Annual Financial Report
Year Ended December 31, 2010

Prepared by:
Accounting Division
Finance and Corporate Services Department

Kitchener, Ontario, Canada

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PURPOSE OF THE ANNUAL FINANCIAL REPORT

The City of Kitchener Annual Financial Report consists of the following sections.

1. Introductory Section
The introductory section familiarizes the reader of the report with the political and organizational structure of the City of Kitchener and the nature and scope of the services provided by the City.

2. Financial Section
The financial section includes the Consolidated Financial Statements (as required by the Municipal Act), Trust Fund Financial Statements, as well as separate Financial Statements for each of the City's boards that are included in the Consolidated Financial Statements. The Statement of Operations and Accumulated Surplus for the City's Gasworks enterprise are enclosed, as are the Consolidated Financial Statements of Kitchener Power Corp.

3. Statistical Section
This section contains additional information to provide a broader understanding of the City of Kitchener.

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. In order to discharge its responsibilities, 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.

As required by the Municipal Act, City Council has appointed an 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.

The Audited Consolidated Financial Statements are presented to the Audit Committee, which is a committee of Council, 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.

COUNCIL MEMBERS

YOUR NEW CITY OF KITCHENER COUNCIL

MAYOR CARL ZEHR
519-741-2300
mayor@kitchener.ca

Kitchener's new city council was elected on Oct. 25, 2010.

During the election, the number of councillors increased from six to 10. All council members are elected for a four-year term. The mayor is elected by voters from across the city, and councillors are elected by voters within specific wards.

Members of city council meet at regularly scheduled council and committee meetings throughout the year. Public hearings, special council meetings, business license hearings and courts of revision are also held as needed to consider specific matters.

Council members may also be appointed to local or regional boards or commissions.

COUNCILLOR SCOTT DAVEY
Ward 1
519-741-2784
scott.davey@kitchener.ca

COUNCILLOR BERRY VRBANOVIC
Ward 2
519-741-2243
berryv@kitchener.ca

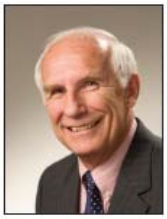
COUNCILLOR JOHN GAZZOLA
Ward 3
519-741-2790
john.gazzola@kitchener.ca

COUNCILLOR YVONNE FERNANDES
Ward 4
519-741-2779
yvonne.fernandes@kitchener.ca

COUNCILLOR KELLY GALLOWAY
Ward 5
519-741-2791
kelly.galloway@kitchener.ca

COUNCILLOR PAUL SINGH
Ward 6
519-741-2793
paul.singh@kitchener.ca

COUNCILLOR BIL IOANNIDIS
Ward 7
519-741-2783
bil.ioannidis@kitchener.ca

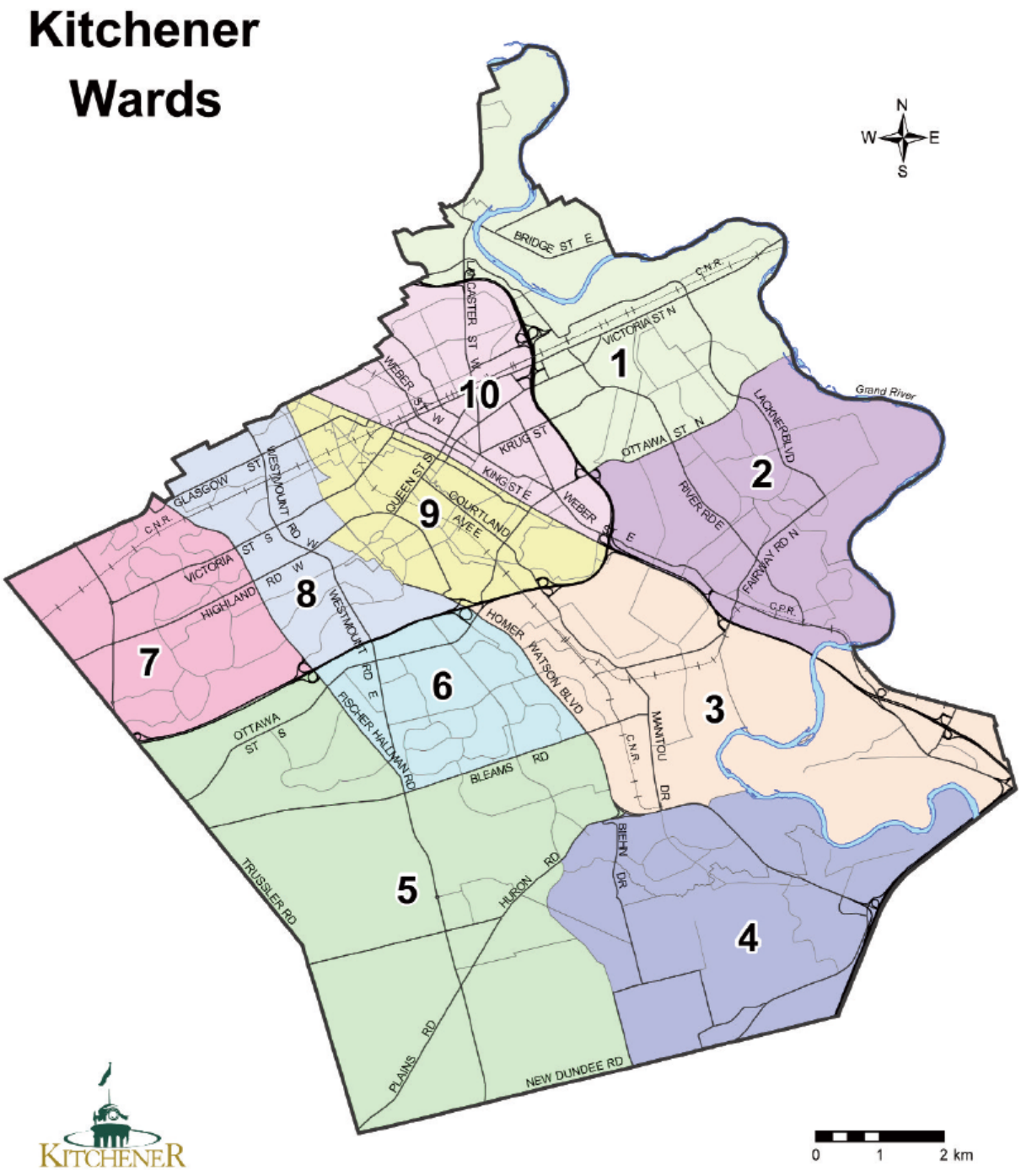


COUNCILLOR ZYG JANECKI
Ward 8
519-741-2796
zyg.janecki@kitchener.ca

COUNCILLOR FRANK ETHERINGTON
Ward 9
519-741-2798
frank.etherington@kitchener.ca

COUNCILLOR DAN GLENN-GRAHAM
Ward 10
519-741-2786
dan.glenn-graham@kitchener.ca

NEW WARD MAP


Kitchener
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VICTORIA ST N
LANCASTER ST W
WEBER ST W
KRUG ST
OTTAWA ST N
LACHNER BLVD
Grand River
RIVER RD E
FAIRWAY RD N
C.P.R.
KING ST E
WEBER ST E
QUEEN ST S
COURTLAND AVE E
GLASGOW ST
WESTMOUNT RD W
VICTORIA ST S
HIGHLAND RD W
HOMER WATSON BLVD
WESTMOUNT RD E
FISCHER HALLMAN RD
OTTAWA ST S
BLEAMS RD
MANITOU DR
BIERY DR
TRUSSLER RD
HURON RD
PLAINS RD
NEW DUNDEE RD
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KITCHENER

ORGANIZATIONAL STRUCTURE

CITY COUNCIL

OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER

Carla Ladd

Chief Administrative Officer

Communications and Customer Service
Economic Development
Office of the Mayor and Council
Strategic Planning

COMMUNITY SERVICES

Jeff Willmer

Deputy CAO

Building
ByLaw Enforcement
Community Programs and Services
Enterprise
Fire
Planning

INFRASTRUCTURE SERVICES

Pauline Houston

Deputy CAO

Engineering Services
Facilities Management
Fleet
Operations
Utilities

FINANCE & CORPORATE SERVICES

Dan Chapman

Deputy CAO

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

THE CITY

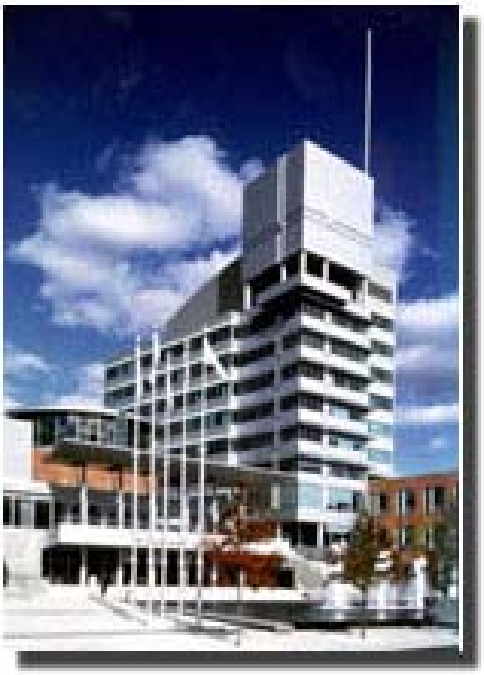

Photo by Steven Evans
Photographic Inc., Toronto

Kitchener is a city that builds upon its proud traditions and progressive community leadership to remain one of the most vibrant, prosperous, and livable communities in Canada.

Whether the motivations are commerce or lifestyle, for over 100 years, Kitchener has been a centre that is renowned for an atmosphere that fosters business growth and a desirable quality of life for its residents.

Situated in the heart of the Waterloo Region, Kitchener contributes a positive attitude and fiscal maturity that continues to set standards for steady, measured and healthy economic progress.

The Chief Administrative Officer is the senior administrator of the City and is responsible to City Council for the effective and efficient operation of the City. All City Departments report to Council through the Chief Administrative Officer.

The City is part of a regional municipal structure. Responsibility for providing municipal services is divided between the City of Kitchener and the Regional Municipality of Waterloo.

CITY TREASURER'S MESSAGE

City of Kitchener
EX INDUSTRIA PROPERITAS

DAN CHAPMAN, C.A., MPA
DEPUTY CAO AND CITY TREASURER
FINANCE AND CORPORATE SERVICES DEPARTMENT
City Hall, P.O. Box 1118
200 King Street West
Kitchener, Ontario
Canada, N2G 4G7
Telephone (519) 741-2347
Facsimile (519) 741-2705
Email: dan.chapman@kitchener.ca

June 27, 2011

Dear Mayor Zehr and Members of City Council:

It is my pleasure to submit the Annual Financial Report for the City of Kitchener for the year ended December 31, 2010. Despite the lingering effects of the economic downturn experienced in 2008 and 2009, the City of Kitchener has seen improved financial results in 2010.

The City ended the year with property tax supported operations recording a $0.875 million surplus which equates to approximately 0.6% of the total budget. The surplus was transferred to the Tax Stabilization Reserve Fund, established by City Council to protect against budget uncertainties.

This year, overall assessment growth was 1.34%, generated primarily from new residential development. 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. These pressures necessitated a 2.90% property tax increase for the year, which included an increase in funding for the City's Economic Development Investment Fund. This marks the seventh year of the ten year fund.

The City continued to operate under policies which limit the effect of capital expenditures on the property tax base. Specifically, new capital projects only impacted the tax rate by an inflationary factor. Furthermore, debt acquisition was capped so that most municipal capital projects were paid out of current levies, as opposed to future levies, with the exception of enterprise debt and debt associated with the Economic Development Investment Fund (EDIF). The strategic debt issuance associated with EDIF is supported by a ten-year program of special levies established through an extensive public process completed in 2004.

