

Audited Financial Statements
and Other Financial Information of

**CORPORATION OF THE
CITY OF KINGSTON**

Year ended December 31, 2005

Audited Financial Statements
and Other Financial Information of

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Year ended December 31, 2005

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AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of the Corporation of the City of Kingston as at December 31, 2005 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2005 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Kingston, Canada

March 31, 2006

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Position

December 31, 2005, with comparative figures for 2004

	2005	2004
Financial assets:		
Cash and short-term investments (note 3)	\$ 61,615,806	\$ 42,347,115
Taxes receivable	8,118,221	7,761,648
Accounts receivable	29,761,536	21,176,101
Other current assets	12,654,265	10,877,336
Notes receivable from government business enterprises (note 22)	11,845,630	13,345,629
Long-term investments (notes 3 and 5)	49,183,564	56,777,568
Investment in government business enterprises (note 22)	17,488,527	19,828,625
	<u>190,667,549</u>	<u>172,114,022</u>
Liabilities:		
Temporary loans (note 8)	18,550,000	10,518,293
Accounts payable and accrued liabilities	39,653,419	30,757,908
Due to government business enterprises (note 22):		
Utilities Kingston	1,076,349	832,871
Kingston Electricity Distribution Limited	7,063,675	3,338,662
Employee future benefit obligations (note 11(d))	2,145,496	2,049,132
Deferred revenues – obligatory reserve funds (note 14)	13,009,663	7,092,562
Deferred revenues	6,676,226	2,203,495
Accrued interest on long-term debt	998,958	966,250
Employee future benefit obligations (note 11(d))	23,094,727	21,201,497
Landfill closure and post closure liabilities (notes 17 and 18(b))	9,703,324	10,812,879
Long-term liabilities (note 12)	72,764,281	55,646,807
Long-term liabilities – Public Health Services (note 12)	4,950,867	5,039,899
	<u>199,686,985</u>	<u>150,460,255</u>
Net financial assets (liabilities)	(9,019,436)	21,653,767
Other assets:		
Inventory	825,105	734,550
Total net assets (liabilities)	\$ (8,194,331)	\$ 22,388,317
Municipal position:		
Current fund (note 13)	\$ 9,108,308	\$ 11,267,285
Capital fund (note 13)	(15,178,712)	2,338,131
Reserves	12,095,862	11,887,569
Reserve funds	80,816,453	72,053,828
Government business enterprises net equity (note 22)	17,488,527	19,828,625
	<u>104,330,438</u>	<u>117,375,438</u>
Amounts to be recovered from future revenues:		
Net long-term liabilities (note 12)	(77,591,446)	(60,686,706)
Accrued interest on long-term debt	(998,958)	(966,250)
Employee future benefit obligations (note 11(d))	(18,968,926)	(17,636,571)
Landfill closure and post-closure liabilities (note 17)	(9,703,324)	(10,812,879)
Amounts to be recovered from reserve funds:		
Employee future benefit obligations (note 11(d))	(5,262,115)	(4,884,715)
	<u>(112,524,769)</u>	<u>(94,987,121)</u>
Contingent liabilities (note 18)		
Commitments (note 19)		
Total municipal position	\$ (8,194,331)	\$ 22,388,317

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

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Activities

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues:		
Property taxation	\$ 123,721,726	\$ 115,111,650
Taxation from other governments	14,436,660	14,271,478
User charges	67,234,544	65,913,837
User charges – gas commodity	26,766,995	24,725,803
Government grants – Canada	8,609,535	4,096,522
Government grants – Province of Ontario	58,530,951	53,118,368
Grants from other municipalities	4,511,239	4,285,376
Investment income	5,667,738	5,502,605
Penalties and interest on taxes	1,665,357	1,588,185
Sale of land	521,148	597,753
Lot levies	2,973,545	3,554,286
Other	3,310,144	1,170,071
Transfers from deferred obligatory reserve funds (note 14)	–	4,559,764
Government business enterprises net loss (note 22)	(990,098)	(284,188)
Total revenues	316,959,484	298,211,510
Expenditures:		
Current:		
General government	17,815,716	20,216,908
Fire	14,778,567	13,490,982
Police	22,077,455	19,876,860
Protective inspections and control	4,533,130	3,686,077
Roadways and winter control	11,026,700	11,938,192
Transit	9,784,301	8,721,467
Parking	3,628,580	3,641,492
Street lighting	1,107,949	939,325
Air transportation	1,059,344	985,181
Sanitary sewers	8,867,500	8,407,660
Storm sewers	751,945	413,719
Waterworks system	7,591,350	7,119,745
Garbage collection and disposal	8,268,181	9,946,579
Health services	8,427,405	7,733,687
Land ambulance	4,885,391	3,786,739
Social housing	13,854,697	13,229,723
Assistance to families (general)	46,992,739	45,495,589
Assistance to aged persons	16,087,942	14,176,890
Day nurseries	7,278,239	6,868,443
Parks, recreation and other cultural	13,723,673	13,383,312
Libraries	5,344,718	5,081,076
Planning and zoning	1,442,852	1,327,241
Commercial and industrial development	3,146,640	2,897,744
Transfers to deferred obligatory reserve funds	699,812	–
Gas utility – operations	3,248,310	3,217,019
Gas utility – commodity	26,766,995	24,725,803
Total current expenditures	263,190,131	251,307,453

