applied prospectively upon adoption while PS 3510 was applied retroactively as required by the Public Sector Accounting Handbook. Under PS 3410, government transfers should be recognized as revenue when the transfer is authorized and eligibility criteria are met. Under PS 3510, tax revenues collected on behalf of others would be considered a flow-through arrangement and would not be recognized as tax revenue by the City. In accordance with the provisions of these new standards, no adjustments were required to the consolidated financial statements.

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### Schedule A – Tangible Capital Assets

	General								Infrastructure				Total
	Land Land improvements	Buildings	Leasehold improvements	Machinery & equipment	Computer software	Computer hardware	Vehicles	Land	Buildings	Linear assets	Assets under construction		
<b>Cost</b>													
Balance, beginning of year	\$42,201,772	\$47,393,872	\$200,795,752	\$ 3,054,251	\$ 54,194,040	\$20,336,754	\$5,907,625	\$ 30,644,484	\$137,848,804	\$66,468,269	\$ 685,152,012	\$70,869,342	\$1,364,866,977
Additions	391,918	3,124,662	7,486,054	-	3,773,508	610,579	865,291	2,043,555	4,790,711	-	42,683,276	4,123,078	69,892,632
Transfers	(239,914)	121,617	88	-	(183,672)	-	-	556,895	239,914	-	31,747,475	(32,242,403)	-
Disposals	(1,850,493)	(444,566)	(3,304,207)	-	(719,675)	(241,246)	(713,795)	(1,464,155)	(220,753)	(269,373)	(361,762)	-	(9,590,025)
Balance, end of year	40,503,283	50,195,585	204,977,687	3,054,251	57,064,201	20,706,087	6,059,121	31,780,779	142,658,676	66,198,896	759,221,001	42,750,017	1,425,169,584
<b>Accumulated Amortization</b>													
Balance, beginning of year	-	(20,719,978)	(80,594,242)	(452,272)	(29,978,808)	(14,617,150)	(2,376,437)	(16,988,968)	-	(6,334,056)	(263,400,300)	-	(435,462,211)
Disposals	-	262,836	408,450	-	672,975	239,446	713,795	1,157,953	-	268,975	1,856,383	-	5,580,813
Amortization expense	-	(1,835,365)	(6,440,769)	(71,196)	(3,738,270)	(1,251,107)	(1,035,503)	(2,137,726)	-	(2,123,902)	(18,721,465)	-	(37,355,303)
Balance, end of year	-	(22,292,507)	(86,626,561)	(523,468)	(33,044,103)	(15,628,811)	(2,698,145)	(17,968,741)	-	(8,188,983)	(280,265,382)	-	(467,236,701)
<b>Net book value, end of year</b>	40,503,283	27,903,078	118,351,126	2,530,783	24,020,098	5,077,276	3,360,976	13,812,038	142,658,676	58,009,913	478,955,619	42,750,017	957,932,883
Net book value, beginning of year	\$42,201,772	\$26,673,894	\$120,201,510	\$ 2,601,979	\$ 24,215,232	\$ 5,719,604	\$3,531,188	\$ 13,655,516	\$137,848,804	\$60,134,213	\$ 421,751,712	\$70,869,342	\$ 929,404,766

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### Schedule B – Segmented Information

Year ended December 31, 2013	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
<b>Revenues</b>										
Taxation	\$ 31,820,381	\$ 13,954,798	\$ 1,504,665	\$ 168,326	\$ 1,256,397	\$ 33,945,158	\$ 5,239,814	\$ -	\$ 18,329,034	\$ 106,218,573
User fees and charges	7,305,579	7,833,927	44,611,523	1,441,052	481,711	20,412,670	2,732,562	87,529,916	2,430,772	174,779,712
Grants	-	2,337,894	243,545	-	659,328	793,861	-	-	66,300	4,100,928
Investment income	113,717	7,518	149,576	313,022	2,800	164,278	1,154	285,489	6,785,079	7,822,633
Penalty and interest on taxes	-	-	-	-	-	-	-	-	3,044,161	3,044,161
Obligatory reserve funds revenue recognized	-	1,987,565	2,024,238	-	-	2,280,697	504,372	2,730	91,965	6,891,567
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	7,639,368	7,639,368
Share of net income in Kitchener Generation Corporation	-	-	-	-	-	-	-	-	(57,269)	(57,269)
Asset donations	-	7,733,976	2,278,451	5,643	-	162,516	145,846	11,606	-	10,338,038
Other	405,247	153,794	737,569	48,823	98,175	1,621,526	247,807	278,471	1,204,262	4,795,674
<b>Total revenue</b>	<b>39,644,924</b>	<b>34,009,472</b>	<b>51,549,567</b>	<b>1,976,866</b>	<b>2,498,411</b>	<b>59,380,706</b>	<b>8,871,555</b>	<b>88,108,212</b>	<b>39,533,672</b>	<b>325,573,385</b>
<b>Expenses</b>										
Salaries, wages and benefits	35,626,986	10,776,737	8,755,293	1,356,255	1,908,765	34,317,868	5,306,164	5,403,462	30,012,178	133,463,708
Materials and services	2,919,453	7,404,599	5,689,369	448,400	517,358	16,322,393	1,833,243	50,385,894	13,197,871	98,718,580
Debenture debt interest	208,142	929,079	94,256	2,027	49,524	763,494	907,729	-	986,523	3,940,774
Internal charges and recoveries	1,682,770	1,581,582	5,084,673	169,113	55,548	1,809,434	979,767	2,628,284	(13,991,171)	-
Grants and other	-	6,944	433,534	-	9,000	2,723,831	677,647	-	28,050	3,879,006
Amortization	1,202,137	10,904,919	6,144,590	127,616	89,586	6,725,755	632,880	6,020,361	5,507,459	37,355,303
Loss / (gain) on sale of assets	136,091	1,303,818	3,527,842	51,795	10,062	244,386	(1,737,088)	167,484	292,052	3,996,442
<b>Total expenses</b>	<b>41,775,579</b>	<b>32,907,678</b>	<b>29,729,557</b>	<b>2,155,206</b>	<b>2,639,843</b>	<b>62,907,161</b>	<b>8,600,342</b>	<b>64,605,485</b>	<b>36,032,962</b>	<b>281,353,813</b>
<b>Net surplus / (deficit)</b>	<b>\$ (2,130,655)</b>	<b>\$ 1,101,794</b>	<b>\$ 21,820,010</b>	<b>\$ (178,340)</b>	<b>\$ (141,432)</b>	<b>\$ (3,526,455)</b>	<b>\$ 271,213</b>	<b>\$ 23,502,727</b>	<b>\$ 3,500,710</b>	<b>\$ 44,219,572</b>

# THE CORPORATION OF THE CITY OF KITCHENER

## Notes to Consolidated Financial Statements

Year Ended December 31, 2013

### Schedule B - Segmented Information (continued)

Year ended December 31, 2012	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
<b>Revenues</b>										
Taxation	\$ 31,334,692	\$ 13,398,912	\$ 569,611	\$ 133,150	\$ 1,283,831	\$ 34,847,421	\$ 4,632,160	\$ -	\$ 16,347,160	\$ 102,546,937
User fees and charges	7,091,511	6,709,319	46,366,094	1,503,573	301,620	20,821,646	2,406,644	83,262,445	2,436,359	170,899,211
Grants	-	9,039,329	1,319,942	-	655,996	682,976	-	-	74,444	11,772,687
Investment income	224,701	(20,441)	542,722	306,053	3,915	127,572	(40,049)	134,553	6,240,524	7,519,550
Penalty and interest on taxes	-	-	-	-	-	-	-	-	3,318,267	3,318,267
Obligatory reserve funds revenue recognized	-	2,378,193	3,533,957	-	-	575,068	41,886	51,426	296,301	6,876,831
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	8,447,594	8,447,594
Share of net income in Kitchener Generation Corporation	-	-	-	-	-	-	-	-	(33,204)	(33,204)
Asset donations	-	9,408,016	679,209	-	-	12,054,999	-	9,938	-	22,152,162
Other	396,546	55,615	1,067,725	55,443	7,854	875,587	36,256	1,352,124	619,743	4,466,893
<b>Total revenue</b>	<b>39,047,450</b>	<b>40,968,943</b>	<b>54,079,260</b>	<b>1,998,219</b>	<b>2,253,216</b>	<b>69,985,269</b>	<b>7,076,897</b>	<b>84,810,486</b>	<b>37,747,188</b>	<b>337,966,928</b>
<b>Expenses</b>										
Salaries, wages and benefits	34,150,924	9,870,486	7,869,192	1,185,432	1,732,924	33,547,796	4,942,440	5,367,517	29,776,977	128,443,688
Materials and services	3,121,995	6,514,485	9,944,009	381,159	380,546	15,700,821	1,629,003	50,710,602	14,877,696	103,260,316
Debenture debt interest	223,118	1,029,731	99,977	870	55,308	756,276	962,992	-	760,686	3,888,958
Internal charges and recoveries	1,641,367	994,390	5,074,954	165,262	53,770	1,780,406	943,307	2,676,796	(13,330,252)	-
Grants and other	63	6,828	837,302	7	8,650	2,285,571	665,753	-	63,077	3,867,251
Amortization	1,221,616	9,603,467	5,932,172	106,175	75,845	5,784,032	641,615	5,696,755	5,237,624	34,299,301
Loss / (gain) on sale of assets	212,611	1,488,216	2,533,361	108,301	-	(364,599)	(541,740)	98,978	624,179	4,159,307
<b>Total expenses</b>	<b>40,571,694</b>	<b>29,507,603</b>	<b>32,290,967</b>	<b>1,947,206</b>	<b>2,307,043</b>	<b>59,490,303</b>	<b>9,243,370</b>	<b>64,550,648</b>	<b>38,009,987</b>	<b>277,918,821</b>
<b>Net surplus / (deficit)</b>	<b>\$ (1,524,244)</b>	<b>\$ 11,461,340</b>	<b>\$ 21,788,293</b>	<b>\$ 51,013</b>	<b>\$ (53,827)</b>	<b>\$ 10,494,966</b>	<b>\$ (2,166,473)</b>	<b>\$ 20,259,838</b>	<b>\$ (262,799)</b>	<b>\$ 60,048,107</b>



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## INDEPENDENT AUDITORS' REPORT

### Trust Funds

To the Mayor and Members of Council, Inhabitants and Ratepayers of  
The Corporation of the City of Kitchener

We have audited the accompanying financial statements of the Trust Funds of the Corporation of the City of Kitchener, which comprise the balance sheet as at December 31, 2013 and the statement of continuity 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 sector 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 audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG" International), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the balance sheet of the Trust Funds of the Corporation of the City of Kitchener as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, thin horizontal line that tapers at both ends.

Chartered Professional Accountants, Licensed Public Accountants

June 30, 2014  
Waterloo, Canada

# TRUST FUNDS

## Balance Sheet

Year Ended December 31, 2013

	<b>2013</b>	2012
<b>Assets</b>		
Accounts receivable	\$ 125,205	\$ 174,292
Interest receivable	69,812	59,151
Investments (Note 2)		
Short-term	2,217,039	2,303,011
Long-term	9,546,549	8,871,297
	<b>11,958,605</b>	11,407,751
<b>Liabilities</b>		
Accounts payable	2,100	2,100
<b>Fund Balance</b>	<b>11,956,505</b>	11,405,651
	<b>\$ 11,958,605</b>	\$ 11,407,751

See accompanying notes

# TRUST FUNDS

## Statement of Continuity

Year Ended December 31, 2013

	2013	2012
<b>Capital Receipts</b>		
Perpetual care	\$ 296,319	\$ 340,897
Interest earned	456,112	442,211
Other	109,773	137,128
	<b>862,204</b>	<b>920,236</b>
<b>Expenditures</b>		
Transfer to cemeteries operations	311,350	303,364
	<b>311,350</b>	<b>303,364</b>
<b>Net change in fund</b>	<b>550,854</b>	<b>616,872</b>
Balance, beginning of year	11,405,651	10,788,779
<b>Balance, end of the year</b>	<b>\$ 11,956,505</b>	<b>\$ 11,405,651</b>

See accompanying notes

# TRUST FUNDS

## Notes to Financial Statements

Year Ended December 31, 2013

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### 1. Summary of Significant Accounting Policies

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles for local government as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The significant accounting policies are summarized below.

#### Basis of Accounting

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes receipts 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.

### 2. Investments

The long-term investments of \$9,546,549 (2012 - \$8,871,297) reported on the Balance Sheet at cost, have a market value of \$9,827,681 (2012 - \$9,003,835).

