

Audited Financial Statements  
and Other Financial Information of

**CORPORATION OF THE  
CITY OF KINGSTON**

Year ended December 31, 2006

Audited Financial Statements  
and Other Financial Information of

# **CORPORATION OF THE CITY OF KINGSTON**

Year ended December 31, 2006

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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, 2006 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, 2006 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.

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

Chartered Accountants

Kingston, Canada

March 30, 2007

# CORPORATION OF THE CITY OF KINGSTON

## Consolidated Statement of Financial Position

December 31, 2006, with comparative figures for 2005

	2006	2005
<b>Financial assets:</b>		
Cash and short-term investments (note 3)	\$ 97,446,449	\$ 61,615,806
Taxes receivable	8,052,855	8,118,221
Accounts receivable	26,502,853	29,761,536
Other current assets	12,916,544	12,654,265
Notes receivable from government business enterprises (note 22)	11,845,630	11,845,630
Long-term investments (notes 3 and 5)	50,898,795	49,183,564
Investment in government business enterprises (note 22)	18,161,827	17,488,527
	<u>225,824,953</u>	<u>190,667,549</u>
<b>Liabilities:</b>		
Temporary loans (note 8)	578,000	18,550,000
Accounts payable and accrued liabilities	42,007,579	39,653,419
Due to government business enterprises (note 22):		
Utilities Kingston	1,014,586	1,076,349
Kingston Electricity Distribution Limited	6,063,775	7,063,675
Employee future benefit obligations (note 11(d))	2,205,691	2,145,496
Deferred revenues – obligatory reserve funds (note 14)	11,162,633	13,009,663
Deferred revenues	10,146,030	6,676,226
Accrued interest on long-term debt	1,078,747	998,958
Employee future benefit obligations (note 11(d))	24,795,856	23,094,727
Landfill closure and post closure liabilities (note 17)	9,393,469	9,703,324
Long-term liabilities (note 12)	116,674,469	72,764,281
Long-term liabilities – Public Health Services (note 12)	4,855,239	4,950,867
	<u>229,976,074</u>	<u>199,686,985</u>
<b>Net financial liabilities</b>	<b>(4,151,121)</b>	<b>(9,019,436)</b>
<b>Other assets:</b>		
Inventory	1,141,599	825,105
<b>Total net liabilities</b>	<b>\$ (3,009,522)</b>	<b>\$ (8,194,331)</b>
<b>Municipal position:</b>		
Current fund (note 13)	\$ 11,653,942	\$ 9,108,308
Capital fund (note 13)	15,060,793	(15,178,712)
Reserves	9,392,427	12,095,862
Reserve funds	100,543,231	80,816,453
Government business enterprises net equity (note 22)	18,161,827	17,488,527
	<u>154,812,220</u>	<u>104,330,438</u>
Amounts to be recovered from future revenues:		
Net long-term liabilities (note 12)	(121,416,477)	(77,591,446)
Accrued interest on long-term debt	(1,078,747)	(998,958)
Employee future benefit obligations (note 11(d))	(20,470,141)	(18,968,926)
Landfill closure and post-closure liabilities (note 17)	(9,393,469)	(9,703,324)
Amounts to be recovered from reserve funds:		
Employee future benefit obligations (note 11(d))	(5,462,908)	(5,262,115)
	<u>(157,821,742)</u>	<u>(112,524,769)</u>
Contingent liabilities (note 18)		
Commitments (note 19)		
<b>Total municipal position</b>	<b>\$ (3,009,522)</b>	<b>\$ (8,194,331)</b>

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, 2006, with comparative figures for 2005