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Activities, page 2

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Expenditures (continued):		
Capital:		
General government	\$ 4,145,848	\$ 1,719,368
Fire	2,646,340	669,736
Police	5,107,075	1,794,037
Roadways	17,880,550	13,284,287
Transit	1,893,798	927,640
Parking	300,391	823,057
Air transportation	270,019	1,380,553
Sanitary sewers	25,253,097	11,628,341
Waterworks system	9,464,693	6,432,930
Environmental	414,039	462,781
Garbage collection and disposal	69,836	2,751
Public Health Services	214,333	388,416
Assistance to families and aged persons	88,577	210,711
Parks and recreation and other cultural	6,134,122	2,637,028
Libraries	288,115	260,109
Planning and zoning	604,434	635,717
Transfers to deferred obligatory reserve funds (note 14)	1,394,230	—
Gas utility	8,273,058	2,422,758
	84,442,555	45,679,720
Total expenditures	347,632,686	296,987,173
Net revenues (expenditures)	(30,673,202)	1,224,337
Financing and transfers:		
New debt issue - municipality	25,250,000	10,000,000
New debt issue - Public Health Services	—	2,143,375
Debt principal repayments	(8,345,261)	(9,415,988)
Change in accrued interest on long-term debt	32,708	56,654
Change in employee future benefit obligations	1,709,755	1,170,969
Change in landfill closure and post-closure liabilities	(1,109,555)	423,622
Change in non-financial assets	90,555	73,629
	17,628,202	4,452,261
Increase (decrease) in fund balances	\$ (13,045,000)	\$ 5,676,598

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

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Operations:		
Net revenues (expenditures)	\$ (30,673,202)	\$ 1,224,337
Net change in non-cash working capital items:		
(Increase) decrease in taxes receivable	(356,573)	234,300
Increase in accounts receivable	(8,585,435)	(1,260,068)
Increase in other current assets	(1,776,929)	(818,954)
Increase (decrease) in accounts payable and accrued liabilities	8,895,511	(4,385,278)
Increase in due to government business enterprises	4,064,855	5,116,541
Increase (decrease) in deferred obligatory reserve funds	5,917,100	(1,938,323)
Increase in deferred revenue	4,472,731	211,259
Increase in accrued interest on long-term debt	32,708	56,654
Increase in employee future benefit obligations	1,893,230	1,155,914
Increase (decrease) in landfill closure and post closure liabilities	(1,109,555)	423,622
	13,447,643	(1,204,333)
Net change in cash from operations	(17,225,559)	20,004
Investments:		
Decrease (increase) in long-term investments	7,594,004	(5,055,045)
Decrease (increase) in investment in government business enterprises	2,340,098	(2,715,812)
Repayment of notes receivable from government business enterprises	1,500,000	-
Net change in cash from investments	11,434,102	(7,770,857)
Financing:		
New debt issue - municipality	25,250,000	10,000,000
New debt issue - Public Health Services	-	2,143,375
New debt issue - tile drainage	123,702	-
Temporary loans	8,550,000	10,000,000
Debt principal repayments	(8,345,261)	(9,415,988)
Net change in cash from financing	25,578,441	12,727,387
Increase in cash and cash equivalents	19,786,984	4,976,534
Cash and cash equivalents, beginning of year	41,828,822	36,852,288
Cash and cash equivalents, end of year	\$ 61,615,806	\$ 41,828,822
Represented by:		
Cash and term deposits	\$ 61,615,806	\$ 42,347,115
Temporary operating loans	-	(518,293)
	\$ 61,615,806	\$ 41,828,822

The Municipality considers cash and cash equivalents, net of temporary operating loans, to be highly liquid investments with original maturities of three months or less.

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

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements

Year ended December 31, 2005

1. Significant accounting policies:

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

(a) Reporting entity:

- (i) The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the current, capital and reserve funds of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards which are owned or controlled by the City. Interdepartmental and inter-organizational transactions and balances between these organizations are eliminated.

These consolidated financial statements include:

Rideaucrest Home for the Aged

Downtown Business Improvement Area

Kingston-Frontenac Public Library Board

Kingston & Frontenac Housing Corporation

Kingston, Frontenac and Lennox and Addington Health Unit (proportionately consolidated)

Consolidated by modified equity basis:

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

Proportionate consolidation:

Kingston, Frontenac and Lennox and Addington ("KFLA") Health Unit is accounted for using the proportional consolidation method of accounting and reporting, whereby the municipality's pro-rata share of each of the assets, liabilities, revenues and expenses is combined on a line-by-line basis in the financial statements.

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

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

1. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(iii) Accounting for school board transactions:

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

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

(b) Capital assets:

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

(c) Employee future benefits:

The municipality accrues its obligations for employee benefit plans. The cost of post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued benefit obligation, are amortized over the average remaining service life of the related employee groups, which is estimated to be 11 years.

(d) Workplace safety and insurance compensation:

The municipality bears the cost of certain insurance and pension benefits awarded under workplace safety and insurance legislation and accrues the actuarially determined cost of these obligations.

Actuarial gains (losses), which can arise from changes in actuarial assumptions used to determine the accrued obligation, are amortized over the mean term of the liabilities which is estimated to be 10 years.

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

1. Significant accounting policies (continued):

(e) Landfill closure and post-closure liabilities:

The municipality accrues landfill closure and post-closure care requirements that have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a twenty-eight year period using the best information available to management.

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

(f) Deferred revenues – obligatory reserve funds:

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

(g) Inventory:

Inventory for water, sewer and gas supplies is stated at the lower of cost and replacement cost.

Inventory for gas commodity is stated at the lower of weighted average cost and net realizable value.