CITY TREASURER'S MESSAGE

In addition to capital expenditures on infrastructure in the community (such as roads, sewers and water mains), some significant highlights of the 2010 capital program include the following:

- Construction began on the new Civic District parking garage, as well as the expansion of the Kitchener Public Library's headquarters. The 412-space, three-level underground structure will address the library's parking needs, as well as the parking needs of its Civic District neighbours, including the Centre in the Square and K-W Art Gallery, the Region of Waterloo, the Registry Theatre and the future consolidated courthouse.
- Construction began on the new six-storey, 500-space parking garage, at the corner of Charles and Benton streets, which opens May 2011. The garage will support growing parking demands in the downtown, including the new provincial courthouse. The new garage will include retail space on the main floor facing Benton Street.
- Work continued on improving four of Kitchener's aquatic facilities - Breithaupt pool, Harry Class pool, Chicopee spray pad and Kingsdale splash pad. These improvements were funded through a three-way partnership between the city, the Government of Canada and the Province of Ontario.
- After an extensive renovation that included the construction of new holes, Doon Valley golf course re-introduced its 18-hole course, and celebrated the opening of a new nine-hole course and a pitch 'n putt training facility.
- Construction continued on the new Kingsdale Community Centre, located in the former Patrick Doherty Arena on Wilson Avenue, which opens in the spring of 2011. The new multipurpose facility will include meeting and program spaces, offices, preschool room, kitchen, gymnasium and an outdoor splash pad.
- City council set the wheels in motion for Kitchener to become a more bicycle-friendly city by endorsing the 2010 cycling master plan, entitled Cycling Master Plan for the 21st Century. The cycling master plan outlines the implementation of an inter-connected network of 114 kilometres of on road bikeways over 20 years.
- Human resources implemented an Applicant Tracking System (ATS) that is designed to automate the hiring process to improve effectiveness and efficiencies including shortened time-to-hire and a candidate's overall application experience.
- Construction began to wind down on the new consolidated maintenance facility, recently named the Kitchener Operations Facility (KOF). More than 400 city staff will move to the KOF in the spring of 2011, bringing a number of municipal operations and services under one roof and helping to improve coordination of work and services, which will result in streamlined service delivery to the community.
- The city commenced the installation of a 500-kW/h solar-energy system on the 300,000 square-foot flat roof of the KOF. Once installed, the city will operate and maintain the solar-energy system and sell all of the generated power to the Ontario Power Authority under a 20-year contract. Costs of installing the solar panels are being covered through the 2009 federal/provincial budget infrastructure funding program and through a loan from the City's Local Environmental Action Fund (LEAF).

Looking ahead to 2011, the City will face continued pressure from the public to increase levels of service while at the same time curb tax rate increases. In response, the City will develop new business plans for all departments that are aligned with the City of Kitchener Strategic Plan and will also refine the approach to long-term financial planning with a specific focus on debt and reserve management. Together, these two actions will be instrumental in matching taxpayers'

CITY TREASURER'S MESSAGE

needs with the funds required to support them, in order to achieve an optimum balance of taxes levied and services provided.

The City, through its sound financial policies and dedicated employees, is well positioned to meet the challenges of the future while providing excellent programs and services to the citizens and taxpayers of the City of Kitchener.

Yours truly,

Dan Chapman, C.A. MPA
Deputy CAO Finance and Corporate Services
And City Treasurer

KPMG LLP
Chartered Accountants
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada

Telephone 519-747-8800
Fax 519-747-8830
Internet www.kpmg.ca

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, 2010, 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 generally accepted accounting principles, 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 Kitchener 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 generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2011
Waterloo, Canada

CITY OF KITCHENER

Consolidated Statement of Financial Position

As at December 31, 2010
(in thousands of dollars)

	2010	2009
Financial assets		
Cash and temporary investments	**75,815**	64,643
Taxes receivable	**20,978**	20,286
Trade and other accounts receivable	**52,833**	47,999
Inventory for resale	**15,048**	17,247
Investments (Note 4)	**9,513**	12,860
Investment in Kitchener Power Corp. and its affiliates (Note 5)	**168,642**	162,872
	342,829	325,907
Liabilities		
Accounts payable and accrued liabilities	**80,974**	62,263
Deferred revenue - obligatory reserve funds (Note 7)	**333**	5,831
Deferred revenue - other	**8,390**	7,335
Municipal debt (Note 8)	**81,327**	72,200
Employee future benefits (Note 10)	**23,487**	22,787
	194,511	170,416
Net financial assets	**148,318**	155,491
Non-financial assets		
Tangible capital assets - net (Note 11)	**816,937**	730,480
Inventory of supplies	**1,693**	1,648
Prepaid expenses	**912**	739
	819,542	732,867
Accumulated surplus	**967,860**	888,358

See accompanying notes

CITY OF KITCHENER

Consolidated Statement of Operations

Year Ended December 31, 2010
(in thousands of dollars)

	2010 Actual	2010 Budget (unaudited)	2009 Actual
Revenues			
Taxation	**101,266**	**99,507**	95,849
User fees and charges			
Gasworks	**100,782**	**105,647**	112,394
Water and sewer	**34,821**	**37,445**	29,800
Other	**40,272**	**35,516**	37,056
Grants	**23,255**	**32,298**	24,228
Contributions of tangible capital assets	**8,505**	**-**	9,117
Investment income	**6,601**	**8,615**	6,764
Penalty and interest on taxes	**3,226**	**2,816**	2,937
Obligatory reserve funds revenue recognized	**17,841**	**15,802**	11,986
Share of net income of Kitchener Power Corp. and its affiliates (Note 5)	**7,522**	**-**	4,238
Other	**8,884**	**10,540**	8,566
Total revenues	**352,975**	**348,186**	342,935
Expenses			
General government	**26,727**	**23,978**	35,650
Protection to persons and property	**40,696**	**34,547**	38,367
Transportation services	**30,117**	**33,364**	33,623
Environmental services	**22,530**	**18,208**	17,822
Health services	**1,775**	**1,576**	1,830
Social and family services	**1,830**	**1,768**	1,756
Recreation and cultural services	**58,577**	**55,100**	58,537
Planning and development	**11,829**	**11,283**	8,761
Gasworks	**79,392**	**93,770**	90,880
Total expenses	**273,473**	**273,594**	287,226
Annual surplus	**79,502**	**74,592**	55,709
Accumulated surplus, beginning of year	**888,358**	**888,358**	841,899
Effect of change in accounting policies of Kitchener Power Corp.	**-**	**-**	(9,250)
Accumulated surplus, end of year	**967,860**	**962,950**	888,358

See accompanying notes

CITY OF KITCHENER

Consolidated Statement of Change in Net Financial Assets

Year Ended December 31, 2010
(in thousands of dollars)

	2010 Actual	**2010 Budget (unaudited)**	2009 Actual
Annual surplus	**79,502**	**74,592**	55,709
Amortization of tangible capital assets	**28,436**	**-**	28,155
Acquisition of tangible capital assets	**(119,098)**	**(94,874)**	(73,388)
Loss on disposal of tangible capital assets	**3,850**	**-**	11,454
Proceeds on disposal of tangible capital assets	**355**	**-**	409
Effect of change in accounting policies of Kitchener Power Corp.	**-**	**-**	(9,250)
Acquisition of supplies of inventories	**(3,832)**	**-**	(6,793)
Acquisition of prepaid expenses	**(266)**	**-**	(137)
Consumption of supplies inventory	**3,787**	**-**	6,817
Use of prepaid expenses	**93**	**-**	59
Change in net financial assets	**(7,173)**	**(20,282)**	13,035
Net financial assets, beginning of the year	**155,491**	**155,491**	142,456
Net financial assets, end of the year	**148,318**	**135,209**	155,491

See accompanying notes

CITY OF KITCHENER

Consolidated Statement of Cash Flow

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Operating		
Annual surplus	**79,502**	55,709
Items not involving cash		
Amortization	**28,436**	28,155
Loss on sale of tangible capital assets	**3,850**	11,454
Change in employee future benefits	**700**	1,628
Contributions of tangible capital assets	**(8,505)**	(9,117)
Change in non-cash assets and liabilities		
Taxes receivable	**(692)**	(1,501)
Trade and other accounts receivable	**(4,834)**	(3,430)
Inventory of supplies	**(45)**	24
Inventory for resale	**2,199**	3,195
Prepaid expenses	**(173)**	(78)
Deferred revenue - obligatory reserve funds	**(5,498)**	(2,298)
Deferred revenue - other	**1,055**	(14,793)
Accounts payable and accrued liabilities	**18,711**	(4,965)
Net change in cash from operating activities	**114,706**	63,983
Investing		
Acquisition of tangible capital assets	**(110,593)**	(64,271)
Proceeds on disposal of tangible capital assets	**355**	409
Share of net income of Kitchener Power Corp. and its affiliates	**(7,522)**	(4,238)
Dividends received from Kitchener Power Corp.	**1,752**	1,938
Net acquisition of long-term investments	**3,347**	(475)
Net change in cash from investing activities	**(112,661)**	(66,637)
Financing		
Municipal debt issued	**16,129**	15,101
Municipal debt repaid	**(7,002)**	(6,413)
Net change in cash from financing activities	**9,127**	8,688
Net change in cash and temporary investments	**11,172**	6,034
Cash and temporary investments, beginning of year	**64,643**	58,609
Cash and temporary investments, end of year	**75,815**	64,643

See accompanying notes

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
- Building Enterprise
- Golf Enterprise

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

ii. Government business enterprises

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).

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 and expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

ii. Trade and other accounts receivable

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

iii. Inventory for resale

Inventory for resale is valued at the lower of cost or net realizable value on a first-in-first-out basis.

iv. 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.

v. 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.

vi. 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.

1. Summary of significant accounting policies (continued)

vii. 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:

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

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.

viii. 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.

ix. 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	**85,637**	**178,908**	**264,545**
Share of payments in lieu of taxes	**5**	**1,181**	**1,186**
Share of linear properties	**63**	**108**	**171**
Amounts requisitioned	**85,705**	**180,197**	**265,902**

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 the following:

	2010	2009
Cemetery perpetual care and prepaid internment funds	**10,324**	9,486
Musagetes - Arts & Culture Fund	**-**	844
	10,324	10,330

4. Investments

Investments are made up of the following:

	2010 Cost	**2010 Market Value**	2009 Cost	2009 Market Value
Bonds and debentures	**8,378**	**8,363**	11,929	12,047
Common Stock	**1,135**	**1,351**	931	1,136
	9,513	**9,714**	12,860	13,183

5. 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.

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 corporations. 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 composed of the following:

	2010	2009
Kitchener Power Corp. common shares	**61,244**	61,244
Kitchener - Wilmot Hydro Inc. long-term notes receivable	**70,998**	70,998
Share of net income and prior period adjustments due to changes in accounting policies since acquisition, net of dividends	**36,400**	30,630
	168,642	162,872

The Kitchener-Wilmot Hydro Inc. notes are unsecured and bear interest at the rate of 5.91%. There are no repayment terms and there is no intent to redeem the notes or the shares.

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

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

	2010	2009
Current assets	**75,024**	65,742
Capital assets	**143,258**	138,170
Regulatory assets	**20,970**	15,072
Future income taxes	**12,861**	12,443
Total assets	**252,113**	231,427
Current liabilities	**34,677**	27,106
Long-term debt	**85,714**	76,962
Regulatory liabilities	**16,606**	18,781
Other liabilities	**9,269**	8,984
Total liabilities	**146,266**	131,833
Net assets	**105,847**	99,594
Results of operation		
Revenues	**195,771**	178,829
Expenses	**(187,617)**	(174,235)
Net income	**8,154**	4,594
City's share of net income - 92.25%	**7,522**	4,238

6. Insurance pool

Liabilities include an amount of $4,711 *(2009 - $4,760)* 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 25.05% (*2009 – 26.23%*) and its share of the Pool surplus as at May 31, 2010 was $1,052 *(2009 - $1,030).* The City's share of the Pool surplus has not been included in the "Consolidated Statement of Financial Position".

7. Deferred revenue - obligatory

	2010	2009
Development charges	**(2,444)**	3,843
Recreational land	**2,777**	1,988
	333	5,831

The continuity of deferred revenues is as follows:

	2010	2009
Balance, beginning of year	**5,831**	8,129
Collections	**11,555**	8,836
Interest earned	**46**	290
Other revenue	**742**	563
Contributions used	**(17,841)**	(11,987)
Balance, end of year	**333**	5,831

8. Municipal debt

a. 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 $81,327 *(2009 - $72,200).*

b. The annual principal payments are:

2011	**7,256**
2012	**6,886**
2013	**6,836**
2014	**7,116**
2015 - 2024	**53,233**
	81,327

c. 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.

d. The long-term liabilities carry interest rates ranging from 1.50% to 6.40%.