	2006	2005
<b>Revenues:</b>		
Property taxation	\$ 134,137,772	\$ 123,721,726
Taxation from other governments	13,681,897	14,436,660
User charges	69,640,443	67,234,544
User charges – gas commodity	25,061,965	26,766,995
Government grants – Canada	8,972,231	8,609,535
Government grants – Province of Ontario	89,084,715	58,530,951
Grants from other municipalities	4,721,031	4,511,239
Investment income	7,608,852	5,667,738
Penalties and interest on taxes	1,597,617	1,665,357
Sale of land	3,760,395	521,148
Lot levies	4,456,280	2,973,545
Other	2,736,762	3,310,144
Transfers from deferred obligatory reserve funds (note 14)	13,319,267	–
Government business enterprises net loss (note 22)	523,300	(990,098)
<b>Total revenues</b>	<b>379,302,527</b>	<b>316,959,484</b>
<b>Expenditures:</b>		
<b>Current:</b>		
General government	19,137,424	17,815,716
Fire	17,079,210	14,778,567
Police	24,762,666	22,077,455
Protective inspections and control	4,238,227	4,533,130
Roadways and winter control	11,669,813	11,026,700
Transit	11,509,082	9,784,301
Parking	3,498,437	3,628,580
Street lighting	1,278,371	1,107,949
Air transportation	1,101,630	1,059,344
Sanitary sewers	8,747,500	8,867,500
Storm sewers	983,394	751,945
Waterworks system	7,750,621	7,591,350
Garbage collection and disposal	8,513,412	8,268,181
Health services	9,977,723	8,427,405
Land ambulance	4,731,779	4,885,391
Social housing	14,129,595	13,854,697
Assistance to families (general)	48,120,840	46,992,739
Assistance to aged persons	16,576,759	16,087,942
Day nurseries	7,563,484	7,278,239
Parks, recreation and other cultural	14,300,217	13,723,673
Libraries	5,659,615	5,344,718
Planning and zoning	1,553,249	1,442,852
Commercial and industrial development	3,516,684	3,146,640
Transfers to deferred obligatory reserve funds	–	699,812
Gas utility – operations	3,385,918	3,248,310
Gas utility – commodity	25,061,965	26,766,995
<b>Total current expenditures</b>	<b>274,847,615</b>	<b>263,190,131</b>

# CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Activities, page 2

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Expenditures (continued):		
Capital:		
General government	\$ 5,776,188	\$ 4,145,848
Fire	2,464,734	2,646,340
Police	19,151,315	5,107,075
Protective inspection and control	33,494	—
Roadways	18,266,694	17,880,550
Transit	2,660,765	1,893,798
Parking	290,740	300,391
Air transportation	74,262	270,019
Sanitary sewers	20,554,754	25,253,097
Waterworks system	4,853,600	9,464,693
Environmental	362,494	414,039
Garbage collection and disposal	262,669	69,836
Public Health Services	27,605	214,333
Assistance to families and aged persons	681,845	88,577
Social housing	1,613,788	—
Parks and recreation and other cultural	19,176,604	6,134,122
Libraries	119,032	288,115
Planning and zoning	270,111	604,434
Transfers to deferred obligatory reserve funds (note 14)	—	1,394,230
Gas utility	2,945,903	8,273,058
	<u>99,586,597</u>	<u>84,442,555</u>
Total expenditures	374,434,212	347,632,686
Net revenues (expenditures)	4,868,315	(30,673,202)
Financing and transfers:		
New debt issue - municipality	52,560,000	25,250,000
Debt principal repayments	(8,734,968)	(8,345,261)
Change in accrued interest on long-term debt	79,789	32,708
Change in employee future benefit obligations	1,702,007	1,709,755
Change in landfill closure and post-closure liabilities	(309,855)	(1,109,555)
Change in non-financial assets	316,494	90,555
	<u>45,613,467</u>	<u>17,628,202</u>
Increase (decrease) in fund balances	\$ 50,481,782	\$ (13,045,000)

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, 2006, with comparative figures for 2005

	2006	2005
<b>Operations:</b>		
Net revenues (expenditures)	\$ 4,868,315	\$ (30,673,202)
Net change in non-cash working capital items:		
Decrease (increase) in taxes receivable	65,366	(356,573)
Decrease (increase) in accounts receivable	3,258,683	(8,585,435)
Increase in other current assets	(262,279)	(1,776,929)
Increase (decrease) in accounts payable and accrued liabilities	2,354,160	8,895,511
Increase (decrease) in due to government business enterprises	(1,001,468)	4,064,855
Increase (decrease) in deferred obligatory reserve funds	(1,847,030)	5,917,100
Increase in deferred revenue	3,469,804	4,472,731
Increase in accrued interest on long-term debt	79,789	32,708
Increase in employee future benefit obligations	1,701,129	1,893,230
Decrease in landfill closure and post closure liabilities	(309,855)	(1,109,555)
	7,508,299	13,447,643
<b>Net change in cash from operations</b>	<b>12,376,614</b>	<b>(17,225,559)</b>
<b>Investments:</b>		
Decrease (increase) in long-term investments	(1,715,231)	7,594,004
Decrease (increase) in investment in government business enterprises	(673,300)	2,340,098
Repayment of notes receivable from government business enterprises	—	1,500,000
<b>Net change in cash from investments</b>	<b>(2,388,531)</b>	<b>11,434,102</b>
<b>Financing:</b>		
New debt issue - municipality	52,560,000	25,250,000
New debt issue (repayment of) tile drainage	(10,472)	123,702
Temporary loans	(17,972,000)	8,550,000
Debt principal repayments	(8,734,968)	(8,345,261)
<b>Net change in cash from financing</b>	<b>25,842,560</b>	<b>25,578,441</b>
<b>Increase in cash and short-term investments</b>	<b>35,830,643</b>	<b>19,786,984</b>
Cash and short-term investments, beginning of year	61,615,806	41,828,822
<b>Cash and short-term investments, end of year</b>	<b>\$ 97,446,449</b>	<b>\$ 61,615,806</b>