### 3. Statement of Cash Flows

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

# TRUST FUNDS

## Schedule of Continuity by Fund

Year Ended December 31, 2013

	Balance 12/31/12	Perpetual Care Funds	Interest Earned	Other Receipts	Transfer Interest to Cemeteries	Disbursements	Balance 12/31/13
<b>Perpetual Care</b>							
Mount Hope Cemetery	\$ 584,538	\$ 900	\$ 22,902	\$ 850	\$ 22,902	\$ -	\$ 586,288
Woodland Cemetery	4,448,531	96,397	176,149	9,950	176,149	-	4,554,878
Bridgeport Cemetery	142,513	1,448	5,614	-	5,614	-	143,961
Williamsburg Cemetery	2,022,070	197,574	82,485	15,563	82,485	-	2,235,207
St. Peter's Cemetery	489,445	-	19,175	950	19,175	-	490,395
<b>Cemetery Trusts</b>							
F.E. Teremain	15,550	-	609	-	609	-	15,550
Florence V. Cober	8,783	-	344	-	344	-	8,783
L.F. Glick	20,664	-	809	-	809	-	20,664
Edna Atherton	1,331	-	52	-	52	-	1,331
George Wright Estate	42,614	-	1,668	-	1,668	-	42,614
E. L. Goetz	1,357	-	53	-	53	-	1,357
E. Weiderhold	38,065	-	1,490	-	1,490	-	38,065
Prepaid Interments	3,590,190	-	144,762	82,460	-	-	3,817,412
	\$ 11,405,651	\$ 296,319	\$ 456,112	\$ 109,773	\$ 311,350	\$ -	\$ 11,956,505



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## INDEPENDENT AUDITORS' REPORT

To the Members of the Belmont Improvement Area Board of Management

We have audited the accompanying financial statements of the Belmont Improvement Area Board of Management, which comprise the statement of financial position as at December 31, 2013, the statements of revenue and expenses and accumulated surplus and change in net financial assets 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 sector 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 audit opinion.

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Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Belmont Improvement Area Board of Management as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Professional Accountants, Licensed Public Accountants

June 30, 2014  
Waterloo, Canada

# BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

## Statement of Financial Position

As at December 31, 2013

	2013	2012
<b>Financial assets</b>		
Cash	\$ 13,827	\$ 11,823
Accounts receivable	754	-
	<b>14,581</b>	<b>11,823</b>
<b>Financial liabilities</b>		
Accounts payable	9,519	5,009
Net financial assets	5,062	6,814
<b>Non-financial assets</b>		
Tangible capital assets	3,051	4,393
Prepaid expenses	585	-
	<b>3,636</b>	<b>4,393</b>
<b>Net assets</b>	<b>8,698</b>	<b>11,207</b>
<b>Accumulated surplus</b>		
Accumulated net revenue	5,647	6,814
Invested in tangible capital assets	3,051	4,393
<b>Total accumulated surplus</b>	<b>\$ 8,698</b>	<b>\$ 11,207</b>

See accompanying notes

# BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

## Statement of Revenue and Expenses and Accumulated Surplus

Year Ended December 31, 2013

	2013	2012
<b>Revenue</b>		
Assessments	\$ 25,000	\$ 25,171
Other revenue	8,488	1,695
	<b>33,488</b>	26,866
<b>Expenses</b>		
Streetscaping	2,671	2,811
Audit	1,808	1,752
Summer maintenance	4,916	4,817
Insurance	670	1,239
Winter maintenance	20,497	10,784
Advertising	2,527	2,335
Miscellaneous	1,566	2,837
Amortization	1,342	1,099
	<b>35,997</b>	27,674
<b>Net deficit for year</b>	<b>(2,509)</b>	(808)
Accumulated surplus, beginning of year	11,207	12,015
<b>Accumulated surplus, end of year</b>	<b>\$ 8,698</b>	\$ 11,207

See accompanying notes

# BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

## Statement of Change in Net Financial Assets

As at December 31, 2013

	2013	2012
Net deficit for year	\$ (2,509)	\$ (808)
Acquisition of tangible capital assets	-	-
Amortization of tangible capital assets	1,342	1,099
Acquisition of prepaid expenses	(585)	
Change in net financial assets	(1,752)	291
Net financial assets, beginning of year	6,814	6,523
<b>Net financial assets, end of year</b>	<b>\$ 5,062</b>	<b>\$ 6,814</b>

See accompanying notes

# BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT Notes to Financial Statements

Year ended December 31, 2013

---

## 1. Summary of Significant Accounting Policies

The financial statements of the Belmont Improvement Area Board of Management are the representation of management and have been prepared 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. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment. The following is a summary of the significant accounting policies followed in the preparation of these financial statements

### a) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

---

<b>Assets</b>	<b>Amortization period</b>
Equipment	5 years

---

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

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

### b) Accrual basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. 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.

## 2. Statement of Cash Flows

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.



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## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Kitchener Downtown Improvement Area Board of Management, which comprise the statement of financial position as at December 31, 2013, the statements of revenue and expenses and accumulated surplus and changes in net financial assets 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 sector 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 an 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 audit opinion.

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Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kitchener Downtown Improvement Area Board of Management as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

---

Chartered Professional Accountants, Licensed Public Accountants

March 18, 2014  
Waterloo, Canada

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Financial Position

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
<b>Financial Assets</b>		
Cash	\$ 77,000	\$ 14,635
Term deposits (note 4)	65,709	65,321
Accounts receivable	39,118	36,230
Due from the City of Kitchener (note 4)	10,141	-
Prepaid expenses	1,720	5,279
	193,688	121,465
<b>Financial Liabilities</b>		
Accounts payable and accrued charges	46,411	48,210
Due to the City of Kitchener (note 4)	-	11,174
	46,411	59,384
Net financial assets	147,277	62,081
<b>Non-Financial Assets</b>		
Tangible capital assets (note 6)	26,786	23,347
Net assets	\$ 174,063	\$ 85,428
<b>Accumulated Surplus</b>		
Reserve for future assessment write-offs	\$ 25,641	\$ 29,478
Accumulated net revenue	121,636	32,603
Invested in tangible capital assets	26,786	23,347
Total accumulated surplus	\$ 174,063	\$ 85,428

See accompanying notes to financial statements.

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Revenue and Expenses and Accumulated Surplus

Year ended December 31, 2013, with comparative information for 2012

	Budget 2013	Actual 2013	Actual 2012
<b>Revenue:</b>			
Assessments	\$ 658,000	\$ 683,979	\$ 650,000
Interest	200	388	1,235
Special events income	50,000	44,400	43,408
Other income	11,000	10,502	23,648
	719,200	739,269	718,291
<b>Expenses:</b>			
Promotions and advertising	274,000	255,075	276,729
Salaries and wages	264,000	260,710	247,996
Administration	73,043	65,846	61,228
Meetings and seminars	15,000	10,252	13,517
Safety and beautification	50,100	26,249	36,549
Member relations	34,500	22,857	61,144
Amortization	8,154	5,808	5,520
	718,797	646,797	702,683
Net revenue before other items	\$ 403	92,472	15,608
Net assessment write-offs (note 4)		3,837	11,174
Net revenue (expenses)		88,635	4,434
Accumulated surplus, beginning of year		85,428	80,994
Accumulated surplus, end of year		\$ 174,063	\$ 85,428

See accompanying notes to financial statements.

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

## Statement of Changes in Net Financial Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Net revenue	\$ 88,635	\$ 4,434
Acquisition of tangible capital assets	(9,247)	(7,140)
Amortization of tangible capital assets	5,808	5,520
Change in net financial assets	85,196	2,814
Net financial assets, beginning of year	62,081	59,267
Net financial assets, end of year	\$ 147,277	\$ 62,081

See accompanying notes to financial statements.

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements

Year ended December 31, 2013

---

## 1. Summary of significant accounting policies:

Kitchener Downtown Improvement Area Board of Management (“the Board”) is established for the main purpose of revitalizing the Central Business District of the City of Kitchener. It is designated as a Business Improvement Area (BIA) through the Ontario Municipal Act and a City of Kitchener by-law enacted in 1977.

The financial statements of the Board are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment.

### (a) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Computers	4 years
Furniture and fixtures	7 years
Leasehold improvements	7 years

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

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

### (b) Accrual basis of accounting:

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.

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements, page 2

Year ended December 31, 2013

## 2. Term deposits:

The term deposits consist of the following:

Principal	Maturity	Rate
\$55,434	September 13, 2013	0.70%
\$10,275	January 3, 2014	0.80%

## 3. Commitments:

During 2012, the Board executed a new joint premises lease agreement with two other unrelated parties. The lease allows for certain amounts of exclusive space for the Board and certain amounts of common area space shared with the other joint tenants. The lease expires on June 30, 2016. The Board is committed to the following minimum payments under the agreement:

2013	\$	33,089
2014		33,906
2015		34,723
2016		17,567

## 4. City of Kitchener:

The Board receives assessment income from the City of Kitchener for its operations. During the year, assessment write-offs were incurred for \$3,837 (2012 - \$11,174). This amount was paid to the City of Kitchener in 2013.

## 5. Statement of cash flows:

A separate statement of cash flows is not presented since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

# KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements, continued

Year ended December 31, 2013

## 6. Tangible capital assets:

	Opening balance	Additions	Disposals/ Transfers	Write- downs	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Deletions	Amortization	Accumulated amortization, end of year	Net book value, end of year
Computers	\$ 7,096	\$ 1,486	\$ -	\$ -	\$ 8,582	\$ 5,905	\$ 1,191	\$ -	\$ 1,118	\$ 7,023	\$ 1,559
Furniture	27,445	7,761	-	-	35,206	7,787	19,658	-	4,190	11,977	23,229
Leasehold improvements	3,498	-	-	-	3,498	1,000	2,498	-	500	1,500	1,998
	\$ 38,039	\$ 9,247	\$ -	\$ -	\$ 47,286	\$ 14,692	\$ 23,347	\$ -	\$ 5,808	\$ 20,500	\$ 26,786



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## **INDEPENDENT AUDITORS' REPORT**

To the members of the Kitchener Public Library Board

We have audited the accompanying financial statements of the Kitchener Public Library, which comprise the statement of financial position as at December 31, 2013 and the statements of revenues, expenses and accumulated net revenue and changes in net financial assets 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 sector 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.

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Page 2

*Basis for Qualified Opinion*

In common with many public library boards, the Kitchener Public Library derives revenue from fines, rentals, partnerships, photocopying and other miscellaneous revenues, 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 financial assets.

*Qualified Opinion*

In our opinion, except for the possible effects on the financial statements 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 Kitchener Public Library as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

April 16, 2014

Waterloo, Canada

# KITCHENER PUBLIC LIBRARY

## Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
<b>Assets</b>		
Cash	\$ 1,708,472	\$ 1,293,830
Accounts receivable	60,339	54,285
Due from City of Kitchener	93,720	93,546
	<u>1,862,531</u>	<u>1,441,661</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	770,107	628,189
Deferred revenue (note 2)	906,116	776,239
	<u>1,676,223</u>	<u>1,404,428</u>
Net financial assets	186,308	37,233
<b>Non-Financial Assets</b>		
Tangible capital assets (note 3)	5,103,092	5,233,569
	<u>\$ 5,289,400</u>	<u>\$ 5,270,802</u>
<b>Accumulated Surplus</b>		
General	\$ -	\$ 233
Invested in tangible capital assets	5,103,092	5,233,569
Reserves	186,308	37,000
	<u>\$ 5,289,400</u>	<u>\$ 5,270,802</u>

See accompanying notes to financial statements.

# KITCHENER PUBLIC LIBRARY

## Statement of Operations and Changes in Net Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
<b>Revenues:</b>		
Grants:		
Province of Ontario	\$ 286,755	\$ 286,755
City of Kitchener:		
Operating	9,453,379	9,055,142
Capital and special (note 4)	581,904	319,771
Special grants (note 5)	36,754	20,807
Fines	193,149	237,670
Interest and miscellaneous	30,800	33,861
Partnerships	22,802	22,802
Room rental	5,493	6,661
Photocopy	19,350	20,413
	<b>10,630,386</b>	<b>10,003,882</b>
<b>Expenses:</b>		
Personnel costs (Schedule 1)	7,516,362	7,516,684
Resource materials	1,516,602	1,497,885
Equipment (Schedule 2)	468,670	408,376
Administrative(Schedule 3)	203,830	150,073
Facilities costs (Schedule 4)	428,021	423,692
Processing/bindery	109,393	110,116
Programs and publicity (Schedule 5)	67,010	42,634
General library equipment	9,495	17,382
Expenditures related to capital and special (note 4)	255,651	83,543
Required expenditures related to (note 5)	36,754	20,807
	<b>10,611,788</b>	<b>10,271,192</b>
Net revenue (deficit)	18,598	(267,310)
Accumulated net revenue, beginning of year	5,270,802	5,538,112
Accumulated net revenue, end of year	<b>\$ 5,289,400</b>	<b>\$ 5,270,802</b>

See accompanying notes to financial statements.

# KITCHENER PUBLIC LIBRARY

## Statement of Changes in Net Financial Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Excess (deficiency) of revenue over expenditures	\$ 18,598	\$ (267,310)
Acquisition of tangible capital assets	(1,259,641)	(1,122,815)
Amortization of tangible capital assets	1,390,118	1,427,554
Change in net financial assets	149,075	37,429
Net financial assets (debt), beginning of year	37,233	(196)
Net financial assets, end of year	\$ 186,308	\$ 37,233

See accompanying notes to financial statements.