(h) Investments:

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

(i) Government transfers:

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

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

1. Significant accounting policies (continued):

(j) Amounts to be recovered:

Amounts to be recovered are comprised of accrued interest on long-term debt, outstanding net long-term liabilities, employee future benefit obligations and landfill closure and post-closure liabilities.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. Operations of school boards:

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

	2005	2004
Taxation and user charges	\$ 45,642,926	\$ 45,866,477
Payments in lieu	275,255	312,911
Amount transferred to school boards	\$ 45,918,181	\$ 46,179,388

3. Restricted assets:

Cash and investments in the amount of \$77,964,356 (2004 - \$63,803,506) have been restricted to support reserve funds.

4. Bank indebtedness:

The City's financial agreement with its bank provides for an operating credit facility of up to \$10,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn will be at prime rate less 0.5%. As at December 31, 2005, there was \$Nil (2004 - \$Nil) drawn on the operating credit facility.

5. Long-term investments:

Long-term investments, which consist primarily of government bonds, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest and amortization of purchase premiums and discounts. They have a market value of \$48,550,688 at December 31, 2005 (2004 - \$57,311,858).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

6. Contributions to Kingston Economic Development Corporation:

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

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

	2005	2004
Kingston Economic Development Corporation:		
Grant	\$ 2,300,000	\$ 2,100,000

7. Trust funds:

Trust funds administered by the municipality amounting to \$374,868 (2004 - \$714,069) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Financial Activities".

8. Temporary loans:

The City has a financial agreement with the Ontario Strategic Infrastructure Financial Authority (OSIFA) for a capital loan up to a maximum of \$18,820,000 for the interim financing of various water, sewer and roads capital projects. As at December 31, 2005, \$18,550,000 (2004 - \$10,000,000) has been received as a project advance with interest at 50% of the average of the bankers' acceptance rate and the prime rate. The loan is payable in full at the capital project's substantial completion date.

9. Provincial grants:

Provincial grants received from the Ministry of Health and Long-Term Care are subject to annual final reviews and approvals by the Ministry. Any adjustments resulting from the review will be reflected in the year of Ministry approval as an adjustment to provincial grant revenues on the "Consolidated Statement of Financial Activities".

10. Pension agreements:

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

The amount contributed to OMERS for 2005 was \$4,642,088 (2004 - \$4,276,654) for current service and is included as an expenditure on the "Consolidated Statement of Financial Activities".

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

11. Employee benefit obligations:

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

The City provides extended health care, dental, life insurance and sick leave benefits to its employees. An independent actuarial study of the post-retirement and post-employment benefits was undertaken. An update of the employee future benefits was completed for December 31, 2005. Beginning in 2005, an actuarial loss was amortized on a straight-line basis over the expected average remaining service life of the related employee groups, which is estimated to be 11 years.

At December 31, 2005, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$15,940,105 (2004 - \$14,773,063).

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

Discount rate	6.0% per annum
Inflation rate	3.0% per annum
Salary escalation	4.0% per annum
Dental benefits escalation	5.0% per annum
Health benefits escalation	10.0% per annum in 2005, decreasing to 5.0% over 15 years

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

	2005	2004
Accrued benefit liability, January 1	\$ 14,773,063	\$ 14,014,887
Expense recognized for the period	1,935,236	1,366,356
Benefits paid for the period	(1,101,131)	(1,172,326)
Actuarial loss due to plan amendments	—	564,146
Amortization of actuarial losses	332,934	—
Accrued benefit liability, December 31	15,940,102	14,773,063
Reserve funds established	5,262,115	4,884,715
Amounts to be recovered from future revenues	\$ 10,677,987	\$ 9,888,348

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

	2005	2004
Accrued benefit obligation	\$ 19,440,342	\$ 18,620,499
Unamortized actuarial losses	(3,500,240)	(3,847,436)
Accrued benefit liability, December 31	\$ 15,940,102	\$ 14,773,063

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

11. Employee benefit obligations (continued):

(b) Workplace safety and insurance:

In common with other Schedule 2 employers, the City funds its obligations to the Workplace Safety and Insurance Board on a "pay-as-you-go" basis for employees under Schedule 2. For 2005, there was an independent update to the actuarial study of the Workplace Safety and Insurance Board liabilities at December 31, 2005. Beginning in 2005, an actuarial loss was amortized on a straight-line basis over the mean term of the liabilities which is estimated to be 10 years.

At December 31, 2005, the City's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$8,298,436 (2004 - \$7,639,392).

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

	2005	2004
Accrued benefit liability, beginning of year	\$ 7,639,392	\$ 7,211,049
Expense recognized for the period	1,872,533	1,673,862
Benefits paid for the period	(1,392,996)	(1,245,519)
Amortization of actuarial loss	179,507	-
Accrued benefit liability, end of year	\$ 8,298,436	\$ 7,639,392

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

	2005	2004
Accrued benefit obligation	\$ 9,914,006	\$ 9,434,469
Unamortized actuarial losses	(1,615,570)	(1,795,077)
Accrued benefit liability, end of year	\$ 8,298,436	\$ 7,639,392

(c) Liability for vacation credits:

Compensated vacation expense is accrued for employees as entitlement to these payments is earned in accordance with the City's benefit plans for vacation time. Vacation credits earned as at December 31, 2005 amount to \$737,351 (2004 - \$741,535).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

11. Employee benefit obligations (continued):

(d) Employee benefit obligations:

	2005	2004
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 13,911,606	\$ 12,840,931
Workplace safety and insurance	8,298,436	7,639,392
Vacation credits	620,351	624,535
Pension payable	264,334	96,639
	<u>23,094,727</u>	<u>21,201,497</u>
Health benefits and sick leave – water, sewer and gas utilities	2,028,496	1,932,132
Vacation credits – water, sewer and gas utilities	117,000	117,000
	<u>2,145,496</u>	<u>2,049,132</u>
Amounts previously funded from operations	(1,009,182)	(729,343)
Amounts to be recovered from reserve funds	(5,262,115)	(4,884,715)
	<u>\$ 18,968,926</u>	<u>\$ 17,636,571</u>