9. 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 2010 amounting to $6,214 (*2009 - $5,721*).

10. Employee future benefits

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

	2010	2009
Sick leave benefit plan	**11,827**	11,571
Post retirement benefits	**9,118**	8,764
Future payments required to WSIB	**2,542**	2,452
	23,487	22,787

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 $2,157 (*2009 - $2,114)* and is comprised of the following items:

	2010	2009
Current period benefit cost	**893**	872
Amortization of actuarial losses	**392**	416
Retirement benefit expenditures	**1,285**	1,288
Retirement benefit interest expenditures	**872**	826
Total expenditures related to retirement benefits	**2,157**	2,114

The actuarial valuation of the future liability for sick leave assumes a discount rate of 4.75% (*2009 – 5.25%*). The last actuarial valuation for this liability was completed at December 31, 2009, with an actuarial update provided to the end of the current year.

As at December 31, 2010, the unamortized actuarial losses were $5,383 *(2009 – $5,094)* and are amortized over 13 to 14 years *(2009 – 13 to 14 years)*. The amount of benefits paid during the year were $1,900 *(2009 - $695).*

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of $4,605 *(2009 - $4,537)*.

Anticipated payments over the next five years to employees who are eligible to retire are:

2011	**2,233**
2012	**481**
2013	**624**
2014	**749**
2015	**751**
	4,838

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 service with the City. The last actuarial valuation for this liability was completed at December 31, 2009, with an actuarial update provided to the end of the current year. The expense for the year was $1,191 *(2009 - $1,195)* and is comprised of the following items:

10. Employee future benefits (continued)

	2010	2009
Current period benefit cost	**430**	428
Amortization of actuarial losses	**215**	240
Retirement benefit expenditures	**645**	668
Retirement benefit interest expenditures	**546**	527
Total expenditures related to retirement benefits	**1,191**	1,195

As at December 31, 2010, the unamortized actuarial losses were $1,996 *(2009 – $1,628)* and are amortized over 12 years *(2009 – 12 years)*. The amount of benefits paid during the year were $838 *(2009 - $780).*

The actuarial estimate of the future liability for post-retirement benefits assumes a discount rate of 4.75% *(2009 – 5.25%)* and inflation rates for benefit premiums of 5% to 9% *(2009 – 5% to 9%)*.

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 City paid $728 *(2009 - $999)* in costs to employees during the year.

The actuarial valuation of the future liability for WSIB benefits (completed at December 31, 2010) assumes a discount rate of 4.75% (*2009 – 5%)*.

The expense for the current year was $817 (*2009 - $793)* and is comprised of the following items:

	2010	2009
Current period benefit cost	**679**	652
Amortization of actuarial losses	**-**	-
Retirement benefit expenditures	**679**	652
Retirement benefit interest expenditures	**138**	141
Total expenditures related to retirement benefits	**817**	793

As at December 31, 2010, the unamortized actuarial losses were $2,463 *(2009 – $nil)* and are amortized over 10 years *(2009 – 10 years)*. The amount of benefits paid during the year were $728 *(2009 - $999).*

A reserve fund to provide for this liability is included in accumulated surplus, but is currently unfunded.

11. Tangible capital assets

The write-down of tangible capital assets during the year was $1,934 *(2009 – $35)*. Assets contributed to the City totaled $8,505 *(2009 - $9,117)*.

See Schedule A

12. Accumulated surplus

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

	2010	2009
Surplus:		
Invested in tangible capital assets	**816,937**	730,480
Other	**(22,538)**	(9,363)
Equity in Kitchener Power Corp. and its affiliates	**168,642**	162,872
Unfunded		
Employee future benefits	**(23,487)**	(22,787)
Total surplus	**939,554**	861,202
Reserves:		
Acquisition of capital assets	**6,266**	7,015
Total reserves	**6,266**	7,015
Reserve funds set aside for specific purpose by Council for:		
Sick leave	**4,605**	4,537
Capital expenditures	**4,682**	2,575
Tax rate stabilization	**1,159**	1,760
Workplace safety and insurance	**-**	(329)
Insurance	**131**	384
Centre in the Square Inc.	**2,680**	2,385
Other	**8,783**	8,829
Total reserve funds	**22,040**	20,141
	967,860	888,358

13. Contingent liabilities

a. The City has extended a line of credit not to exceed $2,000 to Kitchener Housing Inc. Interest is charged on the outstanding balance at bank prime plus 1% (rate as at December 31, 2010 was 4%).

b. Legal action has 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.

14. 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, 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. For additional information see the Consolidated Schedule of Segmented Disclosure.

See Schedule B

15. Budget figures

The budget figures reflected in these consolidated statements are those approved by Council at a meeting on January 18, 2010. Budget figures have been translated to reflect changes in Public Sector Accounting Board standards.

16. Comparative figures

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

Schedule A – Tangible Capital Assets

	General								Infrastructure				
	Land	Land improvements	Buildings	Leasehold improvements	Machinery & equipment	Computer software	Computer hardware	Vehicles	Land	Buildings	Linear assets	Assets under construction	Total
Cost													
Balance, beginning of year	43,421	33,786	145,836	3,015	43,726	19,986	5,311	28,082	115,412	17,337	590,995	40,541	1,087,448
Additions	1,219	2,098	945	36	3,951	332	884	2,643	7,025	-	38,846	61,119	119,098
Transfers	(3,115)	1,396	114	-	204	-	-	147	3,115	-	1,284	(3,145)	-
Disposals	(298)	(429)	-	-	(753)	(619)	(1,255)	(1,307)	(1,570)	-	(1,185)	-	(7,416)
Write-down	-	-	(85)	-	-	-	-	(1,849)	-	-	-	-	(1,934)
Balance, end of year	41,227	36,851	146,810	3,051	47,128	19,699	4,940	27,716	123,982	17,337	629,940	98,515	1,197,196
Accumulated Amortization													
Balance, beginning of year	-	(17,036)	(68,036)	(239)	(22,800)	(12,334)	(3,066)	(12,814)	-	(3,869)	(216,774)	-	(356,968)
Disposals	-	376	72	-	678	619	1,255	1,267	-	-	878	-	5,145
Amortization expense	-	(1,309)	(4,084)	(71)	(3,300)	(1,064)	(754)	(1,852)	-	(335)	(15,667)	-	(28,436)
Balance, end of year	-	(17,969)	(72,048)	(310)	(25,422)	(12,779)	(2,565)	(13,399)	-	(4,204)	(231,563)	-	(380,259)
Net book value, end of year	41,227	18,882	74,762	2,741	21,706	6,920	2,375	14,317	123,982	13,133	398,377	98,515	816,937
Net book value, beginning of year	43,421	16,750	77,800	2,776	20,926	7,652	2,245	15,268	115,412	13,468	374,221	40,541	730,480

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2010
(in thousands of dollars)

Schedule B – Segmented Information

year ended December 31, 2010	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
Revenues										
Taxation	(29,677)	(13,294)	(245)	(153)	(882)	(30,355)	(4,831)	-	(21,829)	(101,266)
User fees and charges	(7,958)	(8,149)	(34,821)	(1,339)	(299)	(18,801)	(2,344)	(100,782)	(1,382)	(175,875)
Grants	-	(8,828)	(1,865)	-	(582)	(3,786)	(6)	-	(8,188)	(23,255)
Investment income	(125)	(18)	(118)	(233)	(4)	(215)	(129)	(14)	(5,745)	(6,601)
Penalty and interest on taxes	-	-	-	-	-	-	-	-	(3,226)	(3,226)
Obligatory reserve funds revenue recognized	(49)	(4,778)	(8,634)	-	-	(1,121)	(346)	-	(2,913)	(17,841)
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	(7,522)	(7,522)
Asset donations	(17)	(7,675)	(33)	-	-	(760)	-	(20)	-	(8,505)
Other	(444)	(2,826)	(988)	(271)	(10)	(806)	(135)	(2,699)	(705)	(8,884)
Total revenue	(38,270)	(45,568)	(46,704)	(1,996)	(1,777)	(55,844)	(7,791)	(103,515)	(51,510)	(352,975)
Expenses										
Salaries, wages and benefits	31,701	10,192	5,828	1,047	1,366	31,743	4,846	5,115	20,992	112,830
Materials and services	3,928	10,016	11,040	621	279	18,523	4,639	69,634	3,396	122,076
Debenture debt interest	184	866	65	1	66	646	1,277	-	169	3,274
Internal charges and recoveries	1,790	(642)	200	5	33	129	565	92	(2,172)	-
Grants and other	3	9	270	-	9	2,369	339	1	7	3,007
Amortization	1,239	8,017	5,111	101	77	4,992	650	4,504	3,745	28,436
Loss / (gain) on sale of assets	1,851	1,659	16	-	-	175	(487)	46	590	3,850
Total expenses	40,696	30,117	22,530	1,775	1,830	58,577	11,829	79,392	26,727	273,473
Net (surplus) / deficit	2,426	(15,451)	(24,174)	(221)	53	2,733	4,038	(24,123)	(24,783)	(79,502)

Schedule B - Segmented Information (continued)

year ended December 31, 2009	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
Revenues										
Taxation	(28,341)	(8,849)	(2,484)	(179)	(1,014)	(32,618)	-	-	(22,364)	(95,849)
User fees and charges	(6,710)	(6,309)	(29,800)	(1,229)	(298)	(19,827)	(1,612)	(112,394)	(1,071)	(179,250)
Grants	(42)	(12,706)	(43)	-	(549)	(8,427)	(116)	-	(2,345)	(24,228)
Investment income	(95)	(19)	(146)	(203)	(3)	(102)	(100)	(68)	(6,028)	(6,764)
Penalty and interest on taxes	-	-	-	-	-	-	-	-	(2,937)	(2,937)
Obligatory reserve funds revenue recognized	-	(2,766)	(6,408)	-	-	(1,133)	(488)	-	(1,191)	(11,986)
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	(4,238)	(4,238)
Asset donations	(2)	(5,348)	(152)	-	-	(98)	(3,517)	-	-	(9,117)
Other	(192)	(2,713)	(640)	(42)	(14)	(1,361)	(497)	(2,191)	(916)	(8,566)
Total revenue	(35,382)	(38,710)	(39,673)	(1,653)	(1,878)	(63,566)	(6,330)	(114,653)	(41,090)	(342,935)
Expenses										
Salaries, wages and benefits	31,920	12,101	5,702	1,066	1,386	31,840	4,813	5,262	20,588	114,678
Materials and services	3,328	13,406	5,287	610	250	18,642	1,519	78,924	4,034	126,000
Debenture debt interest	217	958	70	1	-	571	1,065	-	93	2,975
Internal charges and recoveries	1,517	(720)	1,499	5	33	135	650	2,339	(5,458)	-
Grants and other	-	9	320	-	11	2,390	91	-	20	2,841
Amortization	1,368	7,139	4,836	131	76	4,747	623	4,004	5,231	28,155
Loss / (gain) on sale of assets	17	730	108	17	-	212	-	351	11,142	12,577
Total expenses	38,367	33,623	17,822	1,830	1,756	58,537	8,761	90,880	35,650	287,226
Net (surplus) / deficit	2,985	(5,087)	(21,851)	177	(122)	(5,029)	2,431	(23,773)	(5,440)	(55,709)

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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 statement of financial position as at December 31, 2010, the 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust Funds of the Corporation of the City of Kitchener as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2011
Waterloo, Canada

TRUST FUNDS

Balance Sheet

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Assets		
Accounts receivable	**191**	102
Interest receivable	**36**	432
Investments (Note 2)		
Short-term	**2,072**	2,249
Long-term	**8,027**	7,549
	10,326	10,332
Liabilities		
Accounts payable	**2**	2
Fund Balance	**10,324**	10,330
	10,326	10,332

TRUST FUNDS

Statement of Continuity

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Capital Receipts		
Perpetual care	**328**	341
Interest earned	**339**	310
Other	**549**	27
	1,216	678
Expenditures		
Transfer to cemeteries operations	**245**	202
Other	**977**	231
	1,222	433
Net change in fund	**(6)**	245
Balance, beginning of year	**10,330**	10,085
Balance, end of the year	**10,324**	10,330

TRUST FUNDS

Notes to the Financial Statements

Year Ended December 31, 2010
(in thousands of dollars)

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 $8,027 (*2009* - $7,549*)* reported on the Balance Sheet at cost, have a market value of $8,030 *(2009* - $7,595*)*.