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

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

# CORPORATION OF THE CITY OF KINGSTON

## Notes to Consolidated Financial Statements

Year ended December 31, 2006

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### 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 Public Health (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 Public Health 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, 2006

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## 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, 2006

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## 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, 2006

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## 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:

	2006	2005
Taxation and user charges	\$ 47,831,787	\$ 45,642,926
Payments in lieu	262,248	275,255
Amount transferred to school boards	\$ 48,094,035	\$ 45,918,181

## 3. Restricted assets:

Cash and investments in the amount of \$92,870,283 (2005 - \$77,964,356) 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 is charged at the bank's prime rate less 0.5%. As at December 31, 2006, there was \$Nil (2005 - \$Nil) drawn on the operating credit facility.

## 5. Long-term investments:

Long-term investments, which consist primarily of government and financial institution bonds, are recorded on the Consolidated Statement of Financial Position at cost plus accrued interest and amortization of purchase premiums and discounts. They have a market value of \$50,113,189 at December 31, 2006 (2005 - \$48,550,688).

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

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## 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:

	2006	2005
Kingston Economic Development Corporation Grant	\$ 2,300,000	\$ 2,300,000

## 7. Trust funds:

Trust funds administered by the municipality amounting to \$409,562 (2005 - \$374,868) 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:

During the current year, the City debentured \$18,820,000 to repay the temporary capital loan with the Ontario Strategic Infrastructure Financial Authority (OSIFA) for the interim financing of various water, sewer and roads capital projects. As at December 31, 2006, the temporary capital loan balance is \$Nil (2005 - \$18,550,000).

At December 31, 2006, an amount of \$578,000 (2005 - \$Nil) was drawn on a non-revolving term facility as part of the Kingston & Frontenac Housing Corporation's banking agreements. The total borrowings are payable in full on November 30, 2007 with interest payable at the bank's prime rate.

## 9. Provincial grants:

Certain provincial grants are subject to annual final reviews and approvals by the Ministry. Any adjustments resulting from the review will be reflected in the year of Ministry approval as an adjustment to provincial grant revenues on the "Consolidated Statement of 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 2006 was \$5,349,212 (2005 - \$4,642,088) 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, 2006

## 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 at December 31, 2004. An actuarial update of the employee future benefits was completed for December 31, 2006. 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, 2006, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$17,146,055 (2005 - \$15,940,105).

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:

	2006	2005
Accrued benefit liability, January 1	\$ 15,940,102	\$ 14,773,063
Expense recognized for the period	1,992,872	1,919,699
Benefits paid for the period	(1,135,390)	(1,101,131)
Amortization of actuarial losses	348,471	348,471
Accrued benefit liability, December 31	17,146,055	15,940,102
Reserve funds established	5,462,908	5,262,115
Amounts to be recovered from future revenues	\$ 11,683,147	\$ 10,677,987

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

	2006	2005
Accrued benefit obligation	\$ 20,282,284	\$ 19,424,802
Unamortized actuarial losses	(3,136,229)	(3,484,700)
Accrued benefit liability, December 31	\$ 17,146,055	\$ 15,940,102

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 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. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was undertaken at December 31, 2004. An actuarial update of these liabilities was completed for December 31, 2006. 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, 2006, the City's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$8,852,528 (2005 - \$8,298,436).

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

	2006	2005
Accrued benefit liability, beginning of year	\$ 8,298,436	\$ 7,639,392
Expense recognized for the period	1,742,915	1,872,533
Benefits paid for the period	(1,368,330)	(1,392,996)
Amortization of actuarial loss	179,507	179,507
Accrued benefit liability, end of year	\$ 8,852,528	\$ 8,298,436

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

	2006	2005
Accrued benefit obligation	\$ 10,288,591	\$ 9,914,006
Unamortized actuarial losses	(1,436,063)	(1,615,570)
Accrued benefit liability, end of year	\$ 8,852,528	\$ 8,298,436

### (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, 2006 amount to \$739,508 (2005 - \$737,351).

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 11. Employee benefit obligations (continued):

(d) Employee benefit obligations:

	2006	2005
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 15,053,180	\$ 13,911,606
Workplace safety and insurance	8,852,528	8,298,436
Vacation credits	626,692	620,351
Pension payable	263,456	264,334
	<u>24,795,856</u>	<u>23,094,727</u>
Health benefits and sick leave – water, sewer and gas utilities	2,092,875	2,028,496
Vacation credits – water, sewer and gas utilities	112,816	117,000
	<u>2,205,691</u>	<u>2,145,496</u>
Amounts previously funded from operations	(1,068,498)	(1,009,182)
Amounts to be recovered from reserve funds	(5,462,908)	(5,262,115)
	<u>\$ 20,470,141</u>	<u>\$ 18,968,926</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:

	2006	2005
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	\$ 116,674,469	\$ 72,764,281
Proportionate share of KFLA Health Unit long-term debt	4,855,239	4,950,867
Total long-term liabilities at the end of the year	<u>121,529,708</u>	<u>77,715,148</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	(113,231)	(123,702)
Total long-term liabilities to be recovered from future revenues	<u>\$ 121,416,477</u>	<u>\$ 77,591,446</u>

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 12. Net long-term liabilities (continued):

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

	2007 to 2011	2012 to 2016	2017 onwards	Total
Tax sources	\$ 23,962,455	\$ 10,850,816	\$ 21,865,260	\$ 56,678,531
Gas, sewer, water user fees	8,943,848	5,656,584	11,323,006	25,923,438
Other user fees	4,245,765	3,737,591	25,975,913	33,959,269
From KFLA Health Unit	579,119	4,276,120	–	4,855,239
From benefiting landowners	63,243	49,988	–	113,231
	\$ 37,794,430	\$ 24,571,099	\$ 59,164,179	\$ 121,529,708

(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 \$11,653,941 (2005 - \$9,108,308) at the end of the year is comprised of the following:

	2006	2005
To be applied to operations of the operating fund for the following year	\$ 1,712,746	\$ 289,082
To be applied to operations of the water area	1,988,798	1,577,852
To be applied to operations of the sewer area	2,480,268	2,089,872
To be applied to gas operations	5,186,101	4,951,094
To be recovered from operations of the Downtown Business Improvement Area	(40,174)	(47,735)
To be applied to operations of the Kingston & Frontenac Housing Corporation	327,730	268,134
To be recovered from operations of the Kingston – Frontenac Public Library Board	(1,527)	(19,991)
	\$ 11,653,942	\$ 9,108,308

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

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

(b) The capital fund balance on the "Consolidated Statement of Financial Position" of \$15,060,793 (2005 – (\$15,178,712)) at the end of the year is comprised of the following:

	2006	2005
Unapplied capital receipts	\$ 56,349,625	\$ 31,708,102
Capital expenditures to be financed from the proceeds of long-term liabilities	(38,462,646)	(45,466,392)
Capital expenditures to be financed from transfers from reserves and reserve funds	(972,990)	(1,089,374)
Capital expenditures to be financed from taxation or user charges	(1,853,196)	(331,048)
	<b>\$ 15,060,793</b>	<b>\$ (15,178,712)</b>

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:

	2006	2005
Balance, beginning of year	\$ 13,009,663	\$ 7,092,562
Development contributions	5,145,838	3,570,612
Investment income	440,469	252,447
Transfers from (to) current fund	(1,442,954)	(909,541)
Transfers from (to) capital fund	(11,876,313)	(832,499)
Federal gasoline tax	2,226,730	2,226,729
Provincial gasoline tax	1,555,927	1,151,113
Building code	2,103,273	458,240
Balance, end of year	<b>\$ 11,162,633</b>	<b>\$ 13,009,663</b>
Analyzed as follows:		
Development charges	\$ 5,305,121	\$ 9,119,839
Cash in lieu of parkland	798,566	747,448
Provincial gasoline tax	242,538	457,407
Federal gasoline tax	2,238,590	2,226,729
Building Code	2,577,818	458,240
	<b>\$ 11,162,633</b>	<b>\$ 13,009,663</b>

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 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:

	2006	2005
Principal payments	\$ 8,734,968	\$ 8,345,261
Interest	4,342,727	3,669,716
	<u>\$ 13,077,695</u>	<u>\$ 12,014,977</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:

	2006	2005
Gross revenues received	\$ 1,321,080	\$ 1,361,824
Gross expenditures	815,045	812,418
Net revenues	<u>\$ 506,035</u>	<u>\$ 549,406</u>

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

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## 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 3 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 \$275,000. 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 \$30,000 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 2008 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 \$300,000 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 \$9.5 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, 2006 is an amount of \$9,393,469 (2005 - \$9,703,324) 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, 2006

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## 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, 2006, management believes that the City has valid defences and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.
- (b) The City operated a coal gasification plant within the downtown area of the City from the mid-1800's through to the 1950's. Coal tar, a by-product of the coal gasification process, may have led to the contamination of soils and groundwater in the area of the former plant.