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

12. Long-term liabilities:

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

	2005	2004
Total long-term liabilities incurred by the municipality including those incurred on behalf of other municipalities and municipal enterprises and outstanding at the end of the year amount to	\$ 72,764,281	\$ 55,646,807
Proportionate share of KFLA Health Unit long-term debt	4,950,867	5,039,899
Total long-term liabilities at the end of the year	<u>77,715,148</u>	<u>60,686,706</u>
Of the municipal debt shown above, the responsibility for payment of principal and interest charges for the tile drainage loans has been assumed by individuals	(123,702)	(69,171)
Total long-term liabilities to be recovered from future revenues	<u>\$ 77,591,446</u>	<u>\$ 60,617,535</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

12. Net long-term liabilities (continued):

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

	2006 to 2010	2011 to 2015	2016 onwards	Total
From general municipal revenues and user fees	\$ 35,455,323	\$ 14,670,285	\$ 22,514,971	\$ 72,640,579
From KFLA Health Unit	421,422	4,529,445	–	4,950,867
From benefiting landowners	59,456	64,246	–	123,702
	<u>\$ 35,936,201</u>	<u>\$ 19,263,976</u>	<u>\$ 22,514,971</u>	<u>\$ 77,715,148</u>

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

13. Municipal fund balances at the end of the year:

(a) The current fund balance on the "Consolidated Statement of Financial Position" of \$9,108,308 (2004 - \$11,267,285) at the end of the year is comprised of the following:

	2005	2004
To be applied to operations of the operating fund for the following year	\$ 289,082	\$ 3,971,120
To be applied to operations of the water area	1,577,852	1,319,387
To be applied to operations of the sewer area	2,089,872	1,284,340
To be applied to gas operations	4,951,094	4,239,533
To be recovered from operations of the Downtown Business Improvement Area	(47,735)	(19,121)
To be applied to operations of the Kingston & Frontenac Housing Corporation	268,134	449,536
To be applied to (recovered from) operations of the Kingston – Frontenac Public Library Board	(19,991)	22,490
	<u>\$ 9,108,308</u>	<u>\$ 11,267,285</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

13. Municipal fund balances at the end of the year (continued):

(b) The capital fund balance on the "Consolidated Statement of Financial Position" of \$15,178,712 (2004 - \$2,338,131) at the end of the year is comprised of the following:

	2005	2004
Unapplied capital receipts	\$ 31,708,102	\$ 19,471,834
Capital expenditures to be financed from the proceeds of long-term liabilities	(45,466,392)	(16,064,299)
Capital expenditures to be financed from transfers from reserves and reserve funds	(1,089,374)	(805,765)
Capital expenditures to be financed from taxation or user charges	(331,048)	(263,639)
	<u>\$ (15,178,712)</u>	<u>\$ 2,338,131</u>

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

14. Deferred revenue – obligatory reserve funds:

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

	2005	2004
Balance, beginning of year	\$ 7,092,562	\$ 9,030,885
Development contributions	3,570,612	2,264,677
Investment income	252,447	356,764
Transfers from (to) current fund	699,812	(914,484)
Transfers from (to) capital fund	(832,499)	(3,645,280)
Transfers from capital fund – federal gasoline tax	2,226,729	–
Balance, end of year	<u>\$ 13,009,663</u>	<u>\$ 7,092,562</u>
Analyzed as follows:		
Development charges	\$ 9,119,839	\$ 6,271,664
Cash in lieu of parkland	747,448	564,061
Provincial gasoline tax	457,407	256,837
Federal gasoline tax	2,226,729	–
Building Code	458,240	–
	<u>\$ 13,009,663</u>	<u>\$ 7,092,562</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

15. Charges for net long-term liabilities:

Total charges for the year for net long-term liabilities which are reported on the "Consolidated Statement of Financial Activities" are as follows:

	2005	2004
Principal payments	\$ 8,345,261	\$ 9,415,988
Interest	3,669,716	3,776,378
	<u>\$ 12,014,977</u>	<u>\$ 13,192,366</u>

16. Provincial Offences Administration (POA):

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

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

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

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

	2005	2004
Gross revenues received	\$ 1,361,824	\$ 1,207,587
Gross expenditures	812,418	717,979
Net revenues	<u>\$ 549,406</u>	<u>\$ 489,608</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

17. Landfill closure and post-closure liability:

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

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

The City currently has one active and two inactive landfill sites. The Kingston East site is still in operation and has an estimated remaining life of approximately 4 years, which represents 20% of its total estimated capacity. The anticipated closure plan involves placement of low permeability native soils over the buried wastes, landscaping and revegetation and ongoing annual monitoring and maintenance at an estimated capital cost of \$300,000. Annual post closure maintenance and monitoring requirements are estimated to be \$30,000 per annum.

The Kingston West site was closed in 1989 and involved covering the site with a clay cap and installing groundwater monitoring wells. Further costs to repair the cap and purchase buffer lands are anticipated by the year 2008 at an estimated cost of \$800,000. Annual site monitoring costs are estimated at \$50,000 per annum.

The Belle Park Landfill site was closed in 1976 with soil covering and revegetation. Additional environmental controls were put in place in the mid 1990's and involved the installation of groundwater monitoring wells, a leachate capture and treatment system and placement of additional soil cover. Further closure activities are anticipated by the year 2007 at an estimated cost of \$5,000,000. These closure activities will include the development of a long-term management approach for the property which will likely include decommissioning of the existing leachate control pumps and construction of engineered treatment wetlands. This approach is expected to reduce current annual site monitoring costs from an estimated \$350,000 per annum to \$100,000 per annum for the foreseeable future.