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, 2010
(in thousands of dollars)

	Balance 12/31/09	Perpetual Care Funds	Interest Earned	Other Receipts	Transfer Interest to Cemeteries	Disbursements	Balance 12/31/10
Perpetual Care							
Mount Hope Cemetery	567	0	20	16	20	1	582
Woodland Cemetery	4,045	141	142	13	142	3	4,197
Bridgeport Cemetery	133	2	5	1	5	0	135
Williamsburg Cemetery	1,414	184	50	117	50	101	1,614
St. Peter's Cemetery	505	0	17	11	17	28	488
Cemetery Trusts							
F.E. Teremain	16	0	1	0	1	0	16
Florence V. Cober	9	0	0	0	0	0	9
L.F. Glick	21	0	1	0	1	0	21
Edna Atherton	1	0	0	0	0	0	1
George Wright Estate	43	0	1	0	1	0	43
E. L. Goetz	1	0	0	0	0	0	1
E. Weiderhold	38	0	1	0	1	0	38
Prepaid Interments	2,693	0	101	391	7	0	3,178
General Trusts							
Musagetes Arts & Culture Fund	844	0	0	0	0	844	0
	10,330	328	339	549	245	977	10,324

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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, 2010, the 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 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.

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, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2011
Waterloo, Canada

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Statement of Financial Position

As at December 31, 2010
(in thousands of dollars)

	2010	2009
Assets		
Cash	**12**	14
Term deposit	**16**	15
Total Assets	**28**	29
Liabilities and accumulated surplus		
Accounts payable	**7**	3
Accumulated net revenue	**21**	26
Total liabilities and accumulated surplus	**28**	29

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Statement of Operations and Accumulated Surplus

Year Ended December 31, 2010
(in thousands of dollars)

	2010	2009
Revenue		
Assessments	**25**	25
	25	25
Expenses		
Streetscaping	**3**	4
Audit	**2**	2
Summer maintenance	**9**	4
Insurance	**1**	1
Winter maintenance	**10**	13
Advertising	**5**	4
Miscellaneous	**-**	2
	30	30
Net (deficit)/surplus for year	**(5)**	(5)
Accumulated surplus, beginning of year	**26**	31
Accumulated surplus, end of year	**21**	26

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Notes to the Financial Statements

Year ended December 31, 2010

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 judgments. The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

2. 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.

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.

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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 financial position as at December 31, 2010, 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 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 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.

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, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 15, 2011
Waterloo, Canada

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Financial Position

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Financial Assets		
Cash	$ 98,550	$ 66,313
Term deposits (note 2)	64,087	64,087
Accounts receivable	18,789	21,338
Prepaid expenses	5,479	8,293
	186,905	160,031
Financial Liabilities		
Accounts payable and accrued charges	91,374	83,310
Due to the City of Kitchener (note 4)	33,755	10,787
Deferred sublease revenue	2,350	2,350
	127,479	96,447
Net financial assets	59,426	63,584
Non-Financial Assets		
Tangible capital assets	2,320	1,772
Net assets	$ 61,746	$ 65,356
Accumulated Surplus		
Reserve for future assessment write-offs	$ 29,478	$ 29,478
Accumulated net revenue	29,918	34,106
Invested in tangible capital assets	2,350	1,772
Total accumulated surplus	$ 61,746	$ 65,356

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, 2010, with comparative figures for 2009

	Budget 2010	Actual 2010	Actual 2009
Revenue:			
Assessments	$ 580,000	$ 580,000	$ 545,000
Interest	1,500	1,468	1,595
Graffiti removal co-op	10,000	10,000	10,000
Other income	49,070	48,505	22,572
	640,570	639,973	579,167
Expenses:			
Promotions and advertising	188,000	117,791	169,597
Salaries and wages	206,170	223,918	170,735
Administration	104,400	102,406	95,652
Meetings and seminars	20,000	16,912	20,949
Safety and beautification	54,000	62,604	56,514
Member relations	68,000	84,645	46,646
Amortization	-	1,552	1,028
	640,570	609,828	561,121
Net revenue before other items	-	30,145	18,046
Net assessment write-offs (note 4)	-	33,755	10,787
Net revenue (expenses)	-	(3,610)	7,259
Accumulated surplus, beginning of year	65,356	65,356	58,097
Accumulated surplus, end of year	$ 65,356	$ 61,746	$ 65,356

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Changes in Net Financial Assets

Year ended December 31, 2010, with comparative figures for 2009

		2010		2009
Net revenue (expenses)	$	(3,610)	$	7,259
Acquisition of tangible capital assets		(2,100)		(1,490)
Amortization of tangible capital assets		1,552		1,028
Change in net financial assets		(4,158)		6,797
Net financial assets, beginning of year		63,584		56,787
Net financial assets, end of year	$	59,426	$	63,584

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements

Year ended December 31, 2010

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.

These 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 judgement.

(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

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.

2. Term deposit:

The term deposits consist of the following:

Principal	Maturity	Rate
$54,000	June 6, 2011	1.85%
$10,087	October 22, 2012	1.45%

3. Commitments:

The Board is committed to the following minimum lease payments for its office equipment and space:

2011	$ 14,100

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 $33,755. This amount will be deducted from transfers from the City of Kitchener in 2011.

5. Employer health tax:

Included in salaries and wages is the provincially administered Employer Health Tax ("EHT") at a rate of 1.95% of employee remuneration. Information obtained by the Board from the Ontario Business Improvement Area Associated has led management to believe that the Board may be exempt, up to $400,000 of gross remuneration, of EHT. Management intends to challenge its EHT assessments and prepare refund claims for certain prior years. Due to the contingent nature of this benefit, no recoverable amount has been recorded in the financial statements.

6. 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

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, 2010 and the statements of revenues and 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 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 qualified audit opinion.

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, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
March 29, 2011

KITCHENER PUBLIC LIBRARY

Statement of Financial Position

December 31, 2010, with comparative figures for 2009

		2010		2009
Financial Assets				
Cash	$	912,763	$	698,767
Accounts receivable		99,116		50,777
Due from City of Kitchener		104,378		52,020
		1,116,257		801,564
Financial Liabilities				
Accounts payable and accrued liabilities		634,946		457,834
Deferred revenue (note 2)		480,958		343,691
		1,115,904		801,525
Net financial assets		353		39
Non-Financial Assets				
Tangible capital assets (note 3)		5,720,794		5,967,133
	$	5,721,147	$	5,967,172
Accumulated Surplus				
General	$	353	$	39
Invested in tangible capital assets		5,720,794		5,967,133
Net assets	$	5,721,147	$	5,967,172

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Revenues and Expenses and Accumulated Net Revenue

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Grants:		
Province of Ontario	$ 286,755	$ 286,755
City of Kitchener:		
Operating	8,673,816	8,652,795
Capital and special (note 4)	534,631	531,858
Special grants (note 5)	79,412	188,263
Fines	292,596	277,938
Interest and miscellaneous	24,324	22,280
Partnerships	40,704	44,572
Room rental	21,800	45,857
Photocopy	23,783	23,068
	9,977,821	10,073,386
Expenses:		
Personnel costs (Schedule)	7,181,103	7,113,337
Resource materials	1,587,481	1,540,064
Equipment (Schedule)	334,909	294,127
Administrative (Schedule)	179,832	202,630
Facilities costs (Schedule)	457,760	419,559
Processing/bindery	131,613	134,872
Programs and publicity (Schedule)	27,797	37,020
General library equipment	16,747	709
Expenditures related to capital and special (note 4)	227,192	353,266
Required expenditures related to special grants (note 5)	79,412	188,263
	10,223,846	10,283,847
Net deficit	(246,025)	(210,461)
Accumulated net revenue, beginning of year	5,967,172	6,177,633
Accumulated net revenue, end of year	$ 5,721,147	$ 5,967,172

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Changes in Net Financial Assets

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Deficiency of revenue over expenditures	$ (246,025)	$ (210,461)
Acquisition of tangible capital assets	(1,146,298)	(1,131,998)
Amortization of tangible capital assets	1,392,637	1,342,475
Change in net financial assets	314	16
Net financial assets, beginning of year	39	23
Net financial assets, end of year	$ 353	$ 39

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Notes to Financial Statements

Year ended December 31, 2010

The 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 judgements. 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.

3. Tangible capital assets:

	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	$ 11,755,057	$ 786,511	$ 12,541,568	$ 6,456,203	$ 5,298,854	$ 1,238,073	$ 7,694,277	$ 4,847,291
Computer	669,136	279,025	948,161	374,490	300,736	107,709	482,199	465,962
Furniture fixtures and equipment	550,725	80,762	631,487	233,392	367,033	34,319	267,710	363,777
Other equipment and vehicle	80,290	-	80,290	23,990	510	12,536	36,526	43,764
	$ 13,055,208	$ 1,146,298	$ 14,201,506	$ 7,088,075	$ 5,967,133	$ 1,392,637	$ 8,480,712	$ 5,720,794

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 2010 included $80,700 for general renovations, maintenance and upgrading of existing facilities, $605,653 for communication infrastructure and technology upgrades, and $100,000 for telephone systems.

The portion of these grants and previous year grants that are included in revenue in 2010 is $534,631 (2009 - $531,858).

5. Special grants:

In 2010, the Board received various special non-recurring grants and donations totaling $210,480 (2009 - $221,210). The portion of these grants and previous year special grants that are included in revenue in 2010 is $79,412 (2009 - $188,263). 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 $374,838 (2009 - $359,020) for current service on behalf of its staff.

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 $24,871 (2009 - $22,942) 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, 2010, with comparative figures for 2009

		2010		2009
Personnel:				
Salaries	$	6,057,545	$	6,013,828
Health benefits		331,102		320,701
Pension benefits		607,422		591,845
Employment insurance		115,242		115,377
WSIB		18,314		18,134
Sick leave reserve		25,000		25,000
Staff training		26,478		28,452
	$	7,181,103	$	7,113,337
Equipment:				
Technology	$	161,044	$	141,584
Equipment maintenance		19,301		24,754
Amortization		154,564		127,789
	$	334,909	$	294,127
Administrative:				
Postage and delivery	$	11,150	$	13,814
Insurance		16,555		16,555
Professional services		38,876		49,979
General business		49,437		35,564
Telephone		31,941		49,317
Stationery		31,873		37,401
	$	179,832	$	202,630
Facilities:				
Facilities expenses	$	236,511	$	205,184
Country Hills building		24,750		24,750
Main utilities		152,388		151,745
Forest Heights utilities		17,982		17,187
Pioneer Park building		21,898		15,058
Grand River Stanley Park building		4,231		5,635
	$	457,760	$	419,559
Programs and publicity:				
Promotional	$	19,683	$	23,925
Public programs		8,114		13,095
	$	27,797	$	37,020

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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 financial position as at December 31, 2010, 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 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 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.

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, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 6, 2011
Waterloo, Canada

THE CENTRE IN THE SQUARE INC.

Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009
Net Assets		
Financial assets:		
Cash	$ 3,046,047	$ 2,127,193
Due from The City of Kitchener	187,728	193,296
Funds held with The City of Kitchener (note 2)	279,886	779,886
Accounts receivable	75,238	50,554
Interest receivable	4,607	6,864
Cost to be recovered	271,211	316,225
Investments (note 4)	1,665,916	1,609,953
Total financial assets	5,530,633	5,083,971
Financial liabilities:		
Accounts payable and accrued liabilities	936,672	932,191
Deferred revenue (note 5)	2,006,560	1,841,976
	2,943,232	2,774,167
Net financial assets	2,587,401	2,309,804
Non-financial assets:		
Tangible capital assets (note 11)	8,366,876	8,410,401
Inventories (note 3)	52,219	39,727
Prepaid expenses	40,485	35,722
	8,459,580	8,485,850
Net assets	$ 11,046,981	$ 10,795,654
Accumulated Surplus		
Operating fund activities (note 12)	$ -	$ -
Reserves - Capital (note 6)	478,161	237,095
Reserves - Performance Development (note 7)	497,933	500,885
Reserves - Sustainability (note 8)	322,777	301,498
Reserves - Restricted (note 9)	1,381,234	1,345,775
Invested in tangible capital assets	8,366,876	8,410,401
Accumulated surplus	$ 11,046,981	$ 10,795,654

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Operations

Year ended December 31, 2010, with comparative figures for 2009

	Budget 2010	Actual 2010	Actual 2009
	(unaudited)		
Revenues:			
Performances	$ 5,756,625	$ 4,534,493	$ 5,995,691
Ticket surcharge (notes 6 and 8)	294,575	266,319	291,900
Grants from The City of Kitchener	1,584,227	1,581,747	1,460,234
Grants from other governments	50,000	369,940	119,446
Donations	25,000	27,410	10,586
Investment income	50,000	78,081	87,563
Other	1,475,108	1,744,370	1,682,365
Gain on investments	-	92,489	3,727
Writedown of tangible capital assets	-	(12,769)	(33,473)
Total revenue	9,235,535	8,682,080	9,618,039
Expenses:			
Direct:			
Performances	5,412,775	4,509,000	5,983,773
Bar operations	86,008	161,244	139,062
Programme	22,000	23,777	49,354
Star memberships	4,000	3,956	12,615
Financial services	2,700	2,674	3,320
Ticket services	125,000	126,342	111,680
Operating:			
Administration	808,025	622,952	733,862
Box office	8,200	11,579	5,537
Promotion	444,000	402,913	447,751
Occupancy	775,050	621,265	688,508
Salaries and wages	2,523,563	2,765,060	2,748,628
Recoveries - performances	(1,563,588)	(1,644,517)	(1,806,476)
Amortization	-	595,484	644,879
Reserves expenditures	587,575	228,223	119,897
Refund to (from) The City of Kitchener	-	801	(24,674)
Total expenses	9,235,308	8,430,753	9,857,716
Excess of revenues over expenses (expenses over revenues)	227	251,327	(239,677)
Accumulated surplus, beginning of year	10,795,654	10,795,654	11,035,331
Accumulated surplus, end of year	$ 10,795,881	$ 11,046,981	$ 10,795,654

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Change in Net Financial Assets

Year ended December 31, 2010, with comparative figures for 2009

	Actual 2010	Actual 2009
Excess of revenues over expenses (expenses over revenues)	$ 251,327	$ (239,677)
Acquisition of tangible capital assets	(564,728)	(493,066)
Amortization of tangible capital assets	595,484	644,879
Write-downs of tangible capital assets	12,769	33,473
	294,852	(54,391)
Net (acquisition) use of supplies inventory	(12,492)	5,264
Net (acquisition) use of prepaid expenses	(4,763)	7,675
	(17,255)	12,939
Increase (decrease) in net financial assets	277,597	(41,452)
Net financial assets, beginning of year	2,309,804	2,351,256
Net financial assets, end of year	$ 2,587,401	$ 2,309,804

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Cash Flow

Year ended December 31, 2010, with comparative figures for 2009

	Actual 2010	Actual 2009
Operating activities:		
Excess of revenues over expenses (expenses over revenues)	$ 251,327	$ (239,677)
Items not involving cash:		
Amortization	595,484	644,879
Writedown of tangible capital assets	12,769	33,473
Change in non-cash operating working capital	679,965	(348,620)
Cash provided by operating activities	1,539,545	90,055
Capital activities:		
Cash used to acquire tangible capital assets	(564,728)	(493,066)
Investing activities:		
Increase in investments	(55,963)	(46,735)
Increase (decrease) in cash and cash equivalents	918,854	(449,746)
Cash and cash equivalents, beginning of year	2,127,193	2,576,939
Cash and cash equivalents, end of year	$ 3,046,047	$ 2,127,193

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements

Year ended December 31, 2010

The mission of The Centre in the Square Inc. ("The Centre"), is to create memorable experiences. It is incorporated as a municipal, 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 a Board of The City of Kitchener ("the City") and receives a portion of its operating and capital funding from 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 judgement.

(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.

(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.

1. Significant accounting policies (continued):

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

3. Inventories:

Inventories consist of the following:

	2010	2009
Bar stock	$ 37,545	$ 28,228
Supplies	14,674	11,499
	$ 52,219	$ 39,727

4. Investments:

Investments consist of:

	Carrying value 2010	Market 2010	Carrying value 2009	Market 2009
Shares	$ 1,135,586	$ 1,351,315	$ 930,857	$ 1,135,971
Bonds	484,186	492,836	635,043	648,425
Cash	46,144	46,144	44,053	44,053
	$ 1,665,916	$ 1,890,295	$ 1,609,953	$ 1,828,449

5. Deferred revenue:

Deferred revenue consists of the following:

	2010	2009
Sponsorships	$ 118,029	$ 43,203
Performances	1,764,866	1,637,371
Gift certificates	58,876	61,960
Donations	46,081	34,081
Membership	2,987	4,249
Other	15,721	61,112
	$ 2,006,560	$ 1,841,976

6. Capital Reserve Fund:

The Capital Reserve Fund represents the collection of a surcharge from sale of tickets, accumulation of grant revenues and fundraising, plus interest earned.

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 or replacements and major maintenance projects.

7. Performance Development Reserve Fund:

The Centre has an agreement with the City, whereby The Centre's annual operating net revenue is shared equally between The Centre and the City.

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 2010, The Centre's Board of Directors approved the transfer of half of the 2010 net operating surplus to the Performance Development Reserve Fund.

8. Sustainability Reserve Fund:

Revenues for this Fund come from fundraising contributions. At the direction of the Board of Directors, funds are allocated for specific capital projects and programming initiatives to ensure the long-term sustainability of The Centre.

9. 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.

10. 2010 budget:

The original budgeted figures were approved by the Board of Directors at their meeting in September 2009 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.

11. 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	7,682,716	14,885	62,400	85,124	7,674,877	3,250,946	4,431,770	72,355	237,176	3,415,767	4,259,110
Equipment	3,958,315	68,945	-	-	4,027,260	2,050,396	1,907,919	-	265,033	2,315,429	1,711,831
Computers	316,807	6,544	-	-	323,351	151,216	165,591	-	34,588	185,804	137,547
Software	119,756	1,068	-	-	120,824	115,581	4,710	-	4,710	120,291	533
Site	1,305,426	41,132	-	-	1,346,558	446,116	859,310	-	53,977	500,093	846,465
WIP	66,336	432,154	(62,400)	-	436,090	-	66,336	-	-	-	436,090
	$ 14,424,656	$ 564,728	$ -	$ 85,124	$ 14,904,260	$ 6,014,255	$ 8,410,401	$ 72,355	$ 595,484	$ 6,537,384	$ 8,366,876

12. Operating fund activities:

	Budget 2010	Actual 2010	Actual 2009
Revenues:			
Performances	$ 5,756,625	$ 4,534,493	$ 5,995,691
Grants from City of Kitchener	1,336,227	1,336,227	1,338,234
Grants, other Governments and Foundations	50,000	40,000	44,126
Donations	5,000	16,880	1,105
Investment income	5,000	12,187	12,348
Other	1,495,108	1,668,060	1,676,760
Total revenue	8,647,960	7,607,847	9,068,264
Current fund expenditures:			
Direct:			
Performances	5,412,775	4,509,000	5,983,773
Bar operations	86,008	161,244	139,062
Programme	22,000	23,777	49,354
Star memberships	4,000	3,956	12,615
Ticket services	2,700	2,674	3,320
Financial services	125,000	126,342	111,680
Operating:			
Administration	808,025	622,952	733,862
Box office	8,200	11,579	5,537
Promotion	444,000	402,913	447,751
Occupancy	775,050	621,265	688,508
Salaries and wages	2,523,563	2,765,060	2,748,628
Recoveries - performances	(1,563,588)	(1,644,517)	(1,806,476)
Total current fund expenditures	8,647,733	7,606,245	9,117,614
Operating fund net expenditures before amortization	227	1,602	(49,350)
Transfer from reserve funds	(113)	(801)	24,675
Transfer to City of Kitchener	(114)	(801)	24,675
Fund balances, end of year	$ -	$ -	$ -

13. Schedule of reserve funds:

	Performance Development	Capital	Sustainability	Restricted	Total Funds
Revenue:					
Donations and sundry	$ -	$ 7,791	$ 634	$ $2,396	$ 10,821
Grants from The City of Kitchener	-	245,520	-	-	245,520
Grants from other government	-	329,940	-	-	329,940
Ticket surcharge	-	266,319	-	-	266,319
Investment income	7,626	2,638	11,658	43,971	65,893
Gain (loss) on investments	-	-	88,627	3,862	92,489
	7,626	852,208	100,919	50,229	1,010,982
Expenditures:					
Cost of fundraising	-	122,433	-	-	122,433
Professional fees	-	-	3,640	14,770	18,410
Programming grant	11,379	-	-	-	11,379
	11,379	122,433	3,640	14,770	152,222
Excess of revenue over expenditures (expenditures over revenue)	(3,753)	729,775	97,279	35,459	858,760
Transfer to accumulated surplus - tangible capital assets	-	(564,709)	-	-	(564,709)
Other transfers	801	76,000	(76,000)	-	801
Balance, beginning of year	500,885	237,095	301,498	1,345,775	2,385,253
Balance, end of year	$ 497,933	$ 478,161	$ 322,777	$ 1,381,234	$ 2,680,105

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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 of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2010 ("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 generally accepted accounting principles 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.

Opinion

In our opinion, the financial statement presents fairly, in all material respects the results of operations of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2010 in accordance with Canadian generally accepted accounting principles relevant to preparing such a financial statement.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2011
Waterloo, Canada

GASWORKS ENTERPRISE

Statement of Operations and Accumulated Surplus

Year ended December 31, 2010

	2010 Actual	2010 Budget (Unaudited)	2009 Actual
DELIVERY OPERATIONS			
Gas delivery			
Revenues	**39,650,017**	**37,758,172**	39,966,730
Expenses	**23,065,776**	**20,786,190**	22,703,715
	16,584,241	**16,971,982**	17,263,015
Other programs			
Revenues	**8,597,448**	**8,137,089**	7,960,035
Expenses	**4,934,228**	**5,697,404**	5,166,753
	3,663,221	**2,439,685**	2,793,282
Contact Centre			
Revenues	**1,149,113**	**1,194,808**	19,570
Expenses	**1,149,113**	**1,194,808**	22,918
	-	**-**	(3,348)
Excess of revenue over expenses	**20,247,461**	**19,411,667**	20,052,949
Accumulated Surplus - Delivery			
Balance at the beginning of the year	**77,250,191**	**77,250,191**	68,310,640
Transfer to City of Kitchener Reserve Funds	**(7,133,780)**	**(3,401,568)**	(5,088,285)
Transfers to City of Kitchener	**(6,181,767)**	**(6,181,767)**	(6,025,114)
	63,934,644	**67,666,856**	57,197,241
Add excess of revenue over expenses	**20,247,461**	**19,411,667**	20,052,949
Balance at end of period	**84,182,105**	**87,078,523**	77,250,191
SUPPLY OPERATIONS			
Gas supply			
Revenues	**55,069,195**	**62,295,173**	66,189,256
Expenses	**49,937,325**	**58,625,612**	61,564,061
Excess of revenue over expenses	**5,131,870**	**3,669,561**	4,625,195
Accumulated Surplus (Deficit) - Supply			
Balance at beginning of the year	**(2,165,204)**	**(2,165,204)**	(6,790,399)
Add excess of revenue over expenses	**5,131,870**	**3,669,561**	4,625,195
Balance at end of period	**2,966,666**	**1,504,357**	(2,165,204)

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Kitchener Power Corp.

We have audited the accompanying consolidated financial statements of Kitchener Power Corp., which comprise the consolidated balance sheet as at December 31, 2010, the consolidated 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 Consolidated *Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 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.