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

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

## 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 2006 were approximately \$1,600,345 (2005 - \$1,782,557).

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 19. Commitments (continued):

- (b) The City of Kingston has entered into contract commitments related to the following capital projects:

Description of project	Total contract price (\$ million)	Costs incurred to date (\$ million)
Construction of a new police building	\$ 26.6	\$ 14.6
Restoration of the Grand Theatre	\$ 11.3	\$ 0.6
Construction of the Kingston Regional Sports and Entertainment Centre	\$ 32.0	\$ 3.5
Construction of the Multiplex Facility	\$ 26.3	\$ 1.6

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

Description of project	Total contract price (\$ million)	Costs incurred to date (\$ million)
Construction related to secondary treatment upgrades to the Ravensview sewage treatment plant	\$ 95.4	\$ 18.0
Upgrades to sewage pumping station	\$ 4.6	\$ 4.2

- (d) 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".
- (e) During the year, the City entered into a lease for office premises for term of five years, ending August 31, 2011 for a monthly base rental of \$28,101 plus operating costs. Lease terms include the option to renew for two additional five year terms.
- (f) In a 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 2006 in the amount of \$712,503 (2005 - \$712,503).

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 20. Budget figures:

The City of Kingston reviews its operating and capital budgets annually. The approved operating and capital budgets for 2006 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:

	2006	2005
Current fund expenditures by object:		
Salaries, wages and employee benefits	\$ 108,817,113	\$ 101,574,473
Long-term debt interest expense	4,422,526	3,702,424
Materials	35,968,897	33,221,533
Contracted services	32,827,178	30,717,510
Rents and financial expenses	3,694,982	3,261,829
Natural gas commodity purchases	25,061,965	26,766,995
Transfers to others	64,054,954	63,245,555
Transfer to deferred obligatory reserve funds	—	699,812
<b>Total</b>	<b>\$ 274,847,615</b>	<b>\$ 263,190,131</b>

## 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, 2006

## 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.

	2006	2005
Financial position		
Current assets	\$ 12,722,524	\$ 12,041,930
Due from City of Kingston:		
Utilities Kingston	1,014,586	1,076,349
Kingston Electricity Distribution Limited	6,063,775	7,063,675
Post employment benefit obligation	2,045,689	1,981,310
Accrued vacation liabilities	160,000	160,000
Capital assets	29,104,898	28,345,536
Deferred charges	1,415,276	3,769,540
<b>Total assets</b>	<b>52,526,748</b>	<b>54,438,340</b>
Current liabilities	13,533,326	15,931,555
Post employment benefit obligation	2,991,153	2,906,276
Accrued vacation and pension liabilities	293,276	294,494
Accrued liabilities non-current	5,701,536	5,971,858
Long-term notes payable to City of Kingston, 7.25% per annum, no fixed terms of repayment	11,845,630	11,845,630
<b>Total liabilities</b>	<b>34,364,921</b>	<b>36,949,813</b>
<b>Net assets</b>	<b>\$ 18,161,827</b>	<b>\$ 17,488,527</b>
Common shares	\$ 12,380,619	\$ 12,380,619
Redeemable preferred shares	6,765,008	6,615,008
Accumulated loss	(983,800)	(1,507,100)
<b>Investment in government business enterprises</b>	<b>\$ 18,161,827</b>	<b>\$ 17,488,527</b>

# CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

## 22. Investment in government business enterprises (continued):

(a) (continued):

	2006	2005
Results of operations:		
Net utility revenues	\$ 61,566,182	\$ 74,076,249
Operating expenses	(56,284,961)	(70,452,319)
Interest on debt	(1,097,938)	(1,116,789)
Depreciation	(2,582,800)	(2,487,813)
Write-off of regulatory assets	–	(409,513)
Net earnings (loss) before income taxes	1,600,483	(390,185)
Payments in lieu of corporate income taxes	1,077,183	481,674
Net earnings (loss)	523,300	(871,859)
Prior period adjustments	–	(118,239)
Net earnings (loss) after prior period adjustments	523,300	(990,098)
Accumulated earnings (loss), beginning of year	(1,507,100)	982,998
	(983,800)	(7,100)
Dividends paid	–	(1,500,000)
Accumulated loss, end of year	\$ (983,800)	\$ (1,507,100)

(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 \$7,089,355 (2005 - \$8,209,001) and \$47,514,055 (2005 - \$62,011,571) respectively.

In addition, the City contracted to provide financial, human resources, legal and information technology services to both 1425445 Ontario Limited (operating as Utilities Kingston) and Kingston Electricity Distribution Limited in the amount of \$2,346,384 (2005 - \$2,723,030). As at December 31, 2006, the City had balances owing to both companies in the amount of \$1,014,586 (2005 - \$1,076,349) and \$6,063,775 (2005 - \$7,063,675) 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, 2006

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## **23. Comparative figures:**

Certain 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2006.