Estimated total expenditures represent the sum of the discounted future cash flows for closure and post-closure care activities discounted at the City's average long-term borrowing rate of 6.00% and using an assumed rate of 2% for inflation. The estimated total landfill closure and post-closure care expenditures are calculated to be approximately \$9.8 million. For sites that are still active, the estimated liability for these expenditures is recognized as the landfill site's capacity is used. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities at December 31, 2005 is an amount of \$9,703,324 (2004 - \$10,812,879) with respect to landfill closure and post-closure liabilities recognized to date.

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

18. Contingent liabilities:

(a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2005, management believes that the City has valid defences and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.

(b) The municipality was found guilty of certain environment related charges arising from the inactive Belle Park landfill site. During the year, the Superior Court of Justice accepted a joint submission from the municipality and the province and issued an order deleting a requirement for the City to prepare a capping plan and confirming fines totalling \$60,000.

Future remedial activities are anticipated by the year 2007 at an estimated cost of \$5,000,000. Using a discount rate of 6%, an amount of approximately \$4,300,000 has been provided for in the financial statements as part of landfill closure and post-closure liabilities on the "Consolidated Statement of Financial Position". There is no provision in the financial statements for any other costs that may arise out of this claim.

(c) The municipality has entered into agreements with certain developers to acknowledge its environmental responsibilities pertaining to certain lands, should they arise. The amount of any potential liability or the likelihood thereof, is not determinable, therefore no amount has been accrued in the financial statements.

19. Commitments:

(a) The City of Kingston has negotiated a non-exclusive long-term contract with Waste Management of Canada (formerly Canadian Waste Disposal) for handling and disposal of garbage. This contract was extended to January 31, 2009. Annual charges under the contract are determined by reference to certain waste volumes handled. Payments made under the contract for the year 2005 were approximately \$1,782,557 (2004 - \$1,814,638).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

19. Commitments (continued):

- (b) 1425445 Ontario Limited (operating as Utilities Kingston) has entered into capital contracts on behalf of the City of Kingston for the following:

Committed funds of \$8.4 million relating to a combined sewer overflow storage facility located at Emma Martin Park. Approximately \$7.9 million of cost has been incurred to date.

Committed funds of \$7.9 million relating to a combined sewer overflow storage facility and a backwash facility for water treatment. Approximately \$7.8 million of cost has been incurred to date.

Committed funds of \$7.3 million relating to a secondary treatment upgrades to the Ravensview sewage treatment plant. Approximately \$4.2 million of cost has been incurred to date.

Contracted work for upgrades to the Kingston West Water Tower for approximately \$4.4 million. Approximately \$3.4 million of cost has been incurred to date.

Committed funds of \$6.0 million relating to the construction of a second high pressure gas main. Approximately \$4.2 million of cost has been incurred to date.

In accordance with their management agreement, the City will reimburse 1425445 Ontario Limited (operating as Utilities Kingston) for these costs as incurred. Costs incurred to December 31, 2004 have been reimbursed and are reported as expenditures on the "Consolidated Schedule of Capital Operations".

- (c) 1425445 Ontario Limited (operating as Utilities Kingston) has entered into operating contracts to provide gas transportation, gas storage and purchases of natural gas as part of the management agreement with the City of Kingston. Costs incurred have been reimbursed and are reported as expenditures on the "Consolidated Statement of Financial Activities".
- (d) In the prior year, the City entered into an agreement with the County of Frontenac to share in the capital cost of the reconstruction project for Fairmount Home for the Aged. The majority of total project cost of \$18.2 million has been financed by long-term debt in the amount of \$17.2 million. The City is responsible for 68% of the related debt repayment costs and incurred related debt charges in 2005 in the amount of \$712,503 (2004 - \$792,046).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

20. Budget figures:

The City of Kingston reviews its operating and capital budgets annually. The approved operating and capital budgets for 2005 are reflected on the Schedules of Current and Capital Fund Operations. Budget figures have not been audited and are presented for information purposes only.

Budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years.

21. Supplementary information:

	2005	2004
Current fund expenditure by object:		
Salaries, wages and employee benefits	\$ 101,574,473	\$ 95,280,226
Long-term debt interest expense	3,702,424	3,776,378
Materials	33,221,533	35,695,175
Contracted services	30,717,510	28,731,246
Rents and financial expenses	3,261,829	4,434,034
Natural gas commodity purchases	26,766,995	24,725,803
Transfers to others	63,245,555	58,664,591
Transfer to deferred obligatory reserve funds	699,812	-
Total	\$ 263,190,131	\$ 251,307,453

22. Investment in government business enterprises:

(a) At December 31, 2004, the City's wholly-owned subsidiary, 1425447 Ontario Limited, purchased all the shares of 1425445 Ontario Limited (operating as Utilities Kingston) from Kingston Electricity Distribution Limited.

1425447 Ontario Limited and Kingston Electricity Distribution Limited are government business enterprises of the City and accounted for on a modified equity basis in these financial statements.

