

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION OF

**CORPORATION OF THE
CITY OF KINGSTON**

YEAR ENDED DECEMBER 31, 2010

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

CORPORATION OF THE CITY OF KINGSTON

Year ended December 31, 2010

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AUDITED FINANCIAL STATEMENTS

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Management's Responsibility for the Consolidated Financial Statements

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

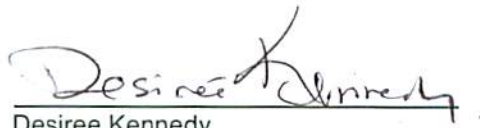
The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely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

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

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



Gerard Hunt
Chief Administrative Officer



Desiree Kennedy
City Treasurer



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kingston, which comprise the consolidated statement of financial position as at December 31, 2010, the consolidated statements of operations, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Kingston as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 7, 2011

Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009

(IN THOUSANDS OF DOLLARS)

	2010	2009
FINANCIAL ASSETS:		
Cash and short-term investments	\$ 75,628	\$ 87,595
Taxes receivable	12,147	10,942
Accounts receivable	40,522	28,136
Inventories for resale	9,999	11,742
Notes receivable from government business enterprises (note 18)	15,446	11,846
Long-term investments (note 4)	96,895	93,040
Investment in government business enterprises (notes 18)	21,248	23,281
	<u>271,885</u>	<u>266,582</u>
FINANCIAL LIABILITIES:		
Temporary loans (note 7)	(11,200)	(43,000)
Accounts payable and accrued liabilities	(41,260)	(38,919)
Due to government business enterprises:		
Utilities Kingston (note 18)	(183)	(609)
Kingston Hydro Corporation (note 18)	(2,279)	(1,857)
Employee future benefit obligations (note 10(d))	(2,653)	(2,521)
Deferred revenue - obligatory reserve funds (note 12)	(38,685)	(37,343)
Deferred revenues	(11,886)	(10,151)
Accrued interest on long-term debt	(2,303)	(1,995)
Long-term liabilities (note 11)	(217,168)	(188,618)
Employee future benefit obligations (note 10(d))	(32,712)	(30,622)
Landfill closure and post closure liabilities (note 14)	(6,566)	(6,924)
	<u>(366,895)</u>	<u>(362,559)</u>
NET FINANCIAL ASSETS (DEBT)	<u>(95,010)</u>	<u>(95,977)</u>
NON-FINANCIAL ASSETS:		
Tangible capital assets (note 19)	1,115,432	1,064,534
Inventories of supplies	1,500	1,455
Prepaid expenses	5,178	4,116
	<u>1,122,110</u>	<u>1,070,105</u>
Contingent liabilities (note 15)		
Commitments (note 16)		
MUNICIPAL EQUITY	<u>\$ 1,027,100</u>	<u>\$ 974,128</u>

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	Budget 2010 (Unaudited, note 17)	Actual 2010	Actual 2009
REVENUE:			
Property taxation	\$ 163,141	\$ 167,018	\$ 159,673
Taxation from other governments	14,138	14,647	13,439
User charges	93,939	99,408	95,244
User charges – gas commodity	40,000	17,098	22,909
Government grants	66,603	65,299	60,171
Grants from other municipalities	4,282	4,135	4,836
Investment income	6,715	7,347	5,023
Lot levies	6,000	6,758	4,886
Other	1,689	1,996	2,418
Transfers from deferred obligatory reserve funds (note 12)	229	2,021	2,282
Government business enterprises net earnings (note 18)	–	1,567	2,194
TOTAL REVENUES	396,735	387,294	373,075
EXPENSES:			
General government	28,868	29,424	25,481
Protection services	60,421	61,352	58,624
Transportation services	50,872	52,164	49,613
Environmental services	53,520	51,191	49,490
Health services	20,395	20,903	18,220
Social and family services	71,591	70,552	74,880
Social housing	22,837	23,677	23,327
Recreational and cultural services	36,012	35,084	33,758
Planning and development	4,865	3,219	5,893
Gas utility	45,906	23,164	28,318
TOTAL EXPENSES	395,287	370,730	367,604
NET REVENUES	1,448	16,564	5,471
OTHER REVENUES:			
Grants and transfers related to capital:			
Government grants		16,141	11,631
Transfers from deferred obligatory reserve funds (note 12)		13,135	6,944
Donations and other		260	3,273
Contributed tangible capital assets (note 20(a))		6,872	2,159
		36,408	24,007
ANNUAL SURPLUS		52,972	29,477
MUNICIPAL EQUITY, BEGINNING OF YEAR		974,128	944,651
MUNICIPAL EQUITY, END OF YEAR	\$	1,027,100	\$ 974,128

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (DEBT)
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	Actual 2010	Actual 2009
ANNUAL SURPLUS	\$ 52,972	\$ 29,477
Amortization of tangible capital assets	42,190	39,760
Acquisition of tangible capital assets	(94,840)	(72,303)
(Gain)/loss on tangible capital assets transactions	1,751	901
	2,073	(2,165)
Acquisition of prepaid expenses	(1,061)	(685)
Acquisition of supplies inventories	(45)	(327)
DECREASE IN NET ASSETS	967	(3,177)
NET ASSETS (DEBT), BEGINNING OF YEAR	(95,977)	(92,800)
NET ASSETS (DEBT), END OF YEAR	\$ (95,010)	\$ (95,977)

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF MUNICIPAL EQUITY
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	2010	2009
Current Fund Surplus (Deficit):		
General operating surplus	\$ 5,157	\$ 4,272
Accumulated operating surplus - water	2,803	2,337
Accumulated operating surplus - sewer	3,284	3,379
Accumulated operating surplus - gas	6,154	5,698
Downtown Business Improvement Area	(61)	(57)
Kingston & Frontenac Housing Corporation	113	527
Kingston Frontenac Public Library Board	(77)	(62)
Total Current Fund Surplus	17,373	16,094
Investment in Tangible Capital Assets:		
Tangible capital assets (note 19)	1,115,432	1,064,534
Long-term liabilities (note 11)	(217,168)	(188,618)
Unfinanced capital expenditures:		
To be financed from long-term liabilities	(27,296)	(67,213)
To be financed from transfers from reserves and reserve funds	(7,182)	(1,395)
To be financed from taxation or user charges	(8,005)	(946)
Unapplied capital receipts	2,880	15,491
Total Investment in Tangible Capital Assets	858,661	821,853
Investment in Government Business Enterprises (note 18)	21,248	23,281
Unfunded Liabilities:		
Employee future benefit obligations (note 10(d))	(33,884)	(31,789)
Landfill closure and post-closure liabilities (note 14)	(6,566)	(6,924)
Accrued interest on long-term debt	(2,303)	(1,995)
Total Unfunded Liabilities	(42,753)	(40,708)
Reserves and Reserve Funds:		
Reserves set aside for specific purpose:		
Working funds	8,608	7,018
Reserve funds set aside for specific purpose:		
Replacement of equipment	17,609	17,454
Other capital	19,629	9,350
Sanitary sewer system	33,976	29,032
Storm sewer system	302	346
Parks and recreation	3,760	3,584
Libraries	407	315
Waterworks system	16,960	16,908
Planning and development	3,027	1,012
Roads	860	830
Transit	5,166	6,432
Gas utility	9,653	8,733
Sick leave	7,200	6,749
Protective services	3,511	3,576
Social and family services	869	1,184
Social housing	8,175	8,411
Parking	5,115	5,334
Impost fees for water and wastewater capital	27,744	27,340
	172,571	153,608
MUNICIPAL EQUITY	\$ 1,027,100	\$ 974,128

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	2010	2009
Operations transactions:		
Annual surplus	\$ 52,972	\$ 29,477
Net change in non-cash working capital items:		
Increase in taxes receivable	(1,205)	(1,822)
Decrease (increase) in accounts receivable	(12,386)	9,426
Decrease in inventories for resale	1,743	1,770
Increase in inventories of supplies	(45)	(327)
Increase in prepaid expenses	(1,062)	(685)
Decrease (increase) in accounts payable and accrued liabilities	2,341	(6,750)
Increase (decrease) in due to government business enterprises	128	(1,556)
Increase in deferred obligatory reserve funds	1,342	7,339
Increase (decrease) in deferred revenue	1,735	(1,520)
Increase in accrued interest on long-term debt	308	532
	(7,101)	6,407
Items not involving cash:		
Amortization of tangible capital assets	42,190	39,760
Loss on tangible capital assets transactions	1,751	901
Change in landfill closure and post closure liabilities	(358)	222
Change in employee future benefit obligations	2,090	1,964
Equity in government business enterprise from net earnings	(1,567)	(2,194)
	44,106	40,653
Net change in cash from operating transactions	89,977	76,537
Capital transactions:		
Purchase of tangible capital assets	(94,839)	(72,303)
Investment transactions:		
Net purchase of long-term investments	(3,855)	(25,535)
Financing transactions:		
Proceeds from new debt issue - Municipality	38,622	47,962
Debt principal repayments	(10,072)	(10,666)
Temporary loan repayments	(31,800)	(29,200)
Net change in cash from financing transactions	(3,250)	8,096
Decrease in cash and cash equivalents	(11,967)	(13,205)
Cash and short-term investments, beginning of year	87,595	100,800
Cash and short-term investments, end of year	\$ 75,628	\$ 87,595

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation of the City of Kingston (the "City") are prepared by management in accordance with Canadian Public Sector accounting standards for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the City are as follows:

(a) Reporting Entity:

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

These consolidated financial statements include:

Rideaucrest Home for the Aged

Downtown Business Improvement Area

Kingston-Frontenac Public Library Board

Kingston & Frontenac Housing Corporation

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

1425447 Ontario Limited (consolidated on a modified equity basis)

Kingston Hydro Corporation (consolidated on a modified equity basis)

- ii. Consolidated by proportionate consolidation:

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

- iii. Consolidated on a modified equity basis:

The City's investment in 1425447 Ontario Limited (which holds 100% of the shares of 1425445 Ontario Limited, operating as Utilities Kingston) and Kingston Hydro Corporation is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprises' accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(a) Reporting Entity (continued):

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

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

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

v. Accounting for school board transactions:

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

vi. Trust funds:

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

(b) Basis of accounting:

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

(c) Investments:

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(d) Deferred revenues – obligatory reserve funds:

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

(e) Deferred revenue:

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

(f) Employee future benefit obligations:

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

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

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(g) Landfill closure and post-closure liabilities:

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

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

(h) Tangible capital assets:

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(h) Tangible capital assets (continued):

iii. (continued):

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

- iv. When tangible capital assets are disposed of, either by way of a sale, destruction or loss, or abandonment of the asset, the asset's net book value, historical cost less accumulated amortization, is written off. Any resulting gain or loss, equal to the proceeds on disposal less the asset's net book value, is reported on the consolidated statement of operations in the year of disposal. Transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.
- v. When conditions indicate that a tangible capital asset no longer contributes to the City's ability to provide services or the value or the future economic benefits associated with the tangible capital asset are less than its net book value, and the decline is expected to be permanent, the cost and accumulated amortization of the asset are reduced to reflect the revised estimate of the value of the asset's remaining service potential. The resulting net adjustment is reported as an expense on the consolidated statement of operations.
- vi. The City has a capitalization threshold of \$10,000. Individual tangible capital assets of lesser value are expensed, unless they are pooled when, collectively, they have a significant value.
- vii. Natural resources that have not been purchased are not recognized as assets in the financial statements.
- viii. Works of art and cultural and historic assets are not recorded as assets in these financial statements.

(i) Inventories:

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

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

(j) Government transfers:

Government transfers are recognized in the financial statements in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(k) Use of estimates:

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

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

2. OPERATIONS OF SCHOOL BOARDS:

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

	2010	2009
	(In thousands of dollars)	
Taxation and user charges	\$ 52,432	\$ 51,289
Payments in lieu	242	222
Amount transferred to school boards	\$ 52,674	\$ 51,511

3. BANK INDEBTEDNESS

The City's financial agreement with its bank provides for an operating credit facility of up to \$10,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the bank's prime rate less 0.5%. As at December 31, 2010, there was \$Nil (2009 - \$Nil) drawn on the operating credit facility.

4. LONG-TERM INVESTMENTS

Long-term investments, which consist primarily of government and financial institution bonds, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest and amortization of purchase premiums and discounts. They have a market value of \$99,473,918 at December 31, 2010 (2009 - \$94,621,128).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

5. CONTRIBUTIONS TO KINGSTON ECONOMIC DEVELOPMENT CORPORATION:

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

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

	2010	2009
	(In thousands of dollars)	
Kingston Economic Development Corporation Grant	\$ 2,465	\$ 2,416

6. TRUST FUNDS:

Trust funds administered by the municipality amounting to \$192,739 (2009 - \$297,667) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

7. TEMPORARY LOANS:

The City has financial agreements with the Ontario Infrastructure Projects Corporation (OIPC) for temporary capital loans up to a maximum of \$14,000,000 for the interim financing of various water, sewer, roads and building capital projects. As at December 31, 2010, the temporary capital loan balance is \$11,200,000 (2009 - \$43,000,000).

8. PROVINCIAL GRANTS:

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

9. PENSION AGREEMENTS:

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

The amount contributed to OMERS for 2010 was \$6,796,615 (2009 - \$6,336,216) for current service and is included as an expenditure on the "Consolidated Statement of Operations".

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS:

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

The City pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age 65. In addition, the City provides for an accumulated sick leave benefit plan for certain employees whereby unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. The City recognizes these post-employment and post-retirement costs in the period in which the employees rendered the services. An independent actuarial study of these benefits was undertaken at December 31, 2007 and an actuarial update was completed for December 31, 2010 in order to determine the estimated accrued benefit liability to be reported in these financial statements.

Beginning in 2005 and 2008, actuarial losses were amortized on a straight-line basis over the expected average remaining service life of the related employee groups, which is estimated to be 11 years for losses in 2005 and 13 years for losses in 2008.

At December 31, 2010, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$23,470,961 (2009 - \$22,079,723).

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

Discount rate	5.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	8.0% per annum in 2008, decreasing to 4.0% over 12 years

CORPORATION OF THE CITY OF KINGSTON

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YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

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

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

	2010	2009
	(In thousands of dollars)	
Accrued benefit liability, January 1	\$ 22,079	\$ 20,320
Expense recognized for the period	2,764	2,904
Benefits paid for the period	(2,049)	(1,822)
Amortization of actuarial losses	677	677
Accrued benefit liability, December 31	\$ 23,471	\$ 22,079

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

	2010	2009
	(In thousands of dollars)	
Accrued benefit obligation	\$ 28,469	\$ 27,763
Unamortized actuarial losses	(4,998)	(5,684)
Accrued benefit liability, December 31	\$ 23,471	\$ 22,079

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

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board Act, the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund disability payments. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was undertaken at December 31, 2007 and an actuarial update was completed for December 31, 2010 in order to determine the estimated liability reported in these financial.

Beginning in 2005, an actuarial loss was amortized on a straight-line basis over the mean term of the liabilities which is estimated to be 10 years and beginning in 2008, an actuarial gain is being amortized on the same basis.

At December 31, 2010, the City's accrued benefit liability relating to future WSIB claims is \$10,465,959 (2009 - \$9,683,636).

CORPORATION OF THE CITY OF KINGSTON

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10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

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

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

Discount rate	5.0% per annum
Inflation rate	2.0% per annum
Compensation costs, including loss of earnings benefits, health care costs and non-economic loss awards	0% to 6% per annum, depending on benefit type
Administration costs	27% of compensation expense

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

	2010	2009
	(In thousands of dollars)	
Accrued benefit liability, beginning of year	\$ 9,684	\$ 9,528
Expense recognized for the period	2,511	1,791
Benefits paid for the period	(1,907)	(1,813)
Amortization of net actuarial loss	178	178
Accrued benefit liability, end of year	\$ 10,466	\$ 9,684

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

	2010	2009
	(In thousands of dollars)	
Accrued benefit obligation	\$ 11,175	\$ 10,572
Unamortized actuarial losses	(718)	(898)
Unamortized actuarial gain	9	10
Accrued benefit liability, end of year	\$ 10,466	\$ 9,684

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the City's benefit plans for vacation time. Vacation credits earned as at December 31, 2010 amount to \$1,183,784 (2009 - \$1,131,308).

CORPORATION OF THE CITY OF KINGSTON

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(IN THOUSANDS OF DOLLARS)

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

(d) Total employee benefit obligations:

	2010	2009
	(In thousands of dollars)	
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 20,972	\$ 19,704
Workplace safety and insurance	10,466	9,684
Vacation credits	1,030	985
Pension payable	244	249
	32,712	30,622
Health benefits and sick leave – water, sewer and gas utilities (note 18(a))	2,499	2,375
Vacation credits – water, sewer and gas utilities	154	146
	2,653	2,521
Total employee benefit obligations	35,365	33,143
Amounts previously funded from operating revenues	(1,481)	(1,354)
Unfunded employee future benefit obligations	\$ 33,884	\$ 31,789
To be recovered from reserve funds	\$ 7,200	\$ 6,747
To be recovered from future revenues	26,684	25,042
	\$ 33,884	\$ 31,789

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(IN THOUSANDS OF DOLLARS)

11. LONG-TERM LIABILITIES:

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

	2010	2009
	(In thousands of dollars)	
Long-term liabilities incurred by the municipality, including those incurred on behalf of other municipalities and municipal enterprises, with varying maturities up to 2039 and a weighted average interest rate of 4.62% (2009 5.07%)	\$ 217,833	\$ 189,179
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation, with an interest rate of 5.4%, maturing 2028	4,819	4,909
Proportionate share of KFLA Public Health long-term debt, with an interest rate of 6.1%, maturing 2013	4,406	4,530
Total long-term liabilities	\$ 227,058	\$ 198,618
Less long-term borrowings from own funds	\$ (9,890)	\$ (10,000)
Long-term liabilities to be recovered from future revenues	\$ 217,168	\$188,618
Of the municipal debt shown above, the responsibility for payment of principal and interest charges for the tile drainage loans has been assumed by individuals	\$ (128)	\$ (134)

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

(In thousands of \$)	2011	2012	2013	2014	2015	2016+	Total
Tax sources	\$ 4,949	\$ 4,491	\$ 4,174	\$ 3,776	\$ 3,836	\$ 44,548	\$ 65,774
Utility user fees	2,700	2,783	2,763	2,850	2,920	63,296	77,312
Other user fees	1,715	1,768	1,819	1,824	1,746	65,875	74,747
Public Health	133	139	152	161	172	3,649	4,406
Housing Corp	95	100	106	111	117	4,290	4,819
	\$ 9,591	\$ 9,281	\$ 9,014	\$ 8,722	\$ 8,791	\$ 181,658	\$ 227,058

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

11. LONG-TERM LIABILITIES (CONTINUED):

- (c) The long-term liabilities in (a), issued in the name of the municipality, have been approved by either the Ontario Municipal Board or by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs & Housing.

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

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

	2010	2009
	(In thousands of dollars)	
Principal payments	\$ 10,072	\$ 10,666
Interest	10,141	6,741
	<u>\$ 20,213</u>	<u>\$ 17,407</u>

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

12. DEFERRED REVENUE – OBLIGATORY RESERVE FUNDS:

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

	2010	2009
	(In thousands of dollars)	
Balance, beginning of year	\$ 37,343	\$ 30,004
Revenues:		
Development contributions	6,254	6,155
Federal gasoline tax	7,214	7,421
Provincial gasoline tax	1,971	1,980
Building Code Act	17	244
Recreational Land (Planning Act)	70	83
Investment income	971	765
Utilization:		
Transfers for operating	(2,020)	(2,282)
Transfers for capital	(13,135)	(7,027)
Balance, end of year	\$ 38,685	\$ 37,343

	2010	2009
	(In thousands of dollars)	
Analyzed as follows:		
Development charges	\$ 19,035	\$ 15,903
Cash in lieu of parkland	235	258
Provincial gasoline tax	297	297
Federal gasoline tax	6,709	5,035
Infrastructure Ontario Act	7,671	11,215
Building Code	4,738	4,635
	\$ 38,685	\$ 37,343

CORPORATION OF THE CITY OF KINGSTON

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13. PROVINCIAL OFFENCES ADMINISTRATION (POA):

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

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

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

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

		2010		2009
		(In thousands of dollars)		
Gross revenues received	\$	2,054	\$	1,847
Gross expenditures		974		890
Net revenues	\$	1,080	\$	957

14. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY:

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

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

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

The City currently has one active and two inactive landfill sites. The Kingston East site was closed to use by the public by December 31, 2010, but will remain open to dispose of waste collected by the municipality until filled, estimated to be in 2012. Estimated total landfill closure and post-closure care requirements include closure activities as well as annual post-closure maintenance and monitoring requirements for a 25 year period.

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

Estimated total expenditures represent the sum of the discounted future cash flows for closure and post-closure care activities discounted at the City's average long-term borrowing rate of 5.00% and using an assumed rate of 2.0% for inflation. The estimated total landfill closure and post-closure care expenditures are calculated to be approximately \$6.8 million. For sites that are still active, the estimated liability for these expenditures is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities on the Consolidated Statement of Financial Position at December 31, 2010 is an amount of \$6,565,524 (2009 - \$6,923,374) with respect to landfill closure and post-closure liabilities recognized to date.

15. CONTINGENT LIABILITIES:

- (a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2010, management believes that the City has valid defences and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.
- (b) The City operated a coal gasification plant within the downtown area of the City from the mid-1800's through to the 1950's. Coal tar, a by-product of the coal gasification process, may have led to the contamination of soils and groundwater in the area of the former plant.

In some cases, private properties may have coal tar or coal compounds in the deep groundwater beneath them. In these cases the City has confirmed that there are no risks to human health related to coal tar. The City is also working with individual property owners to find solutions to their concerns related to coal tar. In this regard, the City may enter into agreements to acknowledge its environmental responsibilities pertaining to certain lands within the downtown area based on specific property contamination conditions.

CORPORATION OF THE CITY OF KINGSTON

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15. CONTINGENT LIABILITIES (CONTINUED):

(b) (continued):

Existing agreements related to coal tar do not establish any current financial obligation for the City and generally limit the liability of land owners related to coal tar. Additional agreements may generally provide for indemnities to landowners against any third party claims or Ministry of Environment orders should any such claim or order arise. The amount of any potential liability or the likelihood thereof with respect to any potentially contaminated properties is not determinable, therefore no amount has been accrued in the financial statements.

16. COMMITMENTS:

- (a) The City of Kingston has negotiated a non-exclusive long-term contract with Waste Management of Canada (formerly Canadian Waste Disposal) for handling and disposal of garbage. This contract was extended to January 31, 2014. Annual charges under the contract are determined by reference to certain waste volumes handled. Payments made under the contract for the year 2010 were approximately \$1,684,790 (2009 - \$1,591,193).
- (b) 1425445 Ontario Limited (operating as Utilities Kingston) has entered into operating contracts to provide gas transportation, gas storage and purchases of natural gas as part of the management agreement with the City of Kingston. Costs incurred have been reimbursed and are reported as expenditures on the Consolidated Statement of Operations.
- (c) In 2006, the City entered into a lease for office premises for a term of five years, ending August 31, 2011 for a monthly base rental of \$28,101 plus operating costs. Lease terms include the option to renew for two additional five year terms, however the building was purchased in 2011 by the City of Kingston.
- (d) The City previously entered into an agreement with the County of Frontenac to share in the capital cost of the reconstruction project for Fairmount Home for the Aged. The majority of total project cost of \$18.2 million has been financed by long-term debt in the amount of \$17.2 million. The City is responsible for 68% of the related debt repayment costs and incurred related debt charges in 2010 in the amount of \$712,503 (2009 - \$712,503).
- (e) In 2008, the Corporation of the City of Kingston pledged to the University Hospitals Kingston Foundation, a joint fundraising appeal undertaken by the Foundation on behalf of local hospitals, \$10,000,000 plus 50% of the costs of development charges and impost fees up to a maximum of \$6,000,000. The City has paid \$3,150,000 of this 10-year commitment as of December 31, 2010 with 7 annual payments remaining.

CORPORATION OF THE CITY OF KINGSTON

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16. CONTINGENT LIABILITIES (CONTINUED):

- (f) The Corporation of the City of Kingston and 1425445 Ontario Limited (operating as Utilities Kingston) on behalf of the City of Kingston have entered into capital contracts during 2010 for the following projects:

Description of project	Total contract price	Costs incurred to date (In thousands of dollars)
Construction of outdoor aquatic facility	\$ 8,500	\$ 4,100
Construction of garage facility	\$ 4,600	\$ 2,800

17. BUDGET FIGURES:

Budget figures have not been audited and are presented for information purposes only. Budget figures reported on the Consolidated Statement of Operations are based on the 2010 municipal and utility operating budgets as approved by Council on December 15, 2009, and include subsequent council approved amendments.

Approved budget figures have been reclassified and adjusted for the purposes of these financial statements to comply with Public Sector Accounting Board reporting requirements. Estimates for certain revenues and expenditures that were not included as part of the approved operating budgets have been included in the 2010 budget figures reported on the Consolidated Statement of Operations. The chart below reconciles the approved operating budgets to the amended budget figures.

CORPORATION OF THE CITY OF KINGSTON

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YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

17. BUDGET FIGURES (CONTINUED):

	Budget Amount (In thousands of dollars)
Total approved operating budget revenues	\$ 370,550
Consolidated external agency budgets	13,768
Social Housing Renovation and Retrofit Funding	4,000
PSAB reporting adjustments:	
Reserve fund revenues	11,500
Less transfers from reserves / reserve funds	(3,083)
Net operating budget revenues	396,735
Total approved operating budget expenses	370,550
Consolidated external agency budgets	13,606
Social Housing Renovation and Retrofit Funding transfers	4,000
PSAB reporting adjustments:	
Amortization of tangible capital assets	40,000
Non-tangible capital asset expenditures	13,000
Reserve fund expenditures for debt interest	9,800
Unfunded accruals for employee future benefit obligations, landfill closure and post-closure liabilities and accrued interest on long term debt	2,200
Less transfers to reserves / reserve funds	(57,653)
Less debt principal repayments	(216)
Net operating budget expenses	395,287
Annual operating surplus before capital investment	\$ 1,448

CORPORATION OF THE CITY OF KINGSTON

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18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES:

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

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

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

	2010	2009
	(In thousands of dollars)	
Financial position		
Current assets	\$ 17,109	\$ 16,596
Due from City of Kingston:		
Utilities Kingston	183	609
Kingston Hydro Corporation	2,279	1,857
Post employment benefit obligation	2,499	2,375
Accrued vacation liabilities	211	205
Capital assets	34,870	34,070
Regulatory assets	3,930	1,183
Deferred charges	2,441	2,612
Total assets	63,522	59,507
Current liabilities	17,581	14,156
Post employment benefit obligation	3,759	3,382
Accrued vacation and pension liabilities	164	374
Accrued liabilities non-current	3,008	3,880
Long-term loan payable	2,316	2,588
Long-term notes payable to City of Kingston (note 18 (c))	15,446	11,846
Total liabilities	42,274	36,226
Net assets	\$ 21,248	\$ 23,281
Common shares	\$ 12,381	\$ 12,381
Redeemable preferred shares	3,465	7,065
Accumulated earnings	5,402	3,835
Investment in government business enterprises	\$ 21,248	\$ 23,281

CORPORATION OF THE CITY OF KINGSTON

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18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES (CONTINUED):

(a) (continued):

	2010	2009
	(In thousands of dollars)	
Results of operations:		
Net utility revenues	\$ 90,609	\$ 77,247
Operating expenses	(84,633)	(70,300)
Interest on debt	(1,203)	(1,010)
Capital tax	(7)	(21)
Depreciation	(3,036)	(2,983)
Net earnings before income taxes	1,730	2,933
Payments in lieu of corporate income taxes	528	819
Net earnings	1,202	2,114
Increase in contributed surplus	365	--
Change in accounting policy	--	330
Dividends	--	(250)
	1,567	2,194
Accumulated earnings (loss), beginning of year	3,835	1,641
Accumulated earnings, end of year	\$ 5,402	\$ 3,835

(b) In accordance with related party reporting requirements, 1425445 Ontario Limited (operating as Utilities Kingston) reported contract expense recoveries during the year from Kingston Hydro Corporation and the City of Kingston in the amounts of \$9,944,539 (2009 - \$9,058,198) and \$61,683,210 (2009 - \$51,139,865) respectively.

In addition, the City contracted to provide financial, human resources, legal and information technology services to both 1425445 Ontario Limited (operating as Utilities Kingston) and Kingston Hydro Corporation in the amount of \$2,252,950 (2009 - \$2,227,300). As at December 31, 2010, the City had balances owing to both companies in the amount of \$182,532 (2009 - \$609,144) and \$2,279,091 (2009 - \$1,857,450) respectively, representing the net balance of cash receipts and disbursements processed on behalf of the Companies.

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

CORPORATION OF THE CITY OF KINGSTON

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18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES (CONTINUED):

- (c) On January 1, 2000, the City of Kingston took a note payable for an amount equivalent to 50% of the value of net assets transferred for both Kingston Hydro and 1425445 Ontario Ltd. The note payable, in the amount of \$11,846 (2009 - \$11,846), bears interest at 7.25% per annum and has no fixed terms of repayment before January 1, 2012.

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

19. TANGIBLE CAPITAL ASSETS:

				2010	2009
		Cost	Accumulated amortization	Net book value	Net book value
(In thousands of dollars)					
GENERAL ASSETS					
Land	\$	72,290	\$ —	\$ 72,290	\$ 70,488
Land improvements		27,853	10,583	17,270	17,216
Buildings		255,438	67,340	188,098	191,339
Vehicles and machinery		63,234	34,387	28,848	25,964
Furniture, fixtures and equipment		44,710	20,883	23,827	22,081
INFRASTRUCTURE ASSETS					
Land		8,744	--	8,744	8,815
Land improvements		34,080	20,325	13,755	8,697
Plants and facilities		275,411	89,450	185,961	183,744
Roads		327,180	177,524	149,656	143,526
Bridges and culverts		27,950	8,167	19,783	19,507
Utility networks		358,656	82,194	276,462	255,327
Other		180,274	73,383	106,891	100,193
		1,675,820	584,236	1,091,585	1,046,897
Assets under construction		23,847	--	23,847	17,637
	\$	1,699,667	\$ 584,236	\$ 1,115,432	\$ 1,064,534

CORPORATION OF THE CITY OF KINGSTON

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19. TANGIBLE CAPITAL ASSETS (CONTINUED):

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

(a) Contributed tangible capital assets:

The City records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or the date of transfer of risk and responsibility. In 2010, a total of \$6,872,357 (2009 - \$2,518,694) was recorded as tangible capital asset additions with respect to contributed capital assets which was comprised of roads infrastructure in the amount of \$4,985,788 (2009 - \$2,518,694) and water and wastewater infrastructure in the amount of \$1,886,569 (2009 - \$ Nil).

(b) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2009 \$Nil).

(c) Works of art and historical treasures:

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

(d) Capitalization of interest:

As per City policy, interest costs incurred with respect to financing the acquisition or construction of a tangible capital asset up to the date that the asset goes into use are not capitalized. In 2010, these interest costs are included as expenses on the "Consolidated Statement of Operations" in the amount of \$960,437 (2009 - \$775,380).

20. SEGMENTED INFORMATION:

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

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

CORPORATION OF THE CITY OF KINGSTON

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20. SEGMENTED INFORMATION (CONTINUED):

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

A brief description of each segment follows:

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

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

(IN THOUSANDS OF DOLLARS)

20. SEGMENTED INFORMATION (CONTINUED):

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

21. COMPARATIVE FIGURES:

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS – BY MAJOR ASSET CLASS
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	GENERAL ASSETS					INFRASTRUCTURE ASSETS								Capital Works In Progress	TOTALS	
	Land	Land Improvements	Buildings	Vehicles and Machinery	Furniture, Fixtures and Equipment	Land	Land Improvements	Plants and Facilities	Roads	Bridges and Culverts	Utility Networks	Other	2010		2009	
Cost																
Balance, beginning of year	\$ 70,488	\$ 43,361	\$ 252,272	\$ 58,053	\$ 40,844	\$ 8,815	\$ 11,403	\$ 264,969	\$ 319,770	\$ 27,228	\$ 347,361	\$ 159,000	\$ 17,638	\$ 1,621,199	\$ 1,561,964	
Add: Additions	1,305	4,826	3,187	6,738	5,374	426	2,343	10,443	15,502	721	27,184	10,580	6,211	94,839	72,303	
Less: Disposals	-	-	(20)	(1,557)	(1,508)	-	-	-	(8,092)	-	(3,800)	(1,394)	-	(16,371)	(13,068)	
Reclassification of assets	497	(20,334)	-	-	-	(497)	20,334	-	-	-	(12,088)	12,088	-	-	-	
Balance, end of year	72,290	27,853	265,438	63,234	44,710	8,744	34,080	275,411	327,180	27,950	358,656	180,274	23,847	1,699,667	1,621,199	
Accumulated Amortization																
Balance, beginning of year	-	26,144	60,932	32,088	18,763	-	2,706	81,225	176,245	7,721	92,033	58,807	-	556,666	529,074	
Add: Amortization	-	1,914	6,428	3,661	3,623	-	144	8,226	7,858	445	5,425	4,366	-	42,180	39,760	
Less: Accumulated amortization on disposals	-	-	(20)	(1,363)	(1,503)	-	-	-	(6,660)	-	(3,783)	(1,271)	-	(14,620)	(12,167)	
Reclassification of assets	-	(17,475)	-	-	-	-	\$ 17,475	-	-	-	(11,481)	\$ 11,481	-	-	-	
Balance, end of year	-	10,583	67,340	34,387	20,883	-	20,325	89,450	177,524	8,167	82,194	73,383	-	584,236	556,666	
Net Book Value of Tangible Capital Assets	\$ 72,290	\$ 17,270	\$ 188,098	\$ 28,848	\$ 23,827	\$ 8,744	\$ 13,755	\$ 185,961	\$ 149,656	\$ 19,783	\$ 276,462	\$ 106,891	\$ 23,847	\$ 1,115,431	\$ 1,064,534	

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	General Government	Protection Services	Transportation Services	Environmental Services	Wastewater	Water	Health Services
Revenue:							
Government grants	\$ 1,028	1,177	8,195	1,057	--	11,440	9,335
Other municipalities	155	--	385	263	--	--	--
User fees and service charges	6,599	4,938	14,822	1,949	23,318	17,544	816
User fees – gas commodity	--	--	--	--	--	--	--
Other	3,140	133	9,292	6,758	629	1,257	--
	10,922	6,248	32,694	10,027	23,947	30,241	10,151
Expenses:							
Salaries, wages and employee benefits	16,400	49,178	18,407	3,610	--	--	9,847
Materials	3,760	3,906	10,311	651	--	--	2,607
Contracted services	9,196	2,237	7,933	5,606	9,916	9,102	2
Gas commodity purchases	--	--	--	--	--	--	--
Rents and financial expenses	1,926	1,483	1,684	582	2,530	208	307
External transfers	859	1,565	2,072	--	--	--	7,778
Amortization	1,984	2,582	13,521	2,473	7,743	5,864	362
Inter-departmental charges	(4,476)	401	(1,766)	1,425	660	660	--
	29,649	61,352	52,164	14,347	20,849	15,834	20,903
Excess of expenditures over revenue	\$ (18,727)	\$ (55,104)	\$ (19,470)	\$ (4,320)	\$3,098	\$14,407	\$ (10,752)

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE FIGURES FOR 2009
(IN THOUSANDS OF DOLLARS)

	Social and Family Services and Housing	Recreation and Cultural Services	Planning and Development Services	Gas Works	Total 2010	Total 2009
Revenue:						
Government grants	\$ 54,216	2,721	—	—	89,169	71,801
Other municipalities	2,664	668	—	—	4,135	4,836
User fees and service charges	7,622	9,081	647	12,101	99,437	94,606
User fees – gas commodity	—	—	—	17,098	17,098	22,909
Other	77	1,910	2	152	23,350	22,009
	64,579	14,380	649	29,351	233,189	216,161
Expenses:						
Salaries, wages and employee benefits	22,600	16,421	2,144	—	138,607	132,201
Materials	7,011	3,860	47	132	32,285	30,461
Contracted services	1,966	3,687	271	3,257	53,175	47,364
Gas commodity purchases	—	—	—	17,098	17,098	22,909
Rents and financial expenses	450	4,642	38	474	14,324	16,564
External transfers	59,315	777	749	—	73,116	77,755
Amortization	1,430	4,457	—	1,774	42,190	39,760
Inter-departmental charges	1,458	1,240	(30)	429	—	—
	94,230	35,084	3,219	23,164	370,795	367,014
Excess of expenditures over revenue	(29,651)	(20,704)	(2,570)	6,187	(137,606)	(150,853)
Funded through:						
Taxation					167,018	159,673
Payments in lieu of taxation					14,647	13,439
Investment in Government Business Enterprise					1,567	2,194
Investment income					7,346	5,024
					190,578	180,330
Annual surplus					\$ 52,972	\$ 29,477



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INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of the trust fund of the Corporation of the City of Kingston, which comprise the statement of financial position as at December 31, 2010 and the statement of continuity of trust fund for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

In common with many trust funds, the Corporation of the City of Kingston trust fund derives revenue from residents' deposits, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether any adjustments might be necessary to contributions, excess of revenues over expenses, current assets and net assets.



Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Kingston trust fund as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 7, 2011

Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON

TRUST FUNDS

Name of Fund	Rideaucrest Residents Funds, Donations and Endowments	Other	Total 2010	Total 2009
Statements of Financial Position				
As at December 31, 2010, with comparative figures for 2009				
Assets				
Cash and short-term investments	\$ 107,809	\$ 84,930	\$ 192,739	\$ 297,667
	\$ 107,809	\$ 84,930	\$ 192,739	\$ 297,667
Fund balances:				
Unexpendable trust	\$ 40,400	\$ 25,000	\$ 65,400	\$ 65,400
Capital/earned surplus	67,409	59,930	127,339	232,267
	\$ 107,809	\$ 84,930	\$ 192,739	\$ 297,667
Statements of Continuity				
Year ended December 31, 2010, with comparative figures for 2009				
Balances, beginning of year	\$ 214,164	\$ 83,503	\$ 297,667	\$ 288,079
Donations and other revenue	149,242	640	149,882	130,764
Interest earned	1,670	787	2,457	2,348
	365,076	84,930	450,006	421,191
Expenditures	257,267	--	257,267	123,524
Balances, end of year	\$ 107,809	\$ 84,930	\$ 192,739	\$ 297,667

CORPORATION OF THE CITY OF KINGSTON

TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

1. Significant accounting policies:

The financial statements of the Corporation of the City of Kingston Trust Funds are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(a) Basis of accounting:

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

(b) Revenue recognition:

Revenue and expenditures are recorded on an accrual basis.

The accrual basis recognizes revenue as they become available and measurable. Expenditures are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(c) Use of estimates:

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

2. Statement of changes in financial position:

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