## **24. 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, 2006, with comparative figures for 2005

	Budget 2006 (note 20)	Actual 2006	Actual 2005
<b>Revenues:</b>			
Property taxation	\$ 133,703,137	\$ 134,137,772	\$ 123,721,726
Taxation from other governments	14,599,525	13,681,897	14,436,660
User charges	68,427,814	69,640,443	67,234,544
User charges – gas commodity	40,000,000	25,061,965	26,766,995
Government grants	58,860,391	58,577,830	56,071,276
Grants from other municipalities	4,839,768	4,721,031	4,511,239
Investment income	1,411,500	2,211,188	1,608,290
Penalties and interest on taxes	1,610,341	1,597,617	1,665,357
Sale of land and equipment	–	3,760,395	521,148
Other	157,117	394,304	955,905
Transfers from deferred obligatory reserve funds (note 14)	1,616,920	1,442,954	–
<b>Total revenues</b>	<b>325,226,513</b>	<b>315,227,396</b>	<b>297,493,140</b>
<b>Expenditures:</b>			
General government	18,411,232	19,294,227	17,815,716
Protection to persons and property	44,743,638	46,080,104	41,389,152
Transportation services	30,129,591	28,900,528	26,606,874
Environmental services	27,660,248	25,994,928	25,478,976
Health services	14,750,864	14,709,502	13,312,796
Social and family services	73,674,901	72,261,084	70,358,920
Social housing	14,151,571	14,129,595	13,854,697
Recreation and cultural services	18,734,165	19,959,832	19,068,391
Planning and development	5,069,719	5,069,932	4,589,492
Gas operations	43,734,669	28,447,883	30,015,305
Transfers to deferred obligatory reserve funds (note 14)	–	–	699,812
<b>Total expenditures</b>	<b>291,060,598</b>	<b>274,847,615</b>	<b>263,190,131</b>
<b>Net revenues</b>	<b>34,165,915</b>	<b>40,379,781</b>	<b>34,303,009</b>
<b>Financing and transfers:</b>			
Net transfers to other funds:			
Reserves and reserve funds	(26,483,229)	(30,887,614)	(28,840,188)
Debt principal repayments	(8,806,187)	(8,734,968)	(8,345,261)
Change in accrued interest on long-term debt	–	79,789	32,708
Change in employee future benefit obligations	–	1,702,007	1,709,755
Change in landfill closure and post-closure liabilities	–	(309,855)	(1,109,555)
Change in non-financial assets	–	316,494	90,555
<b>Net financing and transfers</b>	<b>(35,289,416)</b>	<b>(37,834,147)</b>	<b>(36,461,986)</b>
Change in current fund balance	(1,123,501)	2,545,634	(2,158,977)
Opening current fund balance	9,108,308	9,108,308	11,267,285
<b>Closing current fund balance</b>	<b>\$ 7,984,807</b>	<b>\$ 11,653,942</b>	<b>\$ 9,108,308</b>

# CORPORATION OF THE CITY OF KINGSTON

## Consolidated Schedule of Capital Fund Operations

Year ended December 31, 2006, with comparative figures for 2005

	Budget 2006 (note 20)	Actual 2006	Actual 2005
<b>Revenues:</b>			
Government grants	\$ 53,846,491	\$ 39,479,116	\$ 11,069,210
Transfers from deferred obligatory reserve funds (note 14)	20,175,000	11,876,313	–
Other	1,216,600	2,342,458	2,354,239
<b>Total revenues</b>	<b>75,238,091</b>	<b>53,697,887</b>	<b>13,423,449</b>
<b>Expenditures:</b>			
General government	2,970,000	5,776,188	4,145,848
Protection to persons and property	2,829,000	21,649,543	7,753,415
Transportation services	24,774,175	21,292,461	20,344,758
Environmental services	132,175,626	26,033,517	35,201,665
Health services	–	27,605	214,333
Social and family services	580,750	681,845	88,577
Social housing	–	1,613,788	–
Planning and development	605,000	270,111	604,434
Recreation and cultural services	24,195,000	19,295,636	6,422,237
Gas	2,702,162	2,945,903	8,273,058
Transfers to deferred obligatory reserve funds (note 14)	–	–	1,394,230
<b>Total expenditures</b>	<b>190,831,713</b>	<b>99,586,597</b>	<b>84,442,555</b>
<b>Net expenditures</b>	<b>(115,593,622)</b>	<b>(45,888,710)</b>	<b>(71,019,106)</b>
<b>Financing and transfers:</b>			
Net transfers from other funds:			
Reserves and reserve funds	71,420,449	23,568,215	28,252,263
New debt issue	44,173,173	52,560,000	25,250,000
<b>Net financing and transfers</b>	<b>115,593,622</b>	<b>76,128,215</b>	<b>53,502,263</b>
<b>Change in capital fund balance</b>	<b>–</b>	<b>30,239,505</b>	<b>(17,516,843)</b>
<b>Opening capital fund balance</b>	<b>–</b>	<b>(15,178,712)</b>	<b>2,338,131</b>
<b>Closing capital fund balance</b>	<b>\$ –</b>	<b>\$ 15,060,793</b>	<b>\$ (15,178,712)</b>