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

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

22. Investment in government business enterprises (continued):

(a) (continued):

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

	2005	2004
Financial position		
Current assets	\$ 12,041,930	\$ 15,305,775
Due from City of Kingston:		
Utilities Kingston	1,076,349	832,871
Kingston Electricity Distribution Limited	7,063,675	3,338,662
Post employment benefit obligation	1,981,310	1,889,131
Accrued vacation liabilities	160,000	160,000
Capital assets	28,345,536	26,101,104
Deferred charges	3,769,540	4,001,584
Total assets	54,438,340	51,629,127
Current liabilities	15,931,555	12,056,096
Post employment benefit obligation	2,906,276	2,822,321
Accrued vacation and pension liabilities	294,494	183,978
Accrued liabilities non-current	5,971,859	3,392,478
Long-term notes payable to City of Kingston, 7.25% per annum, no fixed terms of repayment	11,845,629	13,345,629
Total liabilities	36,949,813	31,800,502
Net assets	\$ 17,488,527	\$ 19,828,625
Common shares	\$ 12,380,619	\$ 12,380,619
Redeemable preferred shares	6,615,008	6,465,008
Accumulated earnings	(1,507,100)	982,998
Investment in government business enterprises	\$ 17,488,527	\$ 19,828,625

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

22. Investment in government business enterprises (continued):

(a) (continued):

	2005	2004
Results of operations:		
Net utility revenues	\$ 74,076,249	\$ 51,175,041
Operating expenses	(70,452,319)	(47,275,814)
Interest on debt	(1,116,789)	(1,070,802)
Depreciation	(2,487,813)	(2,372,520)
Write-off of regulatory assets	(409,513)	-
Net earnings (loss) before income taxes	(390,185)	455,905
Payments in lieu of corporate income taxes	481,674	442,441
Net earnings (loss)	(871,859)	13,464
Prior period adjustments	(118,239)	(297,652)
Net loss after prior period adjustments	(990,098)	(284,188)
Accumulated earnings, beginning of year	982,998	1,267,186
	(7,100)	982,998
Dividends paid	(1,500,000)	-
Accumulated earnings (loss), end of year	\$ (1,507,100)	\$ 982,998

(b) In accordance with related party reporting requirements, 1425445 Ontario Limited (operating as Utilities Kingston) reported contract expense recoveries during the year from Kingston Electricity Distribution Limited and the City of Kingston in the amounts of \$8,209,001 (2004 - \$7,019,000) and \$62,011,571 (2004 - \$38,933,589) respectively.

In addition, the City contracted to provide financial services to both 1425445 Ontario Limited (operating as Utilities Kingston) and Kingston Electricity Distribution Limited. As at December 31, 2005, the City had balances owing to both companies in the amount of \$1,076,349 (2004 - \$832,871) and \$7,063,675 (2004 - \$3,338,662) respectively, representing the net balance of cash receipts and disbursements processed on behalf of the Companies.

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

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2005

23. Comparative figures:

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

24. Subsequent events:

Subsequent to year-end, the City contracted for construction work with respect to a new police building in the amount of approximately \$27 million. This project is to be financed by reserve funds and long-term debt.

25. Financial instruments:

The fair value of the municipality's financial instruments that are comprised of cash and short-term investments, taxes receivable, accounts receivable, other current assets, temporary loans, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

The carrying value of the notes receivable from government business enterprises and amounts due to government business enterprises approximates fair value primarily due to the market rate of returns attached to the instruments.

The market value of long-term investments disclosed in note 5 approximates their fair value.

It is not practical to determine the fair value of investment in government business enterprises due to the lack of market information available.

The fair value of long-term liabilities is based on rates currently available to the municipality with similar terms and maturities and approximates its carrying value.

Unless otherwise noted, it is management's opinion that the municipality is not exposed to significant interest, currency or credit risks arising from these financial instruments.

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Current Fund Operations

Year ended December 31, 2005, with comparative figures for 2004

	Budget 2005	Actual 2005	Actual 2004
	(note 20)		
Revenues:			
Property taxation	\$ 123,142,994	\$ 123,721,726	\$ 115,111,650
Taxation from other governments	14,665,996	14,436,660	14,271,478
User charges	68,090,670	67,234,544	66,060,371
User charges – gas commodity	26,500,000	26,766,995	24,725,803
Government grants	52,954,765	56,071,276	55,042,983
Grants from other municipalities	4,819,414	4,511,239	4,285,376
Investment income	1,300,000	1,608,290	1,604,318
Penalties and interest on taxes	1,550,000	1,665,357	1,588,185
Sale of land and equipment	–	521,148	597,753
Other	–	955,905	–
Transfers from deferred obligatory reserve funds (note 14)	–	–	914,484
Total revenues	293,023,839	297,493,140	284,202,401
Expenditures:			
General government	17,417,137	17,815,716	20,216,908
Protection to persons and property	41,257,401	41,389,152	37,053,919
Transportation services	26,562,917	26,606,874	26,225,657
Environmental services	26,150,253	25,478,976	25,887,703
Health services	13,713,816	13,312,796	11,520,426
Social and family services	69,826,378	70,358,920	66,540,922
Social housing	13,082,475	13,854,697	13,229,723
Recreation and cultural services	18,580,345	19,068,391	18,464,388
Planning and development	4,520,906	4,589,492	4,224,985
Gas operations	30,016,042	30,015,305	27,942,822
Transfers to deferred obligatory reserve funds (note 14)	–	699,812	–
Total expenditures	261,127,670	263,190,131	251,307,453
Net revenues	31,896,169	34,303,009	32,894,948
Financing and transfers:			
Net transfers from (to) other funds:			
Capital fund	–	–	(235,000)
Reserves and reserve funds	(29,920,489)	(28,840,188)	(21,025,145)
Debt principal repayments	(8,345,258)	(8,345,261)	(9,415,988)
Change in accrued interest on long-term debt	–	32,708	56,654
Change in employee future benefit obligations	–	1,709,755	1,170,969
Change in landfill closure and post-closure liabilities	–	(1,109,555)	423,622
Change in non-financial assets	–	90,555	73,629
Net financing and transfers	(38,265,747)	(36,461,986)	(28,951,259)
Change in current fund balance	(6,369,578)	(2,158,977)	3,943,689
Opening current fund balance	11,267,285	11,267,285	7,323,596
Closing current fund balance	\$ 4,897,707	\$ 9,108,308	\$ 11,267,285