# KITCHENER PUBLIC LIBRARY

## Notes to Financial Statements

Year ended December 31, 2013

---

Kitchener Public Library (the "Board") was incorporated as a not-for-profit organization, without share capital, under the laws of Ontario. It is a Board of the City of Kitchener (the "City") and is dependent on the City for a significant portion of its operating and capital funding.

The Board contributes to the community as a resource and a gateway with sources of information and works of imagination.

The financial statements of the Board are the representation of management and have been prepared 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. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments. The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

### 1. Significant accounting policies:

(a) Accrual basis of accounting:

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.

(b) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land are amortized on a straight-line basis over their estimated useful lives as follows:

---

Furniture, fixtures and equipment	10 - 30 years
Specialty and other equipment	8 years
Computer	3 - 10 years
Books and audio visual resources	2 - 10 years

---

### 2. Deferred revenue:

Deferred revenue represents the annual Board's approval of the appropriation of unspent funds, and are subject to external restrictions as to how the funds are disbursed. These appropriations are included in required expenses and are subsequently charged directly to operations when spent.

# KITCHENER PUBLIC LIBRARY

Notes to Financial Statements (continued)

Year ended December 31, 2013

### 3. Tangible capital assets:

2013	Opening balance	Additions	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Amortization	Accumulated amortization, end of year	Net book value end of year
Books and audio visual resources	\$ 14,315,647	\$ 1,002,105	\$ 15,317,752	\$ 10,140,285	\$ 4,175,362	\$ 1,167,030	\$ 11,307,315	\$ 4,010,437
Computer	1,446,912	133,726	1,580,638	818,834	628,078	167,780	986,614	594,024
Furniture fixtures and equipment	732,750	123,810	856,560	332,359	400,391	49,356	381,715	474,845
Other equipment and vehicle	95,306	-	95,306	65,568	29,738	5,952	71,520	23,786
	\$ 16,590,615	\$ 1,259,641	\$ 17,850,256	\$ 11,357,046	\$ 5,233,569	\$ 1,390,118	\$ 12,747,164	\$ 5,103,092

# KITCHENER PUBLIC LIBRARY

Notes to Financial Statements (continued)

Year ended December 31, 2013

### 3. Tangible capital assets (December 31, 2012):

2012	Opening balance	Re-classification	Additions	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Amortization	Accumulated amortization, end of year	Net book value, end of year
Books and audio visual resources	\$ 13,384,347	\$ -	\$ 931,300	\$ 14,315,647	\$ 8,927,708	\$ 4,456,639	\$ 1,212,577	\$ 10,140,285	\$ 4,175,362
Computer	1,279,410	6,090	161,412	1,446,912	650,683	628,727	159,794	810,477	636,435
Furniture fixtures and equipment	702,647	-	30,103	732,750	283,127	419,520	49,232	332,359	400,391
Other equipment and vehicle	101,396	(6,090)	-	95,306	67,974	33,422	5,951	73,925	21,381
	\$ 15,467,800	\$ -	\$ 1,122,815	\$ 16,590,615	\$ 9,929,492	\$ 5,538,308	\$ 1,427,554	\$ 11,357,046	\$ 5,233,569

# KITCHENER PUBLIC LIBRARY

Notes to Financial Statements (continued)

Year ended December 31, 2013

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## **4. Capital and special grants:**

Each year, the City approves capital and special grants for the Board to purchase specific capital items.

The capital grants approved for 2013 included \$85,500 for general renovations, maintenance and upgrading of existing facilities, \$183,525 for communication infrastructure and technology upgrades, \$25,000 for KPL Accessibility Fund and \$25,000 for Forest Heights branch HVAC unit.

The portion of these grants and previous year grants that are included in revenue in 2013, is \$581,805 (2012 - \$319,771).

## **5. Special grants:**

In 2013, the Board received various special non-recurring grants and donations totaling \$171,123 (2012 - \$137,040). The portion of these grants and previous year special grants that are included in revenue in 2013, is \$36,754 (2012 - \$20,807). The remainder is included in deferred revenue.

## **6. Pension plan:**

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

During the year, the Board incurred expenses equal to \$542,917 (2012 - \$517,867) for current service on behalf of its staff.

# KITCHENER PUBLIC LIBRARY

Notes to Financial Statements (continued)

Year ended December 31, 2013

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**7. Related party transactions:**

The Kitchener Public Library Foundation (the "Foundation") is an independent organization which raises funds to support the development of the Kitchener Public Library.

The accounts of the Foundation are not included in these financial statements.

During the year, the Foundation donated \$17,347 (2012 - \$11,609) to the Board to fund various projects.

**8. Statement of cash flows:**

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

# KITCHENER PUBLIC LIBRARY

Schedule of Personnel, Equipment, Administrative, Facilities and Programs and Publicity Expenses

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
<b>Personnel:</b>		
Salaries	\$ 6,137,390	\$ 6,208,582
Health benefits	362,826	345,520
Pension benefits	784,232	760,451
Employment insurance	131,231	126,507
WSIB	22,772	23,686
Sick leave reserve	25,000	25,000
Staff training	52,911	26,938
	<b>\$ 7,516,362</b>	<b>\$ 7,516,684</b>
<b>Equipment:</b>		
Technology	\$ 227,735	\$ 168,742
Equipment maintenance	17,847	24,657
Amortization	223,088	214,977
	<b>\$ 468,670</b>	<b>\$ 408,376</b>
<b>Administrative:</b>		
Postage and delivery	\$ 11,539	\$ 11,970
Insurance	17,501	17,160
Professional services	69,124	36,760
General business	52,796	32,810
Telephone	22,982	23,806
Stationery	29,888	27,567
	<b>\$ 203,830</b>	<b>\$ 150,073</b>
<b>Facilities:</b>		
Facilities expenses	\$ 254,000	\$ 189,616
Country Hills building	38,088	37,380
Main utilities	87,861	151,360
Forest Heights utilities	22,307	21,338
Pioneer Park building	20,993	18,581
Grand River Stanley Park building	4,772	5,417
	<b>\$ 428,021</b>	<b>\$ 423,692</b>

# KITCHENER PUBLIC LIBRARY

## Schedule 5 - Programs and publicity

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Programs and publicity:		
Promotional	\$ 24,979	\$ 26,872
Public programs	42,031	15,762
	\$ 67,010	\$ 42,634



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## INDEPENDENT AUDITORS' REPORT

To the Directors of The Centre in the Square Inc.

We have audited the accompanying financial statements of The Centre in the Square Inc., which comprise the statement of financial position as at December 31, 2013, the statements of operations, changes in net financial assets, 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 an 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 audit opinion.

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Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Centre in the Square Inc. as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

April 9, 2014  
Waterloo, Canada

# THE CENTRE IN THE SQUARE INC.

## Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
<b>Net Assets</b>		
Financial assets:		
Cash	\$ 1,765,324	\$ 3,353,370
Due from The City of Kitchener	9,238	89,496
Funds held with The City of Kitchener (note 2)	-	278,725
Accounts receivable	12,463	117,354
Interest receivable	3,033	3,630
Costs to be recovered	142,893	347,483
Investments (note 4)	1,514,792	1,432,046
<b>Total financial assets</b>	<b>3,447,743</b>	<b>5,622,104</b>
Financial liabilities:		
Accounts payable and accrued liabilities	1,716,907	1,373,288
Deferred revenue (note 5)	1,810,640	2,246,350
	<b>3,527,547</b>	<b>3,619,638</b>
<b>Net (debt) financial assets</b>	<b>(79,804)</b>	<b>2,002,466</b>
Non-financial assets:		
Tangible capital assets (note 10)	9,378,462	8,774,535
Inventories (note 3)	65,247	52,905
Prepaid expenses	138,829	190,440
	<b>9,582,538</b>	<b>9,017,880</b>
<b>Net assets</b>	<b>\$ 9,502,734</b>	<b>\$ 11,020,346</b>
<b>Accumulated Surplus</b>		
Operating fund activities (note 11)	\$ -	\$ -
Reserves - Capital (notes 6 and 12)	-	327,913
Reserves - Performance Development (notes 7 and 12)	-	461,180
Reserves - Restricted (notes 8 and 12)	124,272	1,456,718
Invested in tangible capital assets	9,378,462	8,774,535
<b>Accumulated surplus</b>	<b>\$ 9,502,734</b>	<b>\$ 11,020,346</b>

See accompanying notes to financial statements.

# THE CENTRE IN THE SQUARE INC.

## Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	Budget 2013	Actual 2013	Actual 2012
<b>Revenues:</b>			
Performances	\$ 5,570,862	\$ 6,159,468	\$ 6,961,310
Rent - Kitchener-Waterloo Symphony	104,780	98,065	94,615
Capital reserve fund surcharge (note 6)	335,594	282,356	226,068
Grants from The City of Kitchener- Operating	1,394,772	1,400,000	1,371,449
Grants from The City of Kitchener - Capital	246,000	246,031	242,335
Grants from other governments - Operating	40,000	39,275	40,000
Capital asset donations	-	109,640	10,000
Donations	2,500	4,292	11,179
Investment income	28,713	89,320	101,508
Sponsorships and memberships	127,000	101,901	123,566
Rent - Kitchener-Waterloo Art Gallery	91,918	92,528	90,116
Other	51,583	35,387	16,785
Gain (loss) on investments	-	45,499	(16,436)
Gain (loss) on sale of assets	10,000	-	8,000
<b>Total revenue</b>	<b>8,003,722</b>	<b>8,703,762</b>	<b>9,280,495</b>
<b>Expenses:</b>			
<b>Direct:</b>			
Performances	4,313,081	5,459,377	5,614,049
<b>Operating:</b>			
Administration	475,270	571,733	445,854
Marketing	279,320	291,981	115,242
Occupancy	648,500	683,470	668,540
Salaries and wages	3,096,200	3,029,072	3,070,549
Recoveries - performances	(1,170,437)	(1,126,448)	(1,178,661)
Amortization	700,000	744,642	621,628
Write down of tangible capital assets	-	88,008	28,032
Reserves expenditures (note 12)	338,000	479,539	190,165
Refund to The City of Kitchener	-	-	1,161
<b>Total expenses</b>	<b>8,679,934</b>	<b>10,221,374</b>	<b>9,576,559</b>
<b>Excess of expenses over revenue</b>	<b>(676,212)</b>	<b>(1,517,612)</b>	<b>(296,064)</b>
Accumulated surplus, beginning of year	11,020,346	11,020,346	11,316,410
<b>Accumulated surplus, end of year</b>	<b>\$ 10,344,134</b>	<b>\$ 9,502,734</b>	<b>\$ 11,020,346</b>

See accompanying notes to financial statements.

# THE CENTRE IN THE SQUARE INC.

## Statement of Change in Net Financial Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Excess of expenses over revenue	\$ (1,517,612)	\$ (296,064)
Acquisition of tangible capital assets	(1,436,577)	(630,120)
Amortization of tangible capital assets	744,642	621,628
Write-downs of tangible capital assets	88,008	28,032
	<u>(2,121,539)</u>	<u>(276,524)</u>
Net acquisition use of supplies inventory	(12,342)	(13,200)
Acquisition use of prepaid expenses	51,611	(99,720)
	<u>39,269</u>	<u>(112,920)</u>
Decrease in net financial assets	<u>(2,082,270)</u>	<u>(389,444)</u>
Net financial assets, beginning of year	2,002,466	2,391,910
Net financial (debt) assets, end of year	<u>\$ (79,804)</u>	<u>\$ 2,002,466</u>

See accompanying notes to financial statements.

# THE CENTRE IN THE SQUARE INC.

## Statement of Cash Flow

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Operating activities:		
Excess of expenses over revenue	\$ (1,517,612)	\$ (296,064)
Items not involving cash:		
Amortization	744,642	621,628
Write down of tangible capital assets	88,008	28,032
Change in non-cash operating working capital	607,239	514,014
Cash (used) provided by operating activities	(77,723)	867,610
Capital activities:		
Cash used to acquire tangible capital assets	(1,427,577)	(630,120)
Investing activities:		
Increase in investments	(82,746)	(19,607)
Increase (decrease) in cash	(1,588,046)	217,883
Cash, beginning of year	3,353,370	3,135,487
Cash, end of year	\$ 1,765,324	\$ 3,353,370

See accompanying notes to financial statements.

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements

Year ended December 31, 2013

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The mission of The Centre in the Square Inc. ("The Centre"), is to create memorable experiences. It is incorporated as a not-for-profit corporation without share capital, is exempt from income taxes under the Income Tax Act, and is a registered charity. The Centre is governed by a 14 member Board and receives an operating grant from the City of Kitchener ("the City").

## 1. Significant accounting policies:

The financial statements of The Centre are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment.