# CORPORATION OF THE CITY OF KINGSTON

## Consolidated Schedule of Reserves and Reserve Funds

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
<b>Revenues:</b>		
Investment income	\$ 5,397,664	\$ 5,559,448
Lot levies	4,456,280	2,973,545
<b>Total revenues</b>	<b>9,853,944</b>	<b>8,532,993</b>
<b>Expenditures:</b>		
Increase in government business enterprise equity	150,000	150,000
<b>Net revenues</b>	<b>9,703,944</b>	<b>8,382,993</b>
<b>Net transfers from (to) other funds:</b>		
Current fund	30,887,614	28,840,188
Capital fund	(23,568,215)	(28,252,263)
<b>Total net transfers</b>	<b>7,319,399</b>	<b>587,925</b>
<b>Change in reserves and reserve fund balances</b>	<b>17,023,343</b>	<b>8,970,918</b>
<b>Opening reserves and reserve fund balances</b>	<b>92,912,315</b>	<b>83,941,397</b>
<b>Closing reserves and reserve fund balances</b>	<b>\$ 109,935,658</b>	<b>\$ 92,912,315</b>
<b>Analyzed as follows:</b>		
<b>Reserves set aside for specific purpose:</b>		
- working funds	\$ 8,929,448	\$ 11,686,927
- roads	462,979	385,310
- other capital	-	23,625
	<b>9,392,427</b>	<b>12,095,862</b>
<b>Reserve funds set aside for specific purposes:</b>		
- replacement of equipment	10,409,209	10,862,879
- sanitary sewer system	15,199,327	8,511,878
- storm sewer system	249,572	637,702
- parks and recreation	1,526,811	1,605,823
- libraries	735,915	1,091,968
- waterworks system	14,706,893	12,179,248
- planning and development	3,149,666	1,741,065
- other	7,352,534	8,733,949
- roads	5,710,972	714,041
- transit	1,377,332	1,200,900
- gas utility	3,389,292	3,321,395
- sick leave	5,462,908	5,262,115
- protective services	2,525,658	1,878,246
- social and family services	1,454,413	-
- social housing	2,134,445	2,142,767
- parking	1,855,180	1,023,505
- lot levies	23,303,104	19,908,972
	<b>100,543,231</b>	<b>80,816,453</b>
	<b>\$ 109,935,658</b>	<b>\$ 92,912,315</b>



KPMG LLP  
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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.

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

Chartered Accountants

Kingston, Canada  
March 30, 2007

# CORPORATION OF THE CITY OF KINGSTON

## Water Operations Statement of Revenues and Expenditures

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Operating revenues:		
Water revenue	\$ 11,235,633	\$ 10,980,754
Other revenue	315,222	312,599
Total revenues	11,550,855	11,293,353
Operating expenditures:		
Contracted services	7,745,814	7,546,558
Net revenues before capital expenditures and financing and transfers	3,805,041	3,746,795
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	4,220,072	3,582,708
Capital expenditures current year:		
Contracted services	4,853,600	9,459,020
Less capital financing:		
Water capital reserve funds	(1,538,351)	(6,164,692)
Impost reserve fund	(1,251,003)	(2,545,156)
Debt	(4,643,947)	-
Other	(111,979)	(111,808)
	1,528,392	4,220,072
Unfinanced capital expenditures, end of year	(1,528,392)	(4,220,072)
Capital financed from operations	-	-
Financing and transfers:		
Debt principal repayments	(94,128)	(86,508)
Debt interest	(22,452)	(30,251)
Transfer to water capital reserve funds (prior years)	(169,323)	-
Transfer to water capital reserve funds	(3,108,192)	(3,371,571)
Net financing and transfers	(3,394,095)	(3,488,330)
Net revenues for the year	410,946	258,465
Opening accumulated net revenues	1,577,852	1,319,387
Closing accumulated net revenues	\$ 1,988,798	\$ 1,577,852