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Capital Fund Operations

Year ended December 31, 2005, with comparative figures for 2004

	Budget 2005 (note 20)	Actual 2005	Actual 2004
Revenues:			
Government grants	\$ 1,364,410	\$ 11,069,210	\$ 2,171,907
Transfers from deferred obligatory reserve funds (note 14)	–	–	3,645,280
Other	1,013,000	2,354,239	1,023,537
Total revenues	2,377,410	13,423,449	6,840,724
Expenditures:			
General government	2,536,000	4,145,848	1,719,368
Protection to persons and property	35,781,800	7,753,415	2,463,773
Transportation services	16,518,036	20,344,758	16,415,037
Environmental services	35,676,466	35,201,665	18,526,803
Health services	–	214,333	388,416
Social and family services	579,500	88,577	210,711
Planning and development	330,000	604,434	635,717
Recreation and cultural services	5,275,400	6,422,237	2,897,137
Gas	8,084,950	8,273,058	2,422,758
Transfers to deferred obligatory reserve funds (note 14)	–	1,394,230	–
Total expenditures	104,782,152	84,442,555	45,679,720
Net expenditures	(102,404,742)	(71,019,106)	(38,838,996)
Financing and transfers:			
Net transfers from other funds:			
Current fund	–	–	235,000
Reserves and reserve funds	36,134,742	28,252,263	27,426,155
New debt issue	66,270,000	25,250,000	12,143,375
Net financing and transfers	102,404,742	53,502,263	39,804,530
Change in capital fund balance	–	(17,516,843)	965,534
Opening capital fund balance	–	2,338,131	1,372,597
Closing capital fund balance	\$ –	\$ (15,178,712)	\$ 2,338,131

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Reserves and Reserve Funds

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues:		
Investment income	\$ 5,559,448	\$ 3,898,287
Lot levies	2,973,545	3,554,286
Total revenues	8,532,993	7,452,573
Expenditures:		
Increase in government business enterprise equity	150,000	3,000,000
Net revenues	8,382,993	4,452,573
Net transfers from (to) other funds:		
Current fund	28,840,188	21,025,145
Capital fund	(28,252,263)	(27,426,155)
Total net transfers	587,925	(6,401,010)
Change in reserves and reserve fund balances	8,970,918	(1,948,437)
Opening reserves and reserve fund balances	83,941,397	85,889,834
Closing reserves and reserve fund balances	\$ 92,912,315	\$ 83,941,397
Analyzed as follows:		
Reserves set aside for specific purpose:		
- working funds	\$ 11,686,927	\$ 11,546,661
- roads	385,310	317,284
- other capital	23,625	23,624
	12,095,862	11,887,569
Reserve funds set aside for specific purposes:		
- replacement of equipment	10,862,879	7,655,921
- sanitary sewer system	8,511,878	5,519,051
- storm sewer system	637,702	616,592
- parks and recreation	1,605,823	1,194,210
- libraries	1,091,968	291,028
- waterworks system	12,179,248	14,426,994
- planning and development	1,741,065	1,531,619
- other	8,733,949	5,225,818
- roads	714,041	689,998
- transit	1,200,900	1,518,968
- gas utility	3,321,395	3,398,260
- sick leave	5,262,115	4,884,714
- protective services	1,878,246	1,644,872
- social housing	2,142,767	1,784,470
- parking	1,023,505	644,762
- lot levies	19,908,972	21,026,551
	80,816,453	72,053,828
	\$ 92,912,315	\$ 83,941,397



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AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

City of Kingston
Kingston, Ontario

The audited financial statements of the municipality and our report thereon are presented in the preceding section of this report. The following information is presented for purposes of additional analysis and is not required for a fair presentation of the financial position or results of operations of the municipality. Such information has been subjected to the auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

Chartered Accountants

Kingston, Canada
March 31, 2006

CORPORATION OF THE CITY OF KINGSTON

Water Operations Statement of Revenues and Expenditures

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Operating revenues:		
Water revenue	\$ 10,980,754	\$ 10,368,422
Other revenue	312,599	283,058
Total revenues	11,293,353	10,651,480
Operating expenditures:		
Contracted services	7,546,558	7,213,388
Net revenues before capital expenditures and financing and transfers	3,746,795	3,438,092
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	3,582,708	1,779,539
Capital expenditures current year:		
Contracted services	9,459,020	6,432,930
Less capital financing:		
Water capital reserve funds	(6,164,692)	(3,687,565)
Impost reserve fund	(2,545,156)	(713,000)
Debt	-	(100,000)
Other	(111,808)	(129,196)
	4,220,072	3,582,708
Unfinanced capital expenditures, end of year	(4,220,072)	(3,582,708)
Capital financed from operations	-	-
Financing and transfers:		
Debt principal repayments	(86,508)	(74,859)
Debt interest	(30,251)	(32,048)
Transfer to water capital reserve funds	(3,371,571)	(2,915,664)
Net financing and transfers	(3,488,330)	(3,022,571)
Net revenues for the year	258,465	415,521
Opening accumulated net revenues	1,319,387	903,866
Closing accumulated net revenues	\$ 1,577,852	\$ 1,319,387