### (a) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Building	9 – 100 years
Equipment	4 – 50 years
Computers	5 – 14 years
Software	3 years
Site	10 – 50 years

### (b) Accrual basis of accounting:

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.

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

---

## 1. Significant accounting policies (continued):

### (c) Inventories:

Bar stock inventories are valued at the most recent replacement cost. Supplies inventories are valued at the lower of cost and net realizable value on a first-in, first-out basis. Net realizable value is defined as replacement cost.

### (d) Investments:

Investments are recorded at the lower of cost or market value on a fund portfolio basis. Interest income and all expenses are fully accrued.

### (e) Deferred revenue:

Performance revenue is recognized when the show occurs. Deferred gift certificate revenue is an estimate based upon gift certificate sales during the period from July 1 to December 31 of the current year.

## 2. Funds held with The City of Kitchener:

Funds held by the City represent cash held in a pooled fund on behalf of the Centre.

## 3. Inventories:

Inventories consist of the following:

	2013		2012	
Bar stock	\$	61,234	\$	51,769
Supplies		4,013		1,136
	\$	65,247	\$	52,905

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

## 4. Investments:

Investments consist of:

	Carrying value 2013	Market 2013	Carrying value 2012	Market 2012
Shares	\$ 893,760	\$ 1,252,788	\$ 947,871	\$ 1,157,228
Bonds	609,651	606,709	478,811	484,489
Cash	11,381	11,381	5,364	5,364
	\$ 1,514,792	\$ 1,870,878	\$ 1,432,046	\$ 1,647,081

## 5. Deferred revenue:

Deferred revenue consists of the following:

	2013	2012
Sponsorships	\$ 53,358	\$ 75,960
Performances	1,646,644	1,970,898
Gift certificates	48,264	56,264
Donations	14,228	33,179
Membership	4,914	18,228
Other	43,232	91,821
	\$ 1,810,640	\$ 2,246,350

## 6. Capital Reserve Fund Surcharge:

The Capital Reserve Fund represents the collection of a surcharge from sale of tickets.

At the direction of the Board of Directors, expenditures from the Capital Reserve Fund are made to finance, in whole or in part, major capital items, replacements and major maintenance projects.

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

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## **7. Performance Development Reserve Fund:**

At the direction of the Board of Directors, transfers are made to and from the Performance Development Reserve Fund, equal to one-half of the annual operating net revenue.

In 2013, The Centre's Board of Directors approved the transfer of the remaining funds from the Performance Development Reserve Fund (\$468,960) to the Operating Fund to fund the operating deficit.

## **8. Restricted Fund:**

The Restricted Fund was set up by the Board of Directors of The Centre in 2000 by a transfer of investments from the Sustainability Reserve Fund in accordance with the Restricted Fund Policy. Income from this fund is to be used for capital requirements, special projects and/or new programming initiatives that help further The Centre's mandate.

In 2013, the Centre's Board of Directors approved transfers out of the Restricted Fund for major capital asset projects (\$632,070) and to the Operating Fund (\$487,674) to fund the operating deficit.

## **9. 2013 Budget:**

The original budgeted figures were approved by the Board of Directors at their meeting in November, 2012 and included certain expenses and offsetting recoveries on a net basis. For purposes of presentation in these financial statements, these items have been shown as gross amounts.

# CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

## 10. Tangible capital assets:

	Opening balance	Additions	Disposals/ Transfers	Write- downs	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Deletions	Amortization	Accumulated amortization, end of year	Net book value, end of year
Land	\$ 975,300	\$ -	\$ -	\$ -	\$ 975,300	\$ -	\$ 975,300	\$ -	\$ -	\$ -	\$ 975,300
Building	8,630,978	238,399	(133,615)	-	8,735,762	3,788,382	4,842,596	(85,696)	244,126	3,946,812	4,788,950
Equipment	4,782,707	633,935	(49,832)	-	5,366,810	2,791,907	1,990,800	(44,648)	333,157	3,080,416	2,286,394
Computers	348,996	11,580	-	-	360,576	172,744	176,252	-	39,265	212,009	148,567
Software	126,369	143,512	(119,756)	-	150,125	122,673	3,696	(119,756)	49,686	52,603	97,522
Site	1,369,651	409,151	(48,052)	-	1,730,750	583,759	785,892	(13,146)	78,408	649,021	1,081,729
	\$ 16,234,001	\$ 1,436,577	\$ (351,255)	\$ -	\$ 17,319,323	\$ 7,459,465	\$ 8,774,536	\$ (263,246)	\$ 744,642	\$ 7,940,861	\$ 9,378,462

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

## 11. Operating fund activities:

	Budget 2013	Actual 2013	Actual 2012
<b>Revenues:</b>			
Performances	\$ 5,570,862	\$ 6,159,468	\$ 6,961,310
Rent - Kitchener-Waterloo Symphony	104,780	98,065	94,615
Grants from City of Kitchener	1,394,772	1,400,000	1,371,449
Grants, other Governments and Foundations	40,000	39,275	40,000
Donations	2,500	1,268	7,020
Investment income	20,000	24,659	33,034
Sponsorships and memberships	130,000	101,901	123,566
Rent - Kitchener-Waterloo Art Gallery	91,918	92,528	90,116
Other	51,856	35,387	16,785
<b>Total revenue</b>	<b>7,406,688</b>	<b>7,952,551</b>	<b>8,737,895</b>
<b>Current fund expenditures:</b>			
<b>Direct:</b>			
Performances	4,313,081	5,459,377	5,614,049
<b>Operating:</b>			
Administration	475,270	571,733	445,854
Marketing	279,320	291,981	115,242
Occupancy	648,500	683,470	668,540
Salaries and wages	3,096,200	3,029,072	3,070,549
Recoveries - performances	(1,170,437)	(1,126,448)	(1,178,661)
<b>Total current fund expenditures</b>	<b>7,641,934</b>	<b>8,909,185</b>	<b>8,735,573</b>
Operating fund net revenues before amortization	(235,246)	(956,634)	2,322
Transfer from reserve funds	235,246	956,634	(1,161)
Transfer to City of Kitchener	-	-	(1,161)
<b>Fund balances, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

# THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2013

## 12. Schedule of reserve funds:

	Performance Development	Capital	Sustainability	Restricted	Total Funds
Revenue:					
Donations and sundry	\$ -	\$ 109,640	\$ -	\$ 3,024	\$ 112,664
Grants from The City of Kitchener	-	246,030	-	-	246,030
Capital reserve fund surcharge	-	282,356	-	-	282,356
Investment income	7,780	1,482	-	55,400	64,662
Gain on investments	-	-	-	45,499	45,499
	7,780	639,508	-	103,923	751,211
Expenditures:					
Cost of fundraising	-	162,913	-	-	162,913
Professional fees	-	-	-	17,249	17,249
Restructuring costs	-	-	-	299,377	299,377
	-	162,913	-	316,626	479,539
Excess of revenue over expenditures (expenditures over revenue)					
	7,780	476,595	-	(212,703)	271,672
Transfer to accumulated surplus - tangible capital assets					
	-	(1,436,578)	-	-	(1,436,578)
Other transfers					
	(468,960)	632,070	-	(1,119,743)	(956,633)
Balance, beginning of year					
	461,180	327,913	-	1,456,718	2,245,811
Balance, end of year					
	\$ -	\$ -	\$ -	\$ 124,272	\$ 124,272



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## INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council, Inhabitants and Ratepayers of  
The Corporation of the City of Kitchener

We have audited the accompanying statement of operations and accumulated surplus of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2013 ("the financial statement").

### *Management's Responsibility for the Financial Statement*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

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Page 2

*Opinion*

In our opinion, the financial statement presents fairly, in all material respects the results of operations and accumulated surplus of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2013 in accordance with Canadian public sector accounting standards relevant to preparing such a financial statement.

*KPMG LLP*

---

Chartered Professional Accountants, Licensed Public Accountants

June 30, 2014  
Waterloo, Canada

# THE CORPORATION OF THE CITY OF KITCHENER GASWORKS ENTERPRISE

## Statement of Operations and Accumulated Surplus

Year ended December 31, 2013

	2013 Budget	2013	2012
<b>DELIVERY OPERATIONS</b>			
<b>Gas delivery</b>			
Revenues	33,217,604	32,645,865	44,177,248
Expenses	16,626,168	15,900,630	22,961,027
	<b>16,591,436</b>	<b>16,745,235</b>	21,216,221
<b>Other programs</b>			
(Customer Service, Rental Water Heaters & Financing)			
Revenues	9,142,802	10,231,083	9,342,126
Expenses	6,685,428	7,283,809	6,643,757
	<b>2,457,374</b>	<b>2,947,274</b>	2,698,369
<b>Dispatch</b>			
Revenues	713,856	713,379	696,768
Expenses	713,856	713,379	696,768
	-	-	-
<b>Excess of revenue over expenses</b>	<b>19,048,810</b>	<b>19,692,509</b>	23,914,590
<b>Accumulated Surplus - Delivery</b>			
Balance, beginning of year	101,632,987	101,632,987	91,149,210
Interest Revenue	106,946	120,624	120,710
Transfer to Gas Investment Reserve	(13,000,000)	(13,000,000)	(6,306,063)
Dividend Transfer to City	-	-	(7,245,460)
Add excess of revenue over expenses	20,636,608	19,692,509	23,914,590
Balance, end of year	<b>109,376,541</b>	<b>108,446,120</b>	101,632,987
<b>SUPPLY OPERATIONS</b>			
<b>Gas supply</b>			
Revenues	35,252,917	35,576,067	35,132,756
Expenses	34,121,834	36,803,590	34,726,828
<b>Excess of revenue over expenses</b>	<b>1,131,083</b>	<b>(1,227,523)</b>	405,928
<b>Accumulated Surplus - Supply</b>			
Balance, beginning of year	2,821,688	2,821,688	2,415,760
Interest Revenue (Expense)	89,119	44,292	-
Add excess of revenue over expenses	1,131,083	(1,227,523)	405,928
Balance, end of year	<b>4,041,890</b>	<b>1,638,457</b>	2,821,688
<b>TRANSPORTATION OPERATIONS</b>			
<b>Gas transportation</b>			
Revenues	10,805,526	11,116,164	-
Expenses	6,269,361	5,795,159	-
<b>Excess of revenue over expenses</b>	<b>4,536,165</b>	<b>5,321,005</b>	-
<b>Accumulated Surplus - Transportation</b>			
Balance, beginning of year	-	-	-
Less One time transfer - Final Transportation Benefit	-	4,300,000	-
Add excess of revenue over expenses	4,536,165	5,321,005	-
Balance, end of year	<b>4,536,165</b>	<b>1,021,005</b>	-

## MANAGEMENT REPORT

### *Management's Responsibility for Financial Reporting*

The accompanying financial statements of Kitchener Generation Corporation are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards. The significant accounting policies followed by Kitchener Generation Corporation are described in the Significant Accounting Policies contained in Note 2 of the 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 financial statements have been prepared within reasonable limits of materiality and in light of information available up to June 30, 2014.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

KITCHENER GENERATION CORPORATION

On behalf of management,



**Dan Chapman**

Deputy CAO, Finance & Corporate Services and City Treasurer

June 30, 2014  
Kitchener, Canada

# KITCHENER GENERATION CORPORATION

## Statement of Financial Position

As at December 31, 2013

	2013	2012
<b>Financial assets</b>		
Due from The Corporation of the City of Kitchener	\$ -	\$ 5,646
Accounts receivable	<b>40,718</b>	8,750
	<b>40,718</b>	14,396
<b>Liabilities</b>		
Due to The Corporation of the City of Kitchener	<b>40,718</b>	-
Accounts payable and accrued liabilities	-	14,396
Long-term debt (Note 3)	<b>3,634,878</b>	3,792,362
	<b>3,675,596</b>	3,806,758
<b>Net financial debt</b>	<b>(3,634,878)</b>	(3,792,362)
<b>Non-financial assets</b>		
Tangible capital assets - net (Note 4)	<b>3,948,280</b>	4,180,532
<b>Total non-current assets</b>	<b>3,948,280</b>	4,180,532
<b>Accumulated Surplus (Note 5)</b>	<b>\$ 313,402</b>	\$ 388,170

See accompanying notes

# KITCHENER GENERATION CORPORATION

## Statement of Operations

Year Ended December 31, 2013

	2013 Budget	2013	2012
<b>Revenues</b>			
Sale of Electricity	\$ 393,000	\$ 379,880	\$ 415,394
<b>Total revenues</b>	<b>393,000</b>	<b>379,880</b>	<b>415,394</b>
<b>Expenses</b>			
Maintenance	20,000	11,100	14,133
Professional services	2,400	3,800	3,241
Amortization	232,252	232,252	232,252
<b>Total expenses</b>	<b>254,652</b>	<b>247,152</b>	<b>249,626</b>
<b>Surplus before interest and provision for payments-in-lieu of corporate income taxes</b>			
	138,348	132,728	165,768
Interest expense	189,997	189,997	198,972
<b>Deficit before provision for payments-in-lieu of corporate income taxes</b>			
	(51,649)	(57,269)	(33,204)
Provision for payments-in-lieu of corporate income taxes	-	-	-
<b>Annual deficit</b>	<b>\$ (51,649)</b>	<b>\$ (57,269)</b>	<b>\$ (33,204)</b>