# CORPORATION OF THE CITY OF KINGSTON

## Sewer Operations Statement of Revenues and Expenditures

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
<b>Revenues:</b>		
Sewer revenue	\$ 17,070,341	\$ 15,558,546
Other revenue	608,405	936,645
Total revenues	17,678,746	16,495,191
<b>Operating expenditures:</b>		
Contracted services	8,239,490	8,203,515
<b>Net revenues before capital expenditures and financing and transfers</b>		
	9,439,256	8,291,676
<b>Capital expenditures:</b>		
Unfinanced capital expenditures, beginning of year	16,689,863	3,201,921
Capital expenditures current year:		
Contracted services	20,559,754	25,253,097
Less:		
Debt	(9,350,000)	-
Impost reserve fund	(336,952)	(2,180,846)
Sewer capital reserve funds	(1,401,817)	(2,682,685)
Grants	(28,565,796)	(6,901,624)
	(2,404,948)	16,689,863
Unapplied capital receipts (unfinanced capital expenditures), end of year	2,404,948	(16,689,863)
<b>Capital financed from operations</b>		
	-	-
<b>Financing and transfers:</b>		
Debt principal repayments	(1,581,912)	(1,492,198)
Debt interest	(508,992)	(608,994)
Transfer to sewer capital reserve funds (prior years)	(805,532)	-
Transfer to sewer capital reserve funds	(6,152,424)	(5,384,952)
Net financing and transfers	(9,048,860)	(7,486,144)
<b>Net revenues for the year</b>		
	390,396	805,532
<b>Opening accumulated net revenues</b>		
	2,089,872	1,284,340
<b>Closing accumulated net revenues</b>		
	\$ 2,480,268	\$ 2,089,872

# CORPORATION OF THE CITY OF KINGSTON

## Gas Operations Statement of Revenues and Expenditures

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Sales and distribution revenue	\$ 25,061,965	\$ 26,766,995
Cost of gas	25,061,965	26,766,995
	-	-
Local distribution	7,247,003	7,129,167
Other revenue	1,792,210	1,674,695
Total revenues	9,039,213	8,803,862
Operating expenditures:		
Contracted services	3,174,493	3,248,310
Net revenues before capital expenditures and financing and transfers	5,864,720	5,555,552
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	153,000	-
Capital expenditures current year:		
Contracted services	2,945,903	8,273,058
Less:		
Gas capital reserve funds	(3,098,903)	(3,370,058)
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	(2,822,040)	(3,093,991)
Debenture debt charges	(596,112)	-
Transfer to gas capital reserve funds (prior years)	(711,561)	-
Transfers to City of Kingston	(1,500,000)	(1,750,000)
Net financing and transfers	(5,629,713)	(4,843,991)
Net revenues for the year	235,007	711,561
Opening accumulated net revenues	4,951,094	4,239,533
Closing accumulated net revenues	\$ 5,186,101	\$ 4,951,094



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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, 2006 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, 2006 and the continuity of trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Kingston, Canada  
March 30, 2007

# CORPORATION OF THE CITY OF KINGSTON

## Trust Funds

Name of Fund	Ontario Home Renewal Plan	Rideaucrest Residents Funds, Donations and Endowments	Cloverdale Judo	Other	Total 2006	Total 2005
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### Statements of Financial Position

As at December 31, 2006, with comparative figures for 2005

#### Assets

Cash and short-term investments	\$ -	\$ 182,152	\$ 155,863	\$ 69,624	\$ 407,639	\$ 371,823
Loans receivable	1,923	-	-	-	1,923	3,045
	\$ 1,923	\$ 182,152	\$ 155,863	\$ 69,624	\$ 409,562	\$ 374,868

#### Fund balances:

Unexpendable trust	\$ -	\$ 40,400	\$ 155,863	\$ 25,000	\$ 221,263	\$ 174,428
Capital/earned surplus	1,923	141,752	-	44,624	188,299	200,440
	\$ 1,923	\$ 182,152	\$ 155,863	\$ 69,624	\$ 409,562	\$ 374,868

### Statements of Continuity

Year ended December 31, 2006, with comparative figures for 2005

Balances, beginning of year	\$ 3,045	\$ 150,391	\$ 149,428	\$ 72,005	\$ 374,869	\$ 714,069
Donations and other revenue	-	172,253	-	15	172,268	128,586
Interest earned	433	8,085	6,435	2,879	17,832	28,957
	3,478	330,729	155,863	74,899	564,969	871,612
Contribution to reserve and capital funds	-	-	-	-	-	369,870
Expenditures	1,555	148,577	-	5,275	155,406	126,874
Balances, end of year	\$ 1,923	\$ 182,152	\$ 155,863	\$ 69,624	\$ 409,562	\$ 374,868

# CORPORATION OF THE CITY OF KINGSTON

Trust Funds  
Notes to Financial Statements

Year ended December 31, 2006

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## 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, 2006 comprise repayable loans of \$1,923 (2005 - \$3,045) 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.