

Audited Financial Statements
and Other Financial Information of

**CORPORATION OF THE
CITY OF KINGSTON**

Year ended December 31, 2007

Audited Financial Statements
and Other Financial Information of

CORPORATION OF THE CITY OF KINGSTON

Year ended December 31, 2007

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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, 2007 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, 2007 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 long, horizontal, slightly curved line that serves as a decorative underline.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada

March 28, 2008

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Financial assets:		
Cash and short-term investments (note 3)	\$ 76,072,093	\$ 97,446,449
Taxes receivable	7,596,126	8,052,855
Accounts receivable	43,127,176	26,502,853
Other current assets	10,011,335	12,916,544
Notes receivable from government