See accompanying notes

# KITCHENER GENERATION CORPORATION

## Statement of Change in Net Financial Debt

Year ended December 31, 2013

	2013	2012
<b>Annual deficit</b>	<b>\$ (57,269)</b>	<b>\$ (33,204)</b>
Change in share capital	<b>(17,499)</b>	421,374
Amortization of tangible capital assets	<b>232,252</b>	232,252
Acquisition of tangible capital assets	-	(4,412,784)
<b>Change in net financial debt</b>	<b>157,484</b>	<b>(3,792,362)</b>
Net financial debt, beginning of year	<b>(3,792,362)</b>	-
<b>Net financial debt, end of year</b>	<b>\$ (3,634,878)</b>	<b>\$ (3,792,362)</b>

See accompanying notes

# KITCHENER GENERATION CORPORATION

## Statement of Cash Flow

Year Ended December 31, 2013

	2013	2012
<b>Operating</b>		
Annual deficit	\$ (57,269)	\$ (33,204)
Items not involving cash		
Amortization	232,252	232,252
Net change in cash from operating activities	174,983	199,048
<b>Investing</b>		
Acquisition of tangible capital assets	-	(4,412,784)
Net change in cash from investing activities	-	(4,412,784)
<b>Financing</b>		
Change in contributed capital	(17,499)	421,374
Change in long-term debt	(157,484)	3,792,362
Net change in cash from financing activities	(174,983)	4,213,736
<b>Net change in cash and cash equivalents</b>	-	-
Cash and cash equivalents, beginning of year	-	-
<b>Cash and cash equivalents, end of year</b>	\$ -	\$ -

See accompanying notes

# KITCHENER GENERATION CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2013

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### 1. Incorporation

On December 9, 2011, Kitchener Generation Corporation (the Company) was incorporated under the Business Corporation Act (Ontario). Effective January 1, 2012, The Corporation of the City of Kitchener transferred the solar roof asset constructed on the surface of the Kitchener Operations Facility to the Company in exchange for 100% of the Company's common shares and interest bearing debt.

### 2. Significant Accounting Policies

#### a) Basis of Accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for local governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

#### b) Tangible Capital Assets

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 cost less residual value of the tangible capital asset is amortized on a straight-line basis over its estimated useful life of nineteen years.

#### c) Revenue Recognition

The Company records revenue from the sale of electricity on the basis of regular meter readings and estimates of energy generation since the last meter reading to the end of the year.

#### d) Use of Estimates

Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments. Actual results could differ from these estimates.

### 3. Long-Term Debt

Effective January 1, 2012 the Company incurred an unsecured promissory note payable to The Corporation of the City of Kitchener. For shareholder debt, payments are made annually including interest and principal. Interest is calculated at the fixed rate of 5.01% per annum. Interest paid in 2013 was \$189,997 (2012 - \$198,972).

### 4. Tangible Capital Assets

	Cost	Accumulated Amortization	Net Book Value
Opening balance	\$ 4,412,784	\$ (232,252)	\$ 4,180,532
Additions	-	-	-
Depreciation expense	-	(232,252)	(232,252)
Disposals	-	-	-
Ending balance	4,412,784	(464,504)	3,948,280

# KITCHENER GENERATION CORPORATION

## Notes to Financial Statements

Year Ended December 31, 2013

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### 5. Accumulated Surplus

The accumulated surplus consists of the following:

	2013		2012
Share capital - common shares (Note 6)	403,875	\$	421,374
Retained earnings	(90,473)		(33,204)
	\$ 313,402	\$	388,170

### 6. Share Capital

#### Authorized

Unlimited common shares

#### Issued

1,000 common shares

# KITCHENER POWER CORP.

## MANAGEMENT REPORT

December 31, 2013

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Kitchener Power Corp. are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are described in note 2 of the notes section to the consolidated financial statements. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The consolidated financial statements have been prepared in light of information available up to February 28, 2014.

Management maintains appropriate systems of internal control designed to provide reasonable assurance that the Company's assets were safeguarded and financial records are relevant and reliable. The system includes formal corporate-wide policies and procedures, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

On behalf of management,



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Jerry Van Ooteghem, P.Eng.  
President & C.E.O.



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Margaret Nanninga, MBA, CGA  
Vice-President Finance



**KPMG LLP**  
**Chartered Accountants**  
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Canada

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Internet [www.kpmg.ca](http://www.kpmg.ca)

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Kitchener Power Corp.

We have audited the accompanying financial statements of Kitchener Power Corp., which comprise the balance sheet as at December 31, 2013, the statements of operations and comprehensive income, retained earnings 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 audit opinion.



Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kitchener Power Corp. as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Accountants, Licensed Public Accountants

March 30, 2014  
Waterloo, Canada

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED BALANCE SHEET

As at December 31<sup>st</sup>

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,858,553	\$ 20,755,014
Accounts receivable (note 4)	46,957,396	37,972,485
Inventories (note 5)	3,134,303	3,162,744
Prepaid expense	897,009	818,210
Payment-in-lieu of corporate income taxes receivable	683,877	1,468,974
Current portion of regulatory assets (note 18)	<u>13,218,174</u>	<u>906,521</u>
<b>Total current assets</b>	<u>77,749,312</u>	<u>65,083,948</u>
<b>Non-current assets</b>		
Capital assets – net of accumulated amortization (note 6)	181,051,618	172,564,699
Regulatory assets (note 18)	923,358	13,865,077
Future income tax assets (note 19)	<u>6,782,009</u>	<u>6,737,762</u>
<b>Total non-current assets</b>	<u>188,756,985</u>	<u>193,167,538</u>
<b>Total assets</b>	<u>\$ 266,506,297</u>	<u>\$258,251,486</u>

See accompanying notes

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED BALANCE SHEET (Continued)

As at December 31<sup>st</sup>

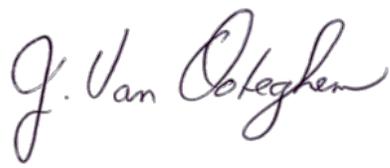
	<u>2013</u>	<u>2012</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$ 26,406,688	\$ 24,771,203
Current portion of long term debt	951,481	912,029
Current portion of customers and construction deposits (note 8)	4,225,272	7,164,341
Current portion of regulatory liabilities (note 18)	12,069,893	680,687
<b>Total current liabilities</b>	<u>43,653,334</u>	<u>33,528,260</u>
<b>Long-term liabilities</b>		
Long-term debt (note 9)	82,980,595	83,932,076
Customer deposits (note 8)	3,836,508	3,873,602
Post-employment benefits (note 11)	5,771,482	5,605,316
Regulatory liabilities (note 18)	8,539,337	14,195,249
<b>Total long-term liabilities</b>	<u>101,127,922</u>	<u>107,606,243</u>
<b>Total liabilities</b>	<u>144,781,256</u>	<u>141,134,503</u>
<b>Shareholders' equity</b>		
Share capital – common shares (note 12)	66,389,385	66,389,385
Retained earnings	55,335,656	50,727,598
<b>Total shareholders' equity</b>	<u>121,725,041</u>	<u>117,116,983</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 266,506,297</u>	<u>\$ 258,251,486</u>

See accompanying notes

Approved by the Board of Directors



\_\_\_\_\_  
Mark Jackson, Chair



\_\_\_\_\_  
J. Van Ooteghem, President & C.E.O. / Director

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

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As at December 31<sup>st</sup>

	<u>2013</u>	<u>2012</u>
Retained earnings, beginning of year	\$ 50,727,598	\$ 45,210,313
Net Income	8,281,158	9,157,285
Dividends paid out (note 23)	<u>(3,673,100)</u>	<u>(3,640,000)</u>
Retained earnings, end of year	<u>\$ 55,335,656</u>	<u>\$ 50,727,598</u>

*See accompanying notes*

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31<sup>st</sup>

	<u>2013</u>	<u>2012</u>
<b>REVENUE</b>		
<b>Sales revenue</b>		
Distribution services revenue	\$ 38,220,116	\$ 40,852,106
Electric energy services (note 13)	187,434,193	170,345,103
	<u>225,654,309</u>	<u>211,197,209</u>
<b>Other revenue</b>		
Other investment income	420,551	447,628
Late payment penalties	241,341	255,787
Miscellaneous revenue (note 14)	1,088,063	916,999
	<u>1,749,955</u>	<u>1,620,414</u>
<b>Non-utility operations revenue</b>		
Energy Conservation - OPA Funding (note 15)	1,491,570	914,431
	<u>1,491,570</u>	<u>914,431</u>
<b>Total revenue</b>	<u>228,895,834</u>	<u>213,732,054</u>
<b>EXPENSE</b>		
<b>Operation expense</b>		
Electric energy services (note 13)	187,434,193	170,345,103
Distribution operations and maintenance	10,450,740	10,048,062
Customer accounts	3,039,398	3,450,896
General administration	2,693,543	2,711,806
Community relations	245,479	251,912
Property and capital taxes	332,999	352,736
Amortization (note 16)	8,502,226	9,159,173
	<u>212,698,578</u>	<u>196,319,688</u>
<b>Non-utility operation expense</b>		
Energy conservation - OPA program s (note 15)	1,537,637	763,301
	<u>1,537,637</u>	<u>763,301</u>
<b>Total expense</b>	<u>214,236,215</u>	<u>197,082,989</u>
<b>Income before interest and provision for payments-in-lieu of corporate income taxes</b>	<b>14,659,619</b>	<b>16,649,065</b>
Interest expense	5,173,690	5,834,702
	<u>9,485,929</u>	<u>10,814,363</u>
<b>Income before provision for payments-in-lieu of corporate income taxes</b>	<b>9,485,929</b>	<b>10,814,363</b>
Provision for payments -in-lieu of corporate income taxes (note 19)	1,204,771	1,657,079
<b>NET INCOME</b>	<u>\$ 8,281,158</u>	<u>\$ 9,157,284</u>

See accompanying notes

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31<sup>st</sup>

	<u>2013</u>	<u>2012</u>
<b><u>OPERATING ACTIVITIES</u></b>		
Net Income	\$ 8,281,158	\$ 9,157,284
Add (deduct) charges to operations not requiring a current cash payment:		
Gain on disposal of capital assets	(82,757)	(86,908)
Amortization (note 16)	9,021,798	9,617,194
(Increase) in future income taxes (note 19)	(44,655)	(132,918)
Increase (decrease) in non-current customer deposits (note 8)	(37,095)	75,721
Increase in post-employment benefits obligation (note 11)	166,166	138,895
Net change in non-cash operating working capital (note 17)	<u>(11,459,167)</u>	<u>959,558</u>
<b>Cash provided by operating activities</b>	<b><u>5,845,448</u></b>	<b><u>19,728,826</u></b>
<b><u>INVESTING ACTIVITIES</u></b>		
Additions to capital assets	(20,085,547)	(20,502,405)
Decrease (increase) in long-term regulatory assets / liabilities (note 18)	5,968,723	(2,172,358)
Proceeds on disposals of capital assets	<u>86,528</u>	<u>89,862</u>
<b>Cash applied to investing activities</b>	<b><u>(14,030,296)</u></b>	<b><u>(22,584,901)</u></b>
<b><u>FINANCING ACTIVITIES</u></b>		
Increase in contributed capital	4,873,516	4,668,973
(Decrease) in long term debt	(912,029)	(874,213)
Dividends paid out (note 22)	<u>(3,673,100)</u>	<u>(3,640,000)</u>
<b>Cash provided by financing activities</b>	<b><u>288,387</u></b>	<b><u>154,760</u></b>
Net cash applied during the year	(7,896,461)	(2,701,315)
Cash and cash equivalents, beginning of year	<u>20,755,014</u>	<u>23,456,329</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$12,858,553</u></b>	<b><u>\$ 20,755,014</u></b>
<b>Cash and cash equivalents represented by:</b>		
Cash	12,858,553	17,755,014
Cash equivalents	<u>-</u>	<u>3,000,000</u>
	<b><u>\$12,858,553</u></b>	<b><u>\$ 20,755,014</u></b>
<b>Supplemental cash flow information</b>		
Interest paid	\$5,036,431	\$ 5,144,320

See accompanying notes

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

---

### 1. **INCORPORATION**

On July 1, 2000, Kitchener Power Corp. [the Company] was incorporated under the Business Corporation Act (Ontario) along with its affiliate companies, Kitchener-Wilmot Hydro Inc., Kitchener Energy Services Inc. and FibreTech (Kitchener) Inc. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The City of Kitchener and the Township of Wilmot both passed by-laws, which transferred the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot to the new Company on August 1, 2000. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City and the Township. The net assets of FibreTech (Kitchener) Inc. were subsequently transferred to Fibretech Telecommunications Inc. on November 1, 2000 as a result of a statutory amalgamation with Fibretech Telecommunications (Cambridge) Inc and Fibretech Waterloo Inc. On September 1, 2005, Fibretech Telecommunications Inc. merged with Guelph FibreWired to create a new telecommunications company, Atria Networks Inc. ("Atria"). Atria was subsequently sold to a third party on November 7, 2006 and was dissolved on October 15, 2009 pursuant to Section 237(b) of the Business Corporation Act (Ontario).