CORPORATION OF THE CITY OF KINGSTON

Sewer Operations Statement of Revenues and Expenditures

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues:		
Sewer revenue	\$ 15,558,546	\$ 13,816,913
Other revenue	936,645	1,053,960
Total revenues	16,495,191	14,870,873
Operating expenditures:		
Contracted services	8,203,515	8,019,153
Net revenues before capital expenditures and financing and transfers	8,291,676	6,851,720
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	3,201,921	3,624,414
Capital expenditures current year:		
Contracted services	25,253,097	11,628,341
Less:		
Impost reserve fund	(2,180,846)	(3,668,451)
Sewer capital reserve funds	(2,682,685)	(1,744,494)
Other capital revenues	-	(6,550,188)
Grants	(6,901,624)	(87,701)
	16,689,863	3,201,921
Unfinanced capital expenditures, end of year	(16,689,863)	(3,201,921)
Capital financed from operations	-	-
Financing and transfers:		
Debt principal repayments	(1,492,198)	(1,494,451)
Debt interest	(608,994)	(514,198)
Transfer to sewer capital reserve funds	(5,384,952)	(4,573,002)
Net financing and transfers	(7,486,144)	(6,581,651)
Net revenues (expenditures) for the year	805,532	270,069
Opening accumulated net revenues	1,284,340	1,014,271
Closing accumulated net revenues	\$ 2,089,872	\$ 1,284,340

CORPORATION OF THE CITY OF KINGSTON

Gas Operations Statement of Revenues and Expenditures

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Sales and distribution revenue	\$ 26,766,995	\$ 24,725,803
Cost of gas	26,766,995	24,725,803
	-	-
Local distribution	7,129,167	6,851,299
Other revenue	1,674,695	1,389,797
Total revenues	8,803,862	8,241,096
Operating expenditures:		
Contracted services	3,248,310	3,217,019
Net revenues before capital expenditures and financing and transfers	5,555,552	5,024,077
Capital expenditures:		
Capital expenditures current year:		
Contracted services	8,273,058	2,422,758
Less:		
Gas capital reserve funds	(3,370,058)	(2,422,758)
Debt	(4,750,000)	-
	153,000	-
Unfinanced capital expenditures, end of year	(153,000)	-
Capital financed from operations	-	-
Financing and transfers:		
Transfers to gas capital reserve funds	(3,093,991)	(3,184,593)
Transfers to City of Kingston	(1,750,000)	(1,750,000)
Net financing and transfers	(4,843,991)	(4,934,593)
Net revenues for the year	711,561	89,484
Opening accumulated net revenues	4,239,533	4,150,049
Closing accumulated net revenues	\$ 4,951,094	\$ 4,239,533



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AUDITORS' REPORT

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

We have audited the statements of financial position of the trust funds of the Corporation of the City of Kingston as at December 31, 2005 and the statements of continuity of trust funds for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donations and residents' deposits referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the trust funds of the City as at December 31, 2005 and the continuity of trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Kingston, Canada
March 31, 2006

CORPORATION OF THE CITY OF KINGSTON

Trust Funds

Name of Fund	Ontario Home Renewal Plan	Housing Incentive	Rideaucrest Residents Funds, Donations and Endowments	Cloverdale Judo	Other	Total 2005	Total 2004
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Statements of Financial Position

As at December 31, 2005, with comparative figures for 2004

Assets

Cash and short-term investments	\$ -	\$ -	\$ 150,390	\$ 149,428	\$ 72,005	\$ 371,823	\$ 709,600
Loans receivable	3,045	-	-	-	-	3,045	4,469
	\$ 3,045	\$ -	\$ 150,390	\$ 149,428	\$ 72,005	\$ 374,868	\$ 714,069
Fund balances:							
Unexpendable trust	\$ -	\$ -	\$ -	\$ 149,428	\$ 25,000	\$ 174,428	\$ 168,420
Capital/earned surplus	3,045	-	150,390	-	47,005	200,440	545,649
	\$ 3,045	\$ -	\$ 150,390	\$ 149,428	\$ 72,005	\$ 374,868	\$ 714,069

Statements of Continuity

Year ended December 31, 2005, with comparative figures for 2004

Balances, beginning of year	\$ 4,469	\$ 354,584	\$ 124,659	\$ 143,420	\$ 86,937	\$ 714,069	\$ 722,697
Donations and other revenue	-	-	128,135	-	451	128,586	148,532
Interest earned	830	15,286	4,742	6,008	2,091	28,957	20,194
	5,299	369,870	257,536	149,428	89,479	871,612	891,423
Contribution to reserve and capital funds	-	369,870	-	-	-	369,870	934
Expenditures	2,254	-	107,146	-	17,474	126,874	176,420
Balances, end of year	\$ 3,045	\$ -	\$ 150,390	\$ 149,428	\$ 72,005	\$ 374,868	\$ 714,069

CORPORATION OF THE CITY OF KINGSTON

Trust Funds
Notes to Financial Statements

Year ended December 31, 2005

1. Significant accounting policy:

Basis of accounting:

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

2. Ontario Home Renewal Program:

The Ontario Home Renewal Program was established by the Ontario Ministry of Housing in 1973 to provide grants for municipalities to make loans to assist owner occupants to repair, rehabilitate and improve their homes to local property standards. Individual loans are limited to \$7,500 of which the maximum forgivable portion is \$4,000.

Ontario Home Renewal Program loans receivable at December 31, 2005 comprise repayable loans of \$3,045 (2004 - \$4,469) and forgivable loans of \$Nil. Loan forgiveness is earned and recorded at a rate of up to \$600 per year of continued ownership and occupancy. In the event of the sale or lease of the home or in the event of the homeowner ceasing to occupy the home, the balances of the repayable loan and the unearned forgivable loan immediately become due and payable by the homeowner.