KITCHENER POWER CORP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kitchener Power Corp. 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 generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 1, 2011
Waterloo, Canada

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET

As at December 31st

	2010 $	2009 $
ASSETS		
Current assets		
Cash and cash equivalents	**32,032,880**	28,280,788
Accounts receivable (note 4)	**35,828,545**	31,836,243
Inventories (note 5)	**3,668,935**	3,284,381
Prepaid expense	**826,486**	743,457
Payment-in-lieu of corporate income taxes receivable	**371,230**	66,256
Current portion of regulatory assets (note 20)	**2,295,813**	1,530,543
Total current assets	**75,023,889**	65,741,668
Non-current assets		
Intangible assets - net of accumulated amortization (note 7)	**-**	-
Capital assets – net of accumulated amortization (note 6)	**143,258,355**	138,169,701
Regulatory assets (note 20)	**20,970,013**	15,071,676
Future income tax assets (note 21)	**12,860,747**	12,442,960
Long-term investment (note 8)	**-**	-
Total non-current assets	**177,089,115**	165,684,337
Total assets	**252,113,004**	231,426,005

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET (continued)

As at December 31st

	2010 $	2009 $
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	**22,279,170**	16,958,473
Payments-in-lieu of corporate income taxes payable	**-**	-
Current portion of long term debt (note 11)	**842,385**	-
Current portion of customers and construction deposits (note 10)	**6,373,071**	6,778,716
Current portion of regulatory liabilities (note 20)	**5,182,614**	3,368,781
Total current liabilities	**34,677,240**	27,105,970
Long-term liabilities		
Long-term debt (note 11)	**85,713,896**	76,962,142
Customer deposits (note 10)	**3,887,326**	3,646,741
Post-employment benefits (note 13)	**5,381,065**	5,337,120
Regulatory liabilities (note 20)	**16,606,383**	18,780,877
Total long-term liabilities	**111,588,670**	104,726,880
Total liabilities	**146,265,910**	131,832,850
Shareholders' equity		
Share capital – common shares (note 14)	**66,389,385**	66,389,385
Retained earnings	**39,457,709**	33,203,770
Total shareholders' equity	**105,847,094**	99,593,155
Total liabilities and shareholders' equity	**252,113,004**	231,426,005

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

As at December 31st

	2010 $	2009 $
Retained earnings, beginning of year	**33,203,770**	40,737,254
Prior year adjustment - future income taxes (note2[1])	**-**	(10,027,473)
Net Income	**8,153,939**	4,593,989
Prior year adjustment - PBO unamortized gain	**-**	-
Dividends paid out (note 25)	**(1,900,000)**	(2,100,000)
Retained earnings, end of year	**39,457,709**	33,203,770

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31st

	2010 $	2009 $
REVENUE		
Sales revenue		
Distribution services revenue	**35,568,752**	32,099,514
Electric energy services (note 15)	**157,002,725**	143,194,454
	192,571,477	175,293,968
Other revenue		
Income from long-term investments (note 8)	**-**	(14,568)
Other investment income	**373,372**	582,732
Late payment penalties	**234,173**	213,312
Miscellaneous revenue (note 16)	**1,080,334**	1,026,373
	1,687,879	1,807,849
Non-utility operations revenue		
Energy conservation - OPA funding (note 17)	**1,511,287**	1,727,254
Total revenue	**195,770,643**	178,829,071
EXPENSE		
Operating expense		
Electric energy services (note 15)	**157,002,725**	143,194,454
Distribution operations and maintenance	**6,844,507**	6,714,123
Customer accounts	**2,535,818**	2,729,934
General administration	**2,668,993**	2,732,705
Community relations	**285,937**	288,462
Property and capital taxes	**582,347**	658,224
Amortization (note 18)	**9,597,026**	9,191,227
	179,517,353	165,509,129
Non-utility operation expense		
Energy conservation - OPA programs (note 17)	**1,174,061**	1,087,628
Total expense	**180,691,414**	166,596,757
Income before interest and provision for payments-in-lieu of corporate income taxes	**15,079,229**	12,232,314
Interest expense	**4,884,770**	4,877,571
Income before provision for payments-in-lieu of corporate income taxes	**10,194,459**	7,354,743
Provision for payments-in-lieu of corporate income taxes (note 21)	**2,040,520**	2,760,754
NET INCOME AND COMPREHENSIVE INCOME	**8,153,939**	4,593,989

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31st

	2010 $	2009 $
OPERATING ACTIVITIES		
Net Income	**8,153,939**	4,593,989
Add (deduct) charges to operations not requiring a current cash payment:		
(Income) loss from long-term investments (note 8)	**-**	14,568
Gain on disposal of capital assets	**(113,244)**	(48,051)
Amortization (note 18)	**10,276,551**	9,849,082
Future income tax expense (note 21)	**36,818**	195,161
Increase (decrease) in non-current customer deposits (note 10)	**240,585**	(103,702)
Increase in post-employment benefits obligation (note 13)	**43,945**	36,596
Net change in non-cash operating working capital (note 19)	**1,198,756**	47,508
Cash provided by (applied to) operating activities	**19,837,350**	14,585,151
INVESTING ACTIVITIES		
Additions to capital assets	**(20,832,224)**	(15,259,839)
Decrease (increase) in long-term regulatory assets / liabilities (note 20)	**(7,172,173)**	(10,772,842)
Dividends received (note 25)	**-**	-
Atria - proceeds from dividend and return of capital	**-**	5,820
Proceeds on disposals of capital assets	**119,927**	55,212
Cash provided by (applied to) investing activities	**(27,884,470)**	(25,971,649)
FINANCING ACTIVITIES		
Increase (decrease) in contributed capital	**4,105,073**	2,349,073
Increase (decrease) in long term debt	**9,594,139**	-
Dividends paid out (note 25)	**(1,900,000)**	(2,100,000)
Cash provided by (applied to) financing activities	**11,799,212**	249,073
Net cash provided (applied) during the year	**3,752,092**	(11,137,425)
Cash and cash equivalents, beginning of year	**28,280,788**	39,418,213
Cash and cash equivalents, end of year	**32,032,880**	28,280,788
Cash and cash equivalents represented by:		
Cash	**9,032,880**	8,321,318
Cash equivalents	**23,000,000**	19,959,470
	32,032,880	28,280,788
Supplemental cash flow information		
Interest paid	**4,968,519**	4,932,780
Payments-in-lieu of corporate income taxes and capital taxes	**2,568,005**	3,155,293

See accompanying notes

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. INCORPORATION

On July 1, 2000, Kitchener Power Corp. 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., a regulated distribution company, and Kitchener Energy Services Inc., 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] Changes in accounting policies

Effective January 1, 2009, the Company adopted the amended sections of CICA Handbook Section 1100, Generally Accepted Accounted Principles, CICA Handbook Section 3465, Income taxes and Accounting Guideline 19 – "Disclosures by Entities Subject to Rate Regulation".

The amendment to CICA Handbook Section 1100 removed the temporary exemption pertaining to the application of that section to the recognition and measurement of assets and liabilities arising from rate regulation. In response to the removal of the exemption, the Company established accounting policies for the recognition and measurement of assets and liabilities arising from rate regulation. In accordance with the Canadian GAAP hierarchy guidance framework outlined in CICA Handbook Section 1100, the Company has determined that its assets and liabilities arising from rate regulation qualify for recognition under Canadian GAAP and this recognition is consistent with U.S, Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS71"). The Company concluded that its polices for assets and liabilities arising from rate regulation were consistent with the primary sources of Canadian GAAP and were developed through the exercise of professional judgement.

The amendment to CICA Handbook Section 3465 states that where future income taxes may be expected to be included in approved rates charged to customers in the future and to be recovered or returned to future customers, the recognition of a regulatory asset or liability for the increase or reduction in future revenue is required. Furthermore, the regulatory asset or liability established by this requirement is a temporary difference for which an additional future income tax asset or liability is recognized. This change has been applied on a retroactive basis without restatement of prior periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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.

[III] Regulation

Kitchener-Wilmot Hydro Inc. ["KW Hydro"] is regulated by the Ontario Energy Board 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 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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.

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, 2010.

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, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[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] Intangible assets

Intangible assets are valued at cost. Costs for intangible assets include legal and professional services incurred to incorporate Kitchener Power Corp. and its affiliated companies.

Amortization, which is intended to amortize intangible capital assets over their estimated service life, is provided on the straight-line basis at an annual rate of 10%.

Full amortization is recorded in the year of acquisition and none in the year of disposal.

[d] Spare transformers and meters

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

[e] Capital assets and amortization

Capital assets are recorded at cost. Costs for assets installed or erected by the Corp. 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%
Transformer station equipment	2.5%
Distribution station equipment	3.33%
Distribution system	4%
Meters	4%
SCADA equipment	6.67%
Other capital assets	10 – 25%

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[f] 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.

[g] Contributed capital

Effective May 1, 2000, Kitchener-Wilmot Hydro Inc. prospectively adopted the change in accounting policy for contributions received in aid of construction [contributed capital], as prescribed by the OEB "Accounting Procedures Handbook for Electric Distribution Utilities". 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.

[h] 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.

[i] 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 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 have 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[j] Post-employment benefits

Employee future benefits provided by Kitchener-Wilmot Hydro Inc. 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, 2008 resulting in an unamortized net actuarial gain of $1,032,190. 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.

[k] Pension plan

Kitchener-Wilmot Hydro Inc. 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.

[l] Revenue recognition and cost of electrical energy

Kitchener-Wilmot Hydro Inc. 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.

[m] 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.

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, 2010, 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.

4. ACCOUNTS RECEIVABLE

	2010 $	2009 $
Electric energy	**14,594,450**	11,781,616
Miscellaneous	**1,653,488**	1,530,431
	16,247,938	13,312,047
Less: Allowance for doubtful accounts	**(300,000)**	(350,000)
	15,947,938	12,962,047
Unbilled revenue receivable	**19,649,500**	18,261,000
Interest receivable	**141,267**	226,084
Related parties - balances		
City of Kitchener	**81,326**	385,117
Township of Wilmot	**8,514**	1,995
	89,840	387,112
	35,828,545	31,836,243

Related Party Transactions

The Company conducted the following transactions with related parties during the year ended December 31, 2010. 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.

	2010 $	2009 $
City of Kitchener	**744,667**	933,647
Township of Wilmot	**121,664**	38,170
	866,331	971,817

5. INVENTORIES

Inventories consist of:

	2010	2009
	$	$
Stores	3,029,844	2,715,134
Transformers	530,751	510,072
Meters	-	-
Thermostats for conservation programs	108,340	59,175
	3,668,935	3,284,381

6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION

2010	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	3,730,479	-	3,730,479
Land rights	265,449	249,915	15,534
Buildings	17,834,427	5,075,870	12,758,557
Transformer station equipment	51,454,525	15,920,916	35,533,609
Distribution station equipment	2,853,105	1,888,472	964,633
Distribution system - conductors and devices	158,942,439	72,105,303	86,837,136
Distribution system - line and network transformers	50,109,118	25,528,138	24,580,980
Meters	3,623,917	2,197,301	1,426,616
SCADA - system supervisory equipment	1,566,480	1,387,014	179,466
Other capital assets	16,889,346	11,266,257	5,623,089
Construction in progress	3,794,140	-	3,794,140
	311,063,425	135,619,186	175,444,239
Less: Contributed capital	(41,724,111)	(9,538,227)	(32,185,884)
Total	269,339,314	126,080,959	143,258,355

2009	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Land	3,728,472	-	3,728,472
Land rights	265,449	247,262	18,187
Buildings	15,759,525	4,746,157	11,013,368
Transformer station equipment	40,963,390	14,674,175	26,289,215
Distribution station equipment	2,853,105	1,811,015	1,042,090
Distribution system - conductors and devices	153,264,486	69,987,181	83,277,305
Distribution systsem - line and network transformers	50,191,503	25,468,412	24,723,091
Meters	6,892,540	4,005,340	2,887,200
SCADA - system supervisory equipment	1,599,832	1,354,274	245,558
Other capital assets	16,229,014	10,705,229	5,523,785
Construction in progress	9,172,208	-	9,172,208
	300,919,524	132,999,045	167,920,479
Less: Contributed capital	(37,619,038)	(7,868,260)	(29,750,778)
Total	263,300,486	125,130,785	138,169,701

7. INTANGIBLE ASSETS – NET OF ACCUMULATED AMORTIZATION

	2010 $	2009 $
Incorporation costs:		
Cost	**74,829**	74,829
Accumulated amortization	**74,829**	74,829
Net book value	**-**	-

8. LONG-TERM INVESTMENTS

On November 7, 2006, Atria Networks Inc. ("Atria') sold its business, including all of its assets, cash and liabilities to a third party and is no longer operating as an active business. On December 21, 2007, Atria reorganized its authorized share capital by creating an unlimited number of Class A, Class B, Class C and Class D common shares. A share exchange agreement was subsequently executed by Atria and the Company exchanged 10,000 common shares for 100 Class A common shares at the adjusted cost base of $2,522,424. On October 15, 2009 Atria was dissolved pursuant to Section 237(b) of the Business Corporation Act (Ontario), and the Company received a final cash distribution of $5,819.89.