Kitchener Power Corp., the holding company for the affiliate companies, oversees the operations of Kitchener-Wilmot Hydro Inc. ['KWHI'], a regulated distribution company, and Kitchener Energy Services Inc. ['KESI'], an unregulated retail services company.

Outstanding share capital includes 18,450 common shares held by the City of Kitchener and 1,550 common shares held by the Township of Wilmot. These municipalities are the sole shareholders of Kitchener Power Corp.

### 2. **SIGNIFICANT ACCOUNTING POLICIES**

#### **[I] Adoption of new accounting standards**

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ["IFRS"] in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Accounting Standards Board has granted a series of deferrals for IFRS adoption for entities subject to rate regulation. The Company has elected to take the optional deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook.

#### **[II] Basis of accounting**

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"] including accounting principles prescribed by the Ontario Energy Board [the "OEB"] in the Accounting Procedures Handbook [the "AP Handbook"] for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

---

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### [III] Regulation

KWHI is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring that the distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. The economic impact of rate regulation is reported in these financial statements.

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

Regulatory assets represent future increase in revenues associated with costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process.

Regulatory liabilities represent future reduction in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

#### [IV] Other accounting policies

##### [a] Financial instruments

###### **Financial instruments – recognition and measurement – Section 3855**

This Section establishes the standards for the recognition and measurement of financial assets and financial liabilities. At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Company. The Company has elected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as “Assets Held-for-Trading” and is measured at fair value.
- Cash equivalents, comprising short-term investments, are classified as “Held-to- Maturity Investments” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value.
- Accounts receivable are classified as “Loans and Receivables” and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and the long-term debt are classified as “Other Financial Liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Comprehensive income – Section 1530**

This Section describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the changes in the fair value of a financial instrument which have not been included in net income.

The Company had no adjustments to other comprehensive income during the period ending December 31, 2013.

#### **Hedges – Section 3865**

This Section establishes standards regarding the use of hedge accounting, in particular, the criteria to be met for the application of hedge accounting and the methods of executing various hedging strategies. The Company has not entered into any hedging transactions as at December 31, 2013.

#### **[b] Inventories**

Inventories consist of parts, supplies and materials held for future capital expansion. The Company valued its inventories according to the provisions of CICA Handbook Section 3031. Under this standard, inventories are valued at the lower of cost and net realizable value, and items considered major spare parts are recorded as capital assets. The standard also contains provisions requiring the reversal of inventory write-downs if the circumstances resulting in the original write-down have reversed.

#### **[c] Spare transformers and meters**

Spare transformers and meters are classified as capital assets in accordance with guidance in the CICA Handbook.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### [IV] Other accounting policies (continued)

##### [d] Capital assets and amortization

Capital assets are recorded at cost. Costs for assets installed or erected by the Company include material, labour and overhead.

Amortization is provided on a straight-line basis for capital assets available for use over their estimated service lives, at the following annual rates:

Buildings	2% - 5%
Trans former station equipment	2% - 6.67%
Distribution station equipment	2% - 6.67%
Distribution system	1.67% - 4%
Meters	4% - 6.67%
SCADA equipment	6.67%
Other capital assets	10% – 33%

Amortization on general equipment directly used in the installation of other capital assets, is capitalized to the new assets based on a pro-ration of the time during the year they are used for such purposes.

Full amortization is recorded in the year of acquisition and none in the year of disposal, except for readily identified assets, which are amortized on a monthly basis.

For readily identifiable assets retired or disposed of, the asset and related accumulated amortization are removed from the records. Differences between the proceeds, if any and the unamortized asset amount plus removal costs are recorded as a gain or loss in the year of disposal.

For grouped assets, the assets and accumulated amortization are removed from the records at the end of their estimated average service life, regardless of actual service life.

##### [e] Construction in progress

Capital assets under construction at year-end are referred to as construction in progress and disclosed as a component of capital assets. Construction in progress is recognized as a capital asset and amortized when the asset is either put into service or construction is substantially completed.

##### [f] Contributed capital

Contributed capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Contributed capital contributions received are treated as a "credit" contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related capital assets.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### [IV] Other accounting policies (continued)

##### [g] Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

##### [h] Payments-in-lieu of corporate income taxes and capital taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ["PILs"] to the Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

As a result of becoming subject to PILs, the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

##### [i] Post-employment benefits

Employee future benefits provided by KWHL include medical and life insurance benefits. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

An actuarial valuation of the plan obligation was completed as at January 1, 2011 resulting in an unamortized net actuarial loss of \$570,483. The Company has adopted the corridor method of accounting for the actuarially determined experience gains (losses). The excess of the net accumulated actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense over the average remaining service period of active employees.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 2. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **[IV] Other accounting policies (continued)**

##### **[j] Pension plan**

KWHI provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ["OMERS"]. OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund [the "Fund"] and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Company recognizes the expense related to this plan as contributions are made.

##### **[k] Revenue recognition and cost of electrical energy**

KWHI records revenue from the sale of energy on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. The cost of power is recognized when the energy is consumed.

##### **[l] Use of estimates**

The preparation of the consolidated financial statements, in conformance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

#### **[V] Change in estimates:**

Effective January 1, 2012, the Company revised its estimates of useful lives of certain items of property, plant and equipment and as a result changed its amortization rates. A comparative table of amortization rates is provided in Note 2[IV] [d]. The impact of the change in 2013 was a reduction of amortization expense of approximately \$2,925,915 (2012 - \$2,265,213). Further, in accordance with OEB accounting requirements, an offsetting reduction of \$2,925,915 (2012 - \$2,265,213) has been recorded against distribution revenue and an increase to regulatory liabilities. As a result, the impact on net income before PILs is nil.

### 3. **CREDIT RISK AND FINANCIAL INSTRUMENTS**

#### **[i] Credit risk**

For distribution retail customers, credit losses are generally low across the sector. The Company provides for an allowance for doubtful accounts to absorb credit losses.

At December 31, 2013, there are no significant concentrations of credit risk with respect to any class of financial assets.

#### **[ii] Interest rate risk**

Cash balances not required to meet day-to-day obligations of the Company are invested in Canadian money market instruments, with terms of one day to 364 days, exposing the Company to fluctuations in short-term interest rates. These fluctuations could impact the level of interest income earned by the Company.

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 4. ACCOUNTS RECEIVABLE

	<u>2013</u>	<u>2012</u>
Electric energy	\$ 14,226,942	\$ 12,163,221
Miscellaneous	2,829,379	2,811,194
	<u>17,056,321</u>	<u>14,974,415</u>
Less: Allowance for doubtful accounts	(250,000)	(250,000)
	<u>16,806,321</u>	<u>14,724,415</u>
Unbilled revenue receivable	<u>30,024,407</u>	<u>22,473,800</u>
Interest receivable	<u>37,474</u>	<u>62,106</u>
Related parties receivable:		
City of Kitchener	88,867	709,885
Township of Wilmot	327	2,279
	<u>89,194</u>	<u>712,164</u>
	<u>\$ 46,957,396</u>	<u>\$ 37,972,485</u>

#### Related Party Transactions

The Company conducted the following transactions with related parties during the year ended December 31, 2013. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	<u>2013</u>	<u>2012</u>
City of Kitchener – capital and maintenance of street lights	\$ 1,520,138	\$ 1,775,765
Township of Wilmot – capital and maintenance of street lights	12,054	113,865
	<u>\$ 1,532,192</u>	<u>\$ 1,889,630</u>

### 5. INVENTORIES

Inventories consist of:

	<u>2013</u>	<u>2012</u>
Stores	\$2,282,489	\$2,660,732
Transformers	657,588	487,762
Conservation programs inventory	194,226	14,250
	<u>\$3,134,303</u>	<u>\$3,162,744</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION

2013	Cost	Accumulated Amortization	Net Book Value
Land	\$ 3,735,257	\$ -	\$ 3,735,257
Land Rights	265,449	257,873	7,576
Buildings	26,368,763	6,852,373	19,516,390
Transformer Station Equipment	62,560,429	20,336,071	42,224,358
Distribution Station Equipment	2,930,969	2,005,202	925,767
Distribution System - Conductors and devices	185,445,409	79,895,043	105,550,366
Distribution System - Line and network transformers	55,053,765	26,688,890	28,364,875
Meters	14,711,639	3,780,444	10,931,195
SCADA - System Supervisory Equipment	1,566,480	1,551,390	15,090
Other Capital Assets	20,246,460	13,637,078	6,609,382
Construction in Progress	<u>3,766,910</u>	<u>-</u>	<u>3,766,910</u>
	<u>376,651,530</u>	<u>155,004,364</u>	<u>221,647,166</u>
Less: Contributed Capital	<u>(54,079,649)</u>	<u>(13,484,101)</u>	<u>(40,595,548)</u>
<b>Total</b>	<b><u>\$ 322,571,881</u></b>	<b><u>\$ 141,520,263</u></b>	<b><u>\$ 181,051,618</u></b>

2012	Cost	Accumulated Amortization	Net Book Value
Land	\$ 3,735,257	\$ -	\$ 3,735,257
Land Rights	265,449	255,220	10,228
Buildings	19,537,746	6,066,646	13,471,099
Transformer Station Equipment	59,888,291	18,888,136	41,000,155
Distribution Station Equipment	2,837,259	2,005,924	831,335
Distribution System - Conductors and devices	173,732,394	76,885,457	96,846,937
Distribution System - Line and network transformers	53,089,650	25,854,433	27,235,217
Meters	14,312,474	3,017,595	11,294,879
SCADA - System Supervisory Equipment	1,566,480	1,547,331	19,149
Other Capital Assets	20,341,485	14,304,788	6,036,697
Other Utility Plant	270,820	-	270,820
Construction in Progress	<u>8,679,865</u>	<u>-</u>	<u>8,679,865</u>
	<u>358,257,168</u>	<u>148,825,530</u>	<u>209,431,637</u>
Less: Contributed Capital	<u>(49,206,133)</u>	<u>(12,339,194)</u>	<u>(36,866,938)</u>
<b>Total</b>	<b><u>\$ 309,051,035</u></b>	<b><u>\$ 136,486,336</u></b>	<b><u>\$ 172,564,699</u></b>

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2013</u>	<u>2012</u>
Independent Electricity System Operator	\$ 17,779,519	\$ 14,607,622
Ontario Electricity Financial Corporation (DRC)	909,183	915,425
Energy rebates payable (OCEB)	1,245,361	1,047,878
CDM/OPA programs payable	1,564,784	1,967,544
Others	<u>4,907,840</u>	<u>6,232,734</u>
	<u>\$ 26,406,688</u>	<u>\$ 24,771,203</u>

### 8. CUSTOMER AND CONSTRUCTION DEPOSITS

	<u>2013</u>	<u>2012</u>
Construction deposits	\$ 1,591,272	\$ 4,470,541
Customer deposits – current portion	<u>2,634,000</u>	<u>2,693,800</u>
	<u>\$ 4,225,272</u>	<u>\$ 7,164,341</u>
Customer deposits – non current portion	<u>\$ 3,836,508</u>	<u>\$ 3,873,602</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 9. LONG-TERM DEBT

- [i] Effective August 1, 2000, KWHI incurred unsecured promissory notes payable to the City of Kitchener and to the Township of Wilmot.

During 2010, KWHI incurred a ten year senior unsecured debenture payable to Ontario Infrastructure Projects Corporation. The initial payable of \$7,000,000 was received by the Corporation on February 1, 2010 followed by a second payment of \$3,000,000 on May 17, 2010. The amounts due at the end of the year are:

	<u>2013</u>	<u>2012</u>
City of Kitchener	<b>\$ 70,997,576</b>	\$ 70,997,576
Township of Wilmot	<b>5,964,566</b>	5,964,566
Ontario Infrastructure Projects Corporation	<b>6,969,934</b>	7,881,963
	<u><b>83,932,076</b></u>	<u>84,844,105</u>
Less: Ontario Infrastructure Projects Corporation - Current Portion	<u><b>951,481</b></u>	<u>912,029</u>
	<u><b>\$ 82,980,595</b></u>	<u>\$ 83,932,076</u>

- [ii] For Shareholder Debt, interest is paid quarterly at an annual effective rate established by the OEB. The annual effective rate for January 1, 2013 to December 31, 2013 was 5.87%. Repayment of all or part of the outstanding principal may be made upon eighteen months written notice.

For Ontario Infrastructure Project Corporation debt, the annual effective interest rate is 4.28%. Payments, which include both principal and interest, are made semi-annually in May and November.

The Company paid the following interest:

	<u>2013</u>	<u>2012</u>
City of Kitchener	<b>\$ 4,167,558</b>	\$ 4,167,558
Township of Wilmot	<b>350,120</b>	350,120
Ontario Infrastructure Projects Corporation	<u><b>323,901</b></u>	<u>360,896</u>
	<u><b>\$ 4,841,579</b></u>	<u>\$ 4,878,574</u>

### 10. PENSION PLAN

The cash pension costs for the year ended December 31, 2013 in the amount \$1,384,654 (2012 – \$1,208,406) have been expensed during the period in which they were incurred.

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 11. POST-EMPLOYMENT BENEFITS

KWHI pays certain health, dental and life insurance benefits on behalf of its retired employees.

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	<u>2013</u>	<u>2012</u>
Discount Rate - Jan 1	4.50%	4.50%
Discount Rate - Dec 31	4.50%	4.50%
Future general salary and wage levels increase	3.30%	3.30%
Future general inflation increase	2.00%	2.00%
Dental costs increase	5.00%	5.00%
Medical costs increase	7.63%	7.63%

Information about KWHI's defined benefits plans is as follows:

	<u>2013</u>	<u>2012</u>
Accrued Benefit Obligation		
Balance, beginning of year	\$ 5,122,729	\$ 4,983,834
Current service cost	152,363	145,802
Interest cost	232,112	225,602
Benefits paid	<u>(218,309)</u>	<u>(232,509)</u>
	5,288,895	5,122,729
Unamortized actuarial gains		
Balance, beginning of the year	<u>482,587</u>	<u>482,587</u>
Accrued benefit liability at December 31 as determined by actuarial valuation	<u>\$ 5,771,482</u>	<u>\$ 5,605,316</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 12. SHARE CAPITAL

	<u>2013</u>	<u>2012</u>
<b>Authorized</b>		
Unlimited common shares		
<b>Issued</b>		
20,000 common shares	<u>\$ 66,389,385</u>	<u>\$ 66,389,385</u>

### 13. ELECTRIC ENERGY SERVICES

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Electricity revenue	\$ 161,062,781	\$ 145,488,399
Wholesale market services	9,615,261	9,518,031
Transmission services	16,139,521	15,275,418
Smart Meter Entity Charge	565,602	-
Retailer services	<u>51,028</u>	<u>63,255</u>
	<u>\$ 187,434,193</u>	<u>\$ 170,345,103</u>
<b>Costs</b>		
Electricity	\$ 161,062,781	\$ 145,488,399
Wholesale market services	9,615,261	9,518,031
Transmission services	16,139,521	15,275,418
Smart Meter Entity Charge	565,602	-
Retailer services	<u>51,028</u>	<u>63,255</u>
	<u>\$ 187,434,193</u>	<u>\$ 170,345,103</u>

### 14. MISCELLANEOUS REVENUE

	<u>2013</u>	<u>2012</u>
Pole attachment rentals, buildings and other rentals	514,690	531,738
Change of occupancy charges	150,770	154,990
Scrap sales	152,197	149,409
Loss on Disposition of Obsolete Inventory	-	(173,158)
Net gain on disposal of capital assets	62,757	86,908
Unsealing / reconnection charges	64,515	56,953
Accounts payable discounts taken	33,624	32,451
Return cheque charges	19,904	20,190
Sundry	<u>89,606</u>	<u>57,518</u>
	<u>\$1,088,063</u>	<u>\$ 916,999</u>

### 15. NON-UTILITY OPERATIONS

In 2007, KWHI entered into an agreement with the Ontario Power Authority ["OPA"] to deliver OPA funded energy conservation and demand management ["CDM"] programs. The OEB classifies the revenue funding and related expense to deliver the OPA CDM programs as non-utility operations.

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 16. AMORTIZATION

	<u>2013</u>	<u>2012</u>
Amortization	\$ 8,502,226	\$ 9,159,173
Various expense accounts	<u>519,572</u>	<u>458,021</u>
	<u>\$ 9,021,798</u>	<u>\$ 9,617,194</u>

### 17. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	<u>2013</u>	<u>2012</u>
(Increase) in accounts receivable	\$ (8,984,911)	\$ (362,138)
Decrease in inventories	(954,523)	186,385
(Increase) in prepaid expense	(78,799)	(121,926)
Decrease (increase) in payment-in-lieu of corporate income taxes	785,097	(1,015,434)
(Increase) decrease in current portion of regulated liabilities	(12,311,653)	1,890,168
Increase in accounts payable and accrued liabilities	1,635,485	2,965,950
(Decrease) in current portion of customer and construction deposits	(2,939,069)	(484,704)
Increase (decrease) in current portion of regulatory liabilities	<u>11,389,206</u>	<u>(2,098,743)</u>
	<u>\$ (11,459,167)</u>	<u>\$ 959,558</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 18. REGULATORY ASSETS AND LIABILITIES

The "Electricity Pricing, Conservation and Supply Act, 2002" [Bill 210] deems certain costs and variance account balances to be accounted for as regulatory assets [note 2(III)].

[i] Regulatory assets consist of the following:

	<u>2013</u>	<u>2012</u>
Current portion regulatory assets		
IFRS transition costs	\$ 197,646	\$ -
Lost WIP	765,071	-
Smart meter funding and cost recovery	2,830,541	-
Retailer service cost variances	40,052	-
Retail settlement variances	8,858,101	894,777
Other deferred costs	526,763	11,744
	<u>13,218,174</u>	<u>906,521</u>
Long-term portion regulatory assets		
IFRS transition costs	-	194,834
Lost WIP	21,145	-
Retailer service cost variances	16,504	39,491
Retail settlement variances	698,898	8,732,137
Smart meter funding and cost recovery	-	4,148,033
Recovery of Regulatory Assets	99,081	577,175
Other deferred credits	87,730	173,406
	<u>923,358</u>	<u>13,865,077</u>
Total regulatory assets	<u>\$14,141,532</u>	<u>\$14,771,598</u>

[ii] Regulatory liabilities consist of the following:

	<u>2013</u>	<u>2012</u>
Current portion regulatory liabilities		
Retailer service cost variances	\$ -	\$ -
Retail settlement variances	6,807,358	420,386
Smart Meter OM&A	-	89,498
IFRS PP&E Adjustments	5,191,128	-
Deferred PILS	-	170,803
	<u>12,069,893</u>	<u>680,687</u>
Long-term portion of regulatory liabilities:		
Future tax asset	5,148,851	5,149,259
Other deferred debits	116,071	70,421
Retailer service cost variances	-	6,710,356
Retail settlement variances	3,274,415	-
IFRS PP&E Adjustments	-	2,265,213
	<u>8,539,337</u>	<u>14,195,249</u>
Total regulatory liabilities	<u>\$20,609,230</u>	<u>\$14,875,936</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 18. REGULATORY ASSETS AND LIABILITIES (Continued)

[iii] The following table illustrates the pro-forma effect on income before provision for payments-in-lieu of corporate income taxes, of the recognition of regulatory assets and liabilities:

	<u>2013</u>	<u>2012</u>
Income before provision for payments -in-lieu of corporate income tax	<b>\$ 9,527,728</b>	\$ 10,853,963
Energy related variances:		
Retail settlement services	<b>2,570,463</b>	(1,600,301)
Smart Meter Entity Charge	<b>(52,296)</b>	-
Interest on energy related variances	<u><b>(24,462)</b></u>	<u>(30,176)</u>
	<u><b>2,493,705</b></u>	<u>(1,630,477)</u>
Non-energy related variances:		
IFRS transition costs	-	2,737
Lost WIP	<b>(765,071)</b>	-
Retailer services	<b>(16,394)</b>	(13,323)
Renewable Connection OM&A	<b>(34,450)</b>	(16,321)
Smart meter funding and cost recovery	<b>1,227,994</b>	(155,235)
Smart grid capital	<b>20,000</b>	(10,000)
IFRS Transition - PP&E Adjustments	<b>2,925,915</b>	2,265,213
Regulatory as set recovery	-	(244,165)
Interest on non-energy related variances	<u><b>(27,222)</b></u>	<u>664,825</u>
	<u><b>3,330,772</b></u>	<u>2,493,731</u>
Incremental effect on income	<u><b>5,824,477</b></u>	<u>863,254</u>
Income before provision for payments-in-lieu of corporate income taxes without recognition of regulatory assets and liabilities	<u><b>\$ 15,352,205</b></u>	<u>\$ 11,717,217</u>

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 19. CORPORATE INCOME AND CAPITAL TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

[i] Statement of Operations

	<u>2013</u>	<u>2012</u>
Rate reconciliation:		
Income from continuing operations before income taxes	<b>\$ 9,485,929</b>	\$ 10,814,363
Statutory Canadian Federal and Provincial income tax rate	<b>26.50%</b>	26.50%
Expected taxes on income	<b>2,513,771</b>	2,865,806
Other permanent differences	<b>(73,180)</b>	6,603
Increase (decrease) in income taxes resulting from:		
Change in tax rates on future tax assets	-	(81,996)
Other current year timing differences not benefited	<b>(1,156,730)</b>	(940,200)
Other adjustments	<b>(176,020)</b>	(296,330)
Increased tax on investment income	<b>96,930</b>	103,196
Income tax expense	<b><u>\$ 1,204,771</u></b>	<b><u>\$ 1,657,079</u></b>
Effective tax rate	<b>12.70%</b>	15.32%
Components of income tax expense:		
Current tax expense	<b>\$ 1,249,426</b>	\$ 1,789,997
Future tax (recovery) arising from temporary differences	<b><u>(44,655)</u></b>	<u>(132,918)</u>
	<b><u>\$ 1,204,771</u></b>	<b><u>\$ 1,657,079</u></b>

[ii] Balance Sheet

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets as at December 31, 2013 are as follows:

	<u>2013</u>	<u>2012</u>
Capital assets - differences in net book value and undepreciated capital cost	<b>\$ 3,784,405</b>	\$ 3,784,725
Regulatory adjustments	<b>1,364,446</b>	1,364,534
Post-employment benefits	<b>1,529,443</b>	1,485,409
Loss carry-forwards	<b><u>103,715</u></b>	<u>103,094</u>
	<b><u>\$ 6,782,009</u></b>	<b><u>\$ 6,737,762</u></b>

The Company has capital losses of \$82,340 (2012 – \$82,340) and net loss carry forwards of approximately \$364,131 (2012 – \$389,034) as at December 31, 2013.

# KITCHENER POWER CORP.

Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

### 20. PRUDENTIAL SUPPORT OBLIGATION

KWHI purchases power from the Independent Electricity System Operator [IESO] on behalf of its customers and retailers. The IESO is responsible for ensuring that prudential support is posted by all market participants to mitigate the impact of an event of default by a market participant on the rest of the market. In this regard, at December 31, 2013, KWHI has posted an irrevocable standby letter of credit as security in the amount of \$35,000,000 (2012 - \$35,000,000) underwritten by KWHI's principal bank. The Company has entered into a credit facility agreement with its bank in which contains certain financial covenants.

### 21. GENERAL LIABILITY INSURANCE

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange [MEARIE], which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Company was a member. To December 31, 2013, the Company has not been made aware of any additional assessments.

### 22. DIVIDENDS

Dividends in the amount of \$3,673,100 were received in 2013 from KWHI, a subsidiary of Kitchener Power Corp (2012 – \$3,640,000)

Dividends paid out to shareholders are as follows:

	<u>2013</u>	<u>2012</u>
City of Kitchener	<b>\$3,388,450</b>	\$3,357,900
Township of Wilmot	<b><u>284,650</u></b>	<u>282,100</u>
	<b><u>\$3,673,100</u></b>	<b><u>\$3,640,000</u></b>

### 23. COMMITMENTS

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010 and pursuant to Ontario Regulation 427/06, KWHI launched its smart meter initiative in 2008. KWHI has committed to install 86,000 smart meters and supporting infrastructure by the end of 2010 at an estimated capital cost of \$13,500,000. As of December 31, 2012, 100% deployment was completed.

In December 2009, KWHI signed a financing agreement with Ontario Infrastructure Projects Corporation ["OIPC"] to make financing available up to a maximum amount of \$10,000,000 for its investment in smart metering infrastructure assets. This funding was received by KWHI in 2010. The outstanding amount owing at the end of 2012 is \$7,881,963 (2011 - \$8,756,176).

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that "seed" funding equivalent to \$0.27 per metered customer per month be included in KWHI's distribution rates commencing May 1, 2006. This funding was increased to \$1.00 per metered customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. This rate rider was again increased to \$2.00 per metered customer per month effective May 1, 2011 following an OEB decision in March 2011. Revenue was reduced by the amount funded in rates, and has been deferred and netted against smart metering capital costs incurred in accordance with the AP Handbook. Unfunded costs including financing expenses, are expected to be recovered through future distribution rates once the project is completed, pursuant to the OEB's guidelines.