	2010 $	2009 $
Balance, beginning of year	**-**	**20,388**
Dividends paid	**-**	-
Return of share capital	**-**	-
Equity share of loss	**-**	-
Loss on dissolution	**-**	**(14,568)**
Cash distribution on dissolution	**-**	**(5,820)**
Balance, end of year	**-**	-

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010 $	2009 $
Independent Electricity System Operator	**15,294,269**	12,795,900
Ontario Electricity Financial Corporation	**889,221**	913,970
Energy rebates payable	**13,049**	7,402
Others	**6,078,631**	3,241,201
	22,279,170	16,958,473

10. CUSTOMER AND CONSTRUCTION DEPOSITS

	2010 $	2009 $
	$	$
Construction deposits	**3,574,171**	4,118,216
Customer deposits – current portion	**2,798,900**	2,660,500
	6,373,071	6,778,716
Customer deposits – non current portion	**3,887,326**	3,646,741

11. LONG-TERM DEBT

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

During 2010, Kitchener-Wilmot Hydro Inc. 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:

The amounts due at the end of the year are:

	2010	2009
	$	$
City of Kitchener	**70,997,576**	70,997,576
Township of Wilmot	**5,964,566**	5,964,566
Ontario Infrastructure Projects Corporation	**8,751,754**	-
	85,713,896	76,962,142
Ontario Infrastructure Projects Corporation - current portion	**842,385**	-

[ii] For Shareholder Debt, interest is paid quarterly at an annual effective rate established by the OEB. The annual effective rate for January 1, 2010 to December 31, 2010 was 5.91%. Effective May 1, 2010, the annual interest rate is 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:

	2010	2009
	$	$
City of Kitchener	**4,197,902**	4,259,855
Township of Wilmot	**352,669**	357,874
Ontario Infrastructure Projects Corporation	**284,231**	-
	4,834,802	4,617,729

12. PENSION PLAN

As directed by the OEB the cash pension costs paid by the Company for 2005 totalling $678,442 and for January 1, 2006 to April 30, 2006 totalling $247,542 were deferred and recognized as regulatory assets. These amounts are currently being recovered through distribution rates as a rate rider, which became effective when the Company rebased for rate setting purposes in 2010.

The cash pension costs for the year ended December 31, 2010 in the amount $868,303 (2009 – $825,272) have been expensed during the period in which they were incurred.

13. POST-EMPLOYMENT BENEFITS

Kitchener-Wilmot Hydro Inc. 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:

	2010	2009
	%	%
Discount rate	**5.25**	5.25
Future general salary and wage levels increase	**3.80**	3.80
Future general inflation increase	**2.30**	2.30
Dental costs increase	**5.00**	5.00
Medical costs increase	**8.00**	9.00

Information about Kitchener-Wilmot Hydro Inc.'s defined benefits plans is as follows:

	2010	2009
	$	$
Accrued benefit obligation		
Balance, beginning of the year	**4,158,585**	4,024,984
Current service cost	**116,213**	110,415
Interest cost	**219,276**	212,148
Actuarial gain	**-**	-
Benefits paid	**(196,209)**	(188,962)
	4,297,865	4,158,585
Unamortized actuarial gains		
Balance, beginning of the year	**1,178,535**	1,275,540
Actuarial gain for current year	**-**	-
Current year amortization	**(95,335)**	(97,005)
	1,083,200	1,178,535
Projected accrued benefit obligation at December 31 as determined by actuarial valuation	**5,381,065**	5,337,120

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

14. SHARE CAPITAL

	2010 $	2009 $
Authorized		
Unlimited common shares		
Issued		
20,000 common shares	**66,389,385**	66,389,385

15. ELECTRIC ENERGY SERVICES

	2010 $	2009 $
Revenue		
Electricity	**132,266,184**	119,926,188
Wholesale market services	**10,192,522**	11,031,452
Transmission services	**14,481,775**	12,177,121
Retailer services	**62,244**	59,693
	157,002,725	143,194,454
Costs		
Electricity	**132,266,184**	119,926,188
Wholesale market services	**10,192,522**	11,031,452
Transmission services	**14,481,775**	12,177,121
Retailer services	**62,244**	59,693
	157,002,725	143,194,454

16. MISCELLANEOUS REVENUE

	2010 $	2009 $
Pole attachment rentals, building and other rentals	**541,300**	627,075
Change of occupancy charges	**162,470**	151,870
Scrap sales	**101,727**	65,023
Net gain on disposal of capital assets	**113,244**	48,051
Unsealing / reconnection charges	**63,960**	46,065
Accounts payable discounts taken	**29,277**	19,158
Return cheque charges	**22,505**	23,760
Sundry	**45,851**	45,851
	1,080,334	1,026,373

17. NON-UTILITY OPERATIONS

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

18. AMORTIZATION

	2010 $	2009 $
Amortization – capital assets	**9,597,026**	9,179,382
Amortization – intangible assets	**-**	11,845
	9,597,026	9,191,227
Various expense accounts	**679,525**	657,855
	10,276,551	9,849,082

19. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2010 $	2009 $
(Increase) decrease in accounts receivable	**(3,992,302)**	(372,560)
(Increase) decrease in inventories	**(384,554)**	389,878
(Increase) decrease in prepaid expense	**(83,029)**	(244,038)
Increase (decrease) in payment-in-lieu of corporate income taxes	**(304,974)**	(141,389)
(Increase) decrease in current portion of regulatory assets	**(765,270)**	(1,530,543)
Increase (decrease) in accounts payable and accrued liabilities	**5,320,697**	(648,158)
Increase (decease) in current portion of customer and construction deposits	**(405,645)**	(774,463)
Increase (decrease) in current portion of regulatory liabilities	**1,813,833**	3,368,781
	1,198,756	47,508

20. REGULATORY ASSETS & 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(a)].

[i] Regulatory assets consist of the following:

	2010 $	2009 $
Current portion of regulatory assets:		
Conservation and demand management	**135**	90
OEB cost assessments	**108,134**	72,090
OMERS pension costs	**531,584**	354,389
Rebate program costs	**-**	4,831
Retailer service cost variances	**28,264**	18,843
Retail settlement variances	**1,620,450**	1,080,300
Other deferred credits	**7,246**	-
	2,295,813	1,530,543
Long-term portion of regulatory assets:		
Conservation and demand management	**59**	179
IFRS transition costs	**55,030**	22,732
OEB cost assessments	**233,150**	144,926
OMERS pension costs	**47,427**	712,458
Rebate program costs	**-**	9,662
Renewable connection	**25,620**	15,669
Special purpose charge	**331,875**	
Retailer service cost variances	**34,765**	50,142
Retail settlement variances	**5,627,075**	5,447,783
Smart meter funding and cost recovery	**14,366,011**	8,929,553
Other deferred credits	**276,452**	-
	20,997,464	15,333,104
Less: Regulatory assets recovered	**(27,451)**	(261,428)
	20,970,013	15,071,676
Total regulatory assets	**23,265,826**	16,602,219

20. REGULATORY ASSETS & LIABILITIES (CONTINUED)

[ii] Regulatory liabilities consist of the following:

	2010 $	2009 $
Current portion of regulatory liabilities:		
Retailer service cost variances	**54,412**	36,275
Retail settlement variances	**4,998,758**	3,332,506
Regulatory asset recovery (pre 2010)	**129,444**	-
	5,182,614	3,368,781
Long-term portion of regulatory liabilities:		
Future tax assets – regulatory liability	**11,476,741**	11,022,136
Retailer service cost variances	**90,425**	111,619
Retail settlement variances	**4,931,664**	7,596,342
Regulatory asset recovery (pre 2010)	**56,773**	-
Other deferred credits	**50,780**	50,780
	16,606,383	18,780,877
Total regulatory liabilities	**21,788,997**	22,149,658

[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:

	2010 $	2009 $
Income before provision for payments-in-lieu of corporate income taxes	**10,194,459**	7,354,743
Energy related variances		
Retail settlement services	**261,668**	(2,379,844)
Interest on energy related variances	**16,439**	68,551
	278,107	(2,311,293)
Non-energy related variances		
IFRS transition costs	**(32,071)**	(22,710)
Special Purpose Charge	**(328,874)**	-
Retailer services	**17,120**	26,295
Smart meter funding and cost recovery	**(1,314,398)**	(2,359,915)
Other Regulatory Assets	**(273,274)**	-
Regulatory Asset Recovery	**(1,720,040)**	-
Interest on non-energy related variances	**(256,426)**	(15,424)
	(3,907,963)	(2,371,754)
Incremental effect on income	**(3,629,856)**	(4,683,047)
Income before provision for payments-in-lieu of corporate income taxes without recognition of regulatory assets and liabilities	**6,564,603**	2,671,696

21. 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

	2010 $	2009 $
Rate reconciliation:		
Income from continuing operations before income taxes	**10,194,459**	7,354,743
Statutory Canadian Federal and Provincial income tax rate	**31.00%**	33.00%
Expected taxes on income	**3,160,282**	2,427,065
Taxes associated with non-taxable equity income	**-**	4,807
Other permanent differences	**(50,254)**	199,764
Increase (decrease) in income taxes resulting from:		
Adjustment of prior years taxes	**(481,372)**	-
Other Current year timing differences not tax effected	**(532,254)**	-
Change in tax rates on future income tax assets	**-**	225,604
Other adjustments	**(45,840)**	(46,278)
Valuation allowance against current year temporary differences	**15,202**	6,122
Dividend refund	**(87,805)**	(155,394)
Increased tax on investment income	**62,561**	99,064
Income tax expense	**2,040,520**	2,760,754
Effective tax rate	**20.02%**	37.54%
Components of income tax expense:		
Current tax expense	**2,003,702**	2,565,593
Future tax provision (recovery) arising from temporary differences	**36,818**	195,161
	2,040,520	2,760,754

[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, 2010 are as follows:

	2010 $	2009 $
Capital assets – differences in net book value and undepreciated capital cost	**8,580,318**	8,255,255
Regulatory adjustments	**2,869,185**	2,755,533
Post-employment benefit	**1,345,266**	1,334,280
Loss carry-forwards	**65,978**	97,892
	12,860,747	12,442,960

The Company has capital losses of $82,340 [2009 – $82,340] and net loss carry forwards of approximately $281,240 [2009 – $296,641] as at December 31, 2010.

22. PRUDENTIAL SUPPORT OBLIGATION

Kitchener-Wilmot Hydro Inc. 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, 2009, Kitchener-Wilmot Hydro Inc. has posted an irrevocable standby letter of credit as security in the amount of $29,782,438 [2010 - $29,782,438] underwritten by the Company's principal bank. The Company has entered into a credit facility agreement with its bank in which contains certain financial covenants.

23. 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, 2010, the Company has not been made aware of any additional assessments.

24. CONTINGENT LIABILITY

Griffith et al. v. Toronto Hydro-Electric Commission et al.

This action has been brought under the Class Proceedings Act, 1992. The plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties were awaiting the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Consumers Gas, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed application to the Ontario Energy Board [the "OEB"] to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the same amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs.