In 2012, following completion of the Smart Meter Initiative, the Company applied to the OEB for smart meter cost recovery (EB-2012-0228). The OEB's decision allowed the Company to transfer \$13.4 million of smart meter assets to its Balance Sheet and to implement rate riders effective November 1, 2012 and May 1, 2013 to recover \$1,344,805 in deferred capital and \$2,047,366 in OM&A costs respectively from its Residential and GS<50kW Customers over a one-year period.

# KITCHENER POWER CORP.

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Kitchener Power Corp.

## CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

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### 24. **EMERGING ACCOUNTING CHANGES**

International Financial Reporting Standards ["IFRS"]:

On February 13, 2008, the Accounting Standards Board of Canada ["AcSB"] announced that publicly accountable enterprises will be required to change over to IFRS effective January 1, 2011.

In February 2013, the Canadian Accounting Standards Board extended the deferral of mandatory transition to IFRS for rate-regulated entities to January 1, 2015. This is the fourth such deferral granted by the AcSB.

The International Accounting Standards Board ("IASB") has approved IFRS 14 *Regulatory Deferral Accounts* in January 2014. This standard provides specific guidance on accounting for the effects of rate regulation and permits first-time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances while the IASB completes its comprehensive project in this area. Adoption of this standard is optional for entities eligible to use it. Deferral account balances and movements in the balances will be required to be presented as separate line items on the face of the financial statements distinguished from assets, liabilities, income and expenses that are recognized in accordance with other IFRSs. Extensive disclosures will be required to enable users of the financial statements to understand the features and nature of and risks associated with rate regulation and the effect of rate regulation on the entity's financial position, performance and cash flows.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the changeover date. KWHI has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements.

### 25. **COMPARATIVE FIGURES**

Certain prior year comparative figures may have been restated to conform to the current year's presentation.

# FINANCIAL & STATISTICAL REVIEW

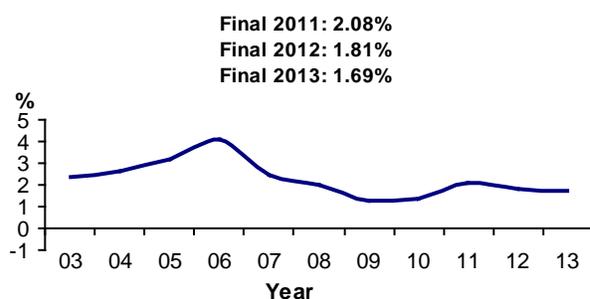
As at December 31 (unaudited)

	2013	2012	2011	2010	2009
<b>1. DEMOGRAPHIC STATISTICS</b>					
Population <sup>1</sup>	234,000	234,100	232,300	229,400	224,100
Households <sup>1</sup>	88,765	88,540	87,720	86,750	85,120
Area in acres <sup>2</sup>	33,802	33,802	33,802	33,826	33,826
<b>2. TAXABLE ASSESSMENT (\$000's)</b>					
Residential and farm	21,314,131	17,720,136	16,558,715	15,415,724	14,399,242
Commercial and industrial	3,273,998	3,040,482	2,853,553	2,629,617	2,452,923
<b>Total</b>	<b>24,588,129</b>	<b>20,760,618</b>	<b>19,412,268</b>	<b>18,045,341</b>	<b>16,852,165</b>
<b>3. TAX RATES</b>					
Residential and Farm Taxable Full					
City	0.39217	0.40039	0.41015	0.44361	0.45077
Region	0.62784	0.62967	0.64445	0.66709	0.67958
School Boards	0.21200	0.22100	0.23100	0.24100	0.25200
<b>Total</b>	<b>1.23201</b>	<b>1.25106</b>	<b>1.28560</b>	<b>1.35170</b>	<b>1.38235</b>
Commercial Taxable Full					
City	0.76474	0.78076	0.79980	0.86503	0.87900
Region	1.22429	1.22785	1.25668	1.30082	1.32517
School Boards	1.49000	1.49000	1.66538	1.77644	1.90192
<b>Total</b>	<b>3.47903</b>	<b>3.49861</b>	<b>3.72186</b>	<b>3.94229</b>	<b>4.10609</b>
Industrial Taxable Full					
City	0.76474	0.78076	0.79980	0.86503	0.94662
Region	1.22429	1.22785	1.25668	1.30082	1.42711
School Boards	1.59000	1.59000	1.93000	2.27248	2.42866
<b>Total</b>	<b>3.57903</b>	<b>3.59861</b>	<b>3.98648</b>	<b>4.43833</b>	<b>4.80239</b>

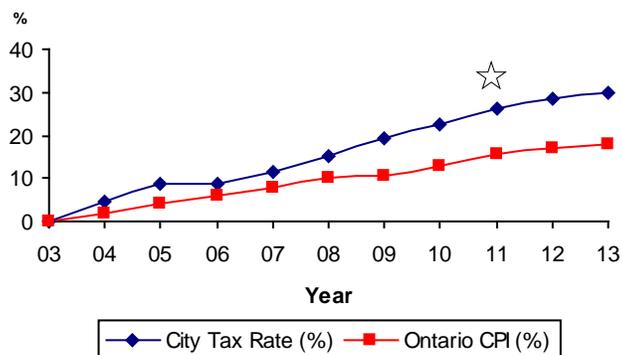
1. Source: Planning, Housing and Community Services Department, Regional Municipality of Waterloo

2. 2011 through 2013 - Source: Statistics Canada, 2011 Census Data, 2009 through 2010 - Source: Statistics Canada, 2006 Census Data

**Weighted Assessment Growth**



**Cumulative Tax Rate & CPI**



☆ The 2011 tax rate increase has been restated to indicate what the tax rate increase would have been prior to the transfer of storm water management costs to a new user rate. Without this restatement, a decrease would be shown for 2011.

# FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

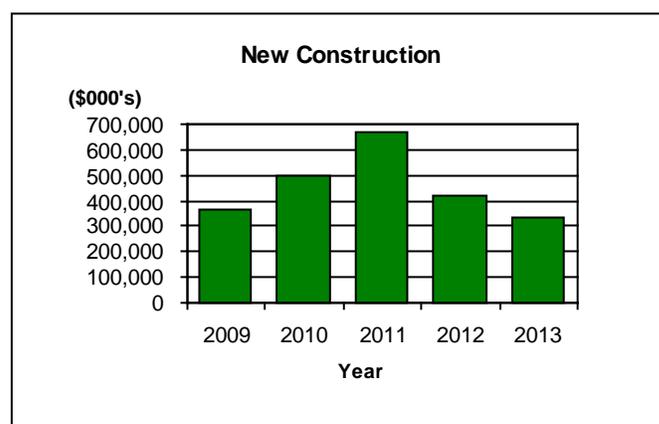
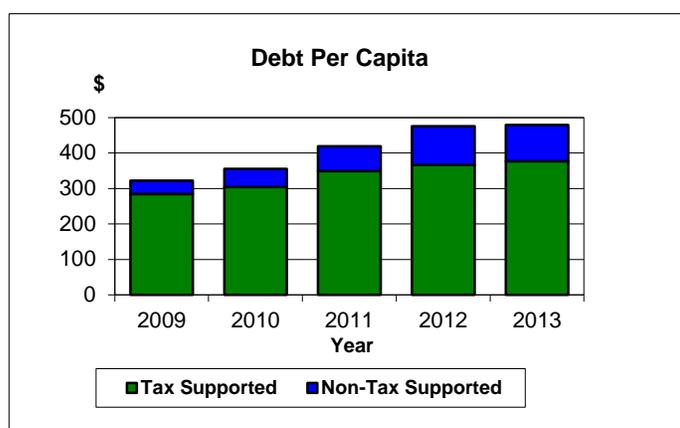
(\$000's)	2013	2012	2011	2010 (restated)	2009
<b>4. COLLECTION STATISTICS</b>					
Total taxes billed	<b>359,385</b>	346,514	338,414	336,801	322,122
Total collections	<b>359,339</b>	344,955	337,067	335,952	319,833
Total collections as a % of current levy	<b>100%</b>	100%	100%	100%	99%
Taxes receivable, net of allowance	<b>20,648</b>	21,661	22,276	20,978	20,286
Total receivable as a % of current levy	<b>6%</b>	6%	7%	6%	6%
<b>5. CONSOLIDATED REVENUES</b>					
Taxation and user charges	<b>280,998</b>	273,446	282,682	277,140	275,099
Grants	<b>4,101</b>	11,772	21,766	23,256	24,228
Share of net income of Kitchener Power Corp. and its affiliates	<b>7,639</b>	8,448	8,351	7,522	4,238
Other	<b>25,943</b>	37,424	25,948	27,217	27,384
Obligatory fund revenue recognized	<b>6,892</b>	6,877	9,928	17,840	11,986
<b>Total revenues</b>	<b>325,573</b>	337,967	348,675	352,975	342,935
<b>6. CONSOLIDATED EXPENSES</b>					
<b>Expenses by Function</b>					
General government	<b>36,033</b>	38,010	34,509	27,563	35,650
Protection to persons and property	<b>41,776</b>	40,572	38,691	40,695	38,367
Transportation services	<b>32,908</b>	29,508	31,101	30,117	33,623
Environmental services	<b>29,730</b>	32,291	20,999	22,530	17,822
Health services	<b>2,155</b>	1,947	1,867	1,775	1,830
Social and family services	<b>2,640</b>	2,307	1,859	1,830	1,756
Recreation and cultural services	<b>62,907</b>	59,490	60,169	57,206	58,537
Planning and development	<b>8,600</b>	9,243	11,065	11,830	8,761
Gasworks	<b>64,605</b>	64,551	73,508	79,393	90,880
<b>Total Expenses</b>	<b>281,354</b>	277,919	273,768	272,939	287,226
<b>Expenses by Object</b>					
Salaries, wages and employee benefits	<b>133,464</b>	128,444	123,722	112,829	114,678
Materials and services	<b>98,719</b>	103,261	112,620	121,543	126,000
Debenture debt interest	<b>3,941</b>	3,889	3,543	3,275	2,975
Grants and other	<b>3,879</b>	3,867	3,514	3,007	2,841
Amortization	<b>37,355</b>	34,299	29,898	28,435	28,155
Loss/(Gain) on sale of assets	<b>3,996</b>	4,159	471	3,850	12,577
<b>Total Expenses</b>	<b>281,354</b>	277,919	273,768	272,939	287,226
<b>7. ANNUAL SURPLUS</b>	<b>44,219</b>	60,048	74,907	80,036	55,709

# FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

	2013	2012	2011	2010 (restated)	2009
<b>8. ANALYSIS OF LONG-TERM DEBT (\$000's)</b>					
Gross debt issued by the municipality	112,039	111,263	98,188	81,327	72,200
Less debt recoverable from municipal enterprises and consolidated boards	11,607	12,077	12,538	6,962	3,101
Less debt recoverable from other sources	12,292	13,434	3,857	4,663	5,469
Net debt to be repaid from property taxes	88,140	85,752	81,793	69,702	63,630
Net debt per capita (\$'s)	377	366	352	304	284
Legal debt limit (\$000's) <sup>3</sup>	305,717	294,540	313,022	315,365	298,048
Interest on long-term debt as a % of total expenditures	1.4%	1.4%	1.3%	1.2%	1.0%
<b>9. ACCUMULATED SURPLUS (\$000's)</b>					
Reserves, reserve funds and deferred revenue - obligatory reserve funds	40,844	37,832	31,813	21,984	32,987
Unexpended capital financing	83,448	68,323	65,886	41,733	55,960
Accumulated surplus	1,137,656	1,093,437	1,033,389	958,483	888,358
<b>10. NEW CONSTRUCTION</b>					
Value of construction (\$000's)	331,491	418,227	666,026	495,345	365,925
Number of building permits	2,307	2,420	2,458	2,664	2,580
Number of single family dwelling starts	348	396	590	580	471
<b>11. NET FINANCIAL ASSETS (\$000's)</b>					
	176,202	160,566	160,278	148,319	155,491

3. The debt limit is based on the Financial Information Return from the second immediate preceding year.



# FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

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## 12. PRINCIPAL CORPORATE TAXPAYERS

### 2013 Assessment (\$000's)

CF/Realty Holdings Inc	191,355
Ontrea Inc	184,269
Drewlo Holdings Inc	168,285
Voisin Developments Limited	75,074
Morguard Nar (Ontario) Corporation	72,319
Kingswood Drive Kitchener GP Inc	67,871
Kitchener Housing Inc	60,234
Homestead Land Holdings Limited	59,324
Stamm Investments Limited	50,501
Steeves & Rozema Enterprises Limited	42,867
7550332 Canada Inc	41,113
CP Reit Ontario Properties Limited	40,446
The INCC Corp	38,802
Activa Holdings Inc	36,204
Gresham Ontario Inc	35,314

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