On July 22, 2010, The Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice approved the settlement in the Late Payment Penalty class action. The approved settlement of $17,037,500 is to be shared amongst all LDCs in the Province of Ontario that did not opt out of the settlement. As Kitchener-Wilmot Hydro Inc. did not opt out of the settlement, its share of the total settlement amount is $273,274 which the Corporation expects to pay in the summer of 2011 to the Region of Waterloo Social Services Heat Bank fund for disbursement to people in need of financial assistance.

In 2010, the Corporation booked the settlement as a current liability. As it is expected that the Corporation will recover the paid amounts through future distribution rates, the expense has been transferred to regulatory assets.

25. DIVIDENDS

Dividends amount of $5,750,000 were received in 2010 from Kitchener-Wilmot Hydro Inc., a subsidiary of Kitchener Power Corp [2009 – $2,100,000]

Dividends paid out to shareholders are as follows:

	2010 $	2009 $
City of Kitchener	**1,748,000**	1,937,250
Township of Wilmot	**152,000**	162,750
	1,900,000	2,100,000

26. 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, the Company launched its smart meter initiative in 2008. The Company 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, 2010, approximately 84,000 smart meters or 98% deployment was completed in 2010.

In December 2009, the Company 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 the Corporation in 2010.

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 customer per month be included in the Company's distribution rates commencing May 1, 2006. This funding was increased to $1.00 per customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. Revenue has been 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 expense, are expected to be recovered through future distribution rates once the project is completed, pursuant to the Ontario Energy Board's guidelines.

27. 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 2010, the cutover date was deferred to January 1, 2012 for regulated entities, at which time, the Corporation will be IFRS compliant.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Company 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.

28. 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)

	2010	2009	2008 (restated)	2007	2006
1. DEMOGRAPHIC STATISTICS					
Population[1]	**229,400**	224,100	220,600	213,990	210,900
Households[1]	**86,750**	85,120	84,920	82,120	80,420
Area in acres[2]	**33,826**	33,826	33,826	33,826	33,826
2. TAXABLE ASSESSMENT ($000's)					
Residential and farm	**15,415,724**	14,399,242	13,340,795	13,055,367	12,659,579
Commercial and industrial	**2,629,617**	2,452,923	2,373,613	2,313,789	2,261,382
Total	**18,045,341**	16,852,165	15,714,408	15,369,156	14,920,961
3. TAX RATES					
Residential and Farm Taxable Full					
City	**0.44361**	0.45077	0.45360	0.43353	0.41671
Region	**0.66709**	0.67958	0.68914	0.66405	0.64106
School Boards	**0.24100**	0.25200	0.26400	0.26400	0.26400
Total	**1.35170**	1.38235	1.40674	1.36158	1.32177
Commercial Taxable Full					
City	**0.86503**	0.87900	0.88451	0.84538	0.81258
Region	**1.30082**	1.32517	1.34382	1.29489	1.25006
School Boards	**1.77644**	1.90192	2.03266	2.04149	2.04149
Total	**3.94229**	4.10609	4.26099	4.18176	4.10413
Industrial Taxable Full					
City	**0.86503**	0.94662	1.03420	1.06214	1.08761
Region	**1.30082**	1.42711	1.57124	1.62691	1.67316
School Boards	**2.27248**	2.42866	2.59655	2.61689	2.61689
Total	**4.43833**	4.80239	5.20199	5.30594	5.37766

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

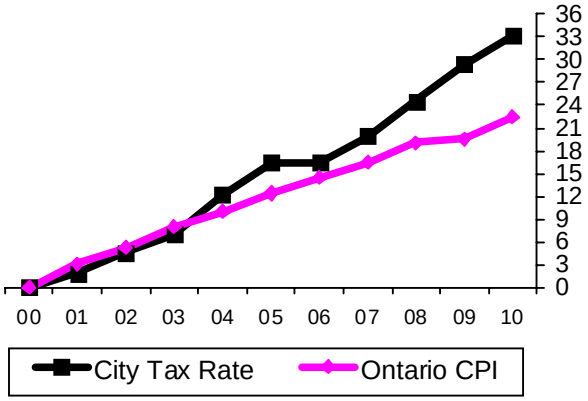
2. Source: Statistics Canada, 2006 Census Data

FINANCIAL & STATISTICAL REVIEW

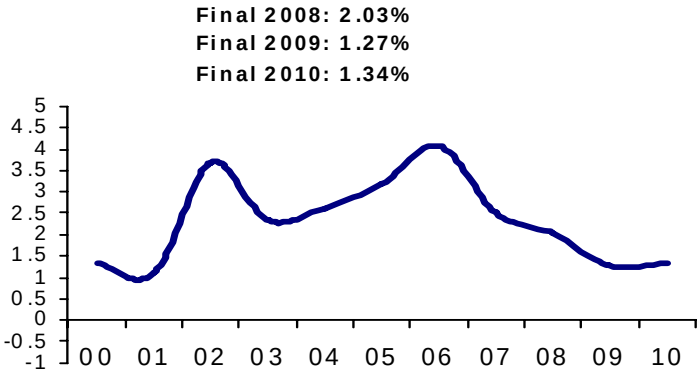
As at December 31 (unaudited)

($000's)	**2010**	2009	2008 (restated)	2007	2006
4. COLLECTION STATISTICS					
Total taxes billed	**336,801**	322,122	308,330	297,436	286,940
Total collections	**335,952**	319,833	306,122	297,872	286,931
Total collections as a % of current levy	**100**	99	99	100	100
Taxes receivable, before allowance	**24,388**	22,571	20,735	18,834	20,088
Total receivable as a % of current levy	**7**	7	7	6	7
5. CONSOLIDATED REVENUES					
Taxation and user charges	**277,141**	275,099	265,944	252,433	233,861
Grants	**23,255**	24,228	3,788	2,468	5,777
Share of net income of Kitchener Power Corp. and its affiliates	**7,522**	4,238	4,718	5,073	8,787
Other	**27,216**	27,384	32,298	23,611	33,792
Development Charges earned	**17,841**	11,986	14,709	9,886	5,582
Total revenues	**352,975**	342,935	321,457	293,471	287,799

Cumulative Tax Rate and CPI



Weighted Assessment Growth



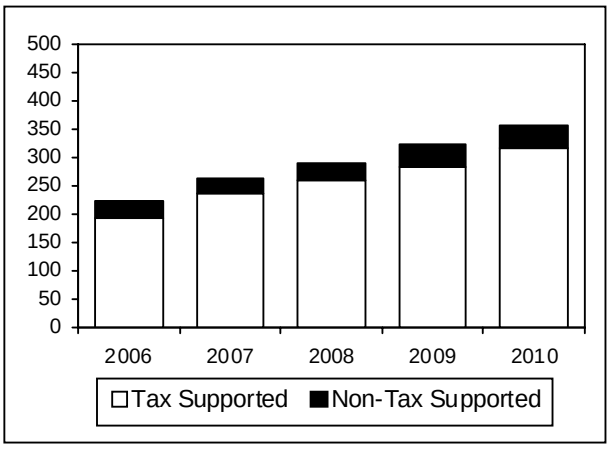
FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

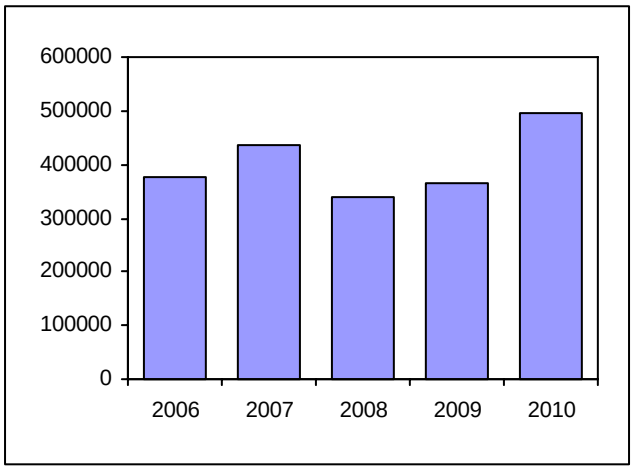
($000's)	**2010**	2009	2008 (restated)	2007	2006
6. CONSOLIDATED EXPENDITURES					
Expenditures by Function					
General government	**26,727**	35,650	37,458	31,475	30,040
Protection to persons and property	**40,696**	38,367	35,182	31,132	28,647
Transportation services	**30,117**	33,623	29,969	28,305	24,347
Environmental services	**22,530**	17,822	18,162	26,574	36,145
Health services	**1,775**	1,830	1,772	12,391	5,882
Social and family services	**1,830**	1,756	1,649	1,575	1,610
Recreation and cultural services	**58,577**	58,537	54,874	58,395	55,858
Planning and development	**11,829**	8,761	28,402	7,731	11,932
Gasworks	**79,392**	90,880	95,488	104,630	88,630
Total Expenditures	**273,473**	287,226	302,956	302,208	283,091
Expenditures by Object					
Salaries, wages and employee benefits	**112,830**	114,678	111,624	101,723	95,998
Materials and services	**122,076**	126,000	158,192	195,778	183,222
Debenture debt interest	**3,274**	2,975	2,663	2,284	1,697
Grants and other	**3,007**	2,841	2,178	2,423	2,174
Amortization	**28,436**	28,155	28,125	n/a[3]	n/a[3]
Loss/(Gain) on sale of assets	**3,850**	12,577	174	n/a[3]	n/a[3]
Total	**273,473**	287,226	302,956	302,208	283,091

3. PSAB 3150 Tangible Capital Assets was effective January 1, 2009 (2008 was restated). No such expenditure was recorded prior to this.

$ Debt per Capita



$ Value of Construction ($000's)



FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

($000's)	**2010**	2009	2008 (restated)	2007	2006
7. ANALYSIS OF LONG-TERM DEBT					
Gross debt issued by the municipality	**81,327**	72,200	63,512	56,403	47,230
Less debt recoverable from municipal enterprises and consolidated boards	**3,927**	3,101	148	287	418
Less debt recoverable from other sources	**4,663**	5,469	6,279	5,652	6,141
Net debt to be repaid from property taxes	**72,737**	63,630	57,085	50,464	40,671
Net debt per capita ($'s)	**317**	284	259	236	193
Legal debt limit ($000's)[4]	**315,365**	298,048	286,780	280,067	258,310
Interest on long-term debt as a % of total expenditures (2008 onward)	**1.1**	1.0	0.9	n/a[5]	n/a[5]
General long-term debt charges as a % of total current fund expenditures (pre-2008)	**n/a[5]**	n/a[5]	n/a[5]	3.3	3.0
8. ACCUMULATED SURPLUS					
Reserves, reserve funds and deferred revenue - obligatory reserve funds	**28,639**	32,987	41,254	55,325	56,900
Unexpended capital financing	**68,778**	55,960	54,354	67,616	62,593
Accumulated surplus (Municipal position pre-2008)[6]	**967,860**	888,358	841,899	177,563	193,550
9. NEW CONSTRUCTION					
Value of construction	**495,345**	365,925	339,408	436,273	377,351
Number of building permits	**2,664**	2,580	2,960	2,963	2,547
Number of single family dwelling starts	**580**	471	643	752	725
10. PRINCIPAL CORPORATE TAXPAYERS					
2010 Assessment					
CF/Realty Holdings Inc.	**173,303**				
Ontrea Inc	**167,306**				
Drewlo Holdings Inc.	**149,757**				
Regional Municipality Of Waterloo	**91,648**				
Homestead Land Holding Ltd	**89,465**				
Voisin Developments Ltd	**69,476**				
Morguard Residential Inc	**67,822**				
Kitchener Housing Inc	**51,175**				
Loblaws Inc.	**50,798**				
The Manufacturers Life Insurance Company	**45,628**				
Stamm Investments Limited	**42,395**				
Activa Holdings Inc.	**41,003**				
Gresham Ontario Inc.	**31,010**				
Berkshire Building Corporation	**29,923**				
First Capital (Fairway) Corporation	**29,689**				

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

5. Prior to 2009 debt charges included both interest and principal repayments. For 2009 and onward (with 2008 restated), only interest on municipal debt is included in the statement of operations.

6. As a result of the changes in PSAB accounting principles, municipal position was replaced by accumulated surplus in 2009 and onward (with 2008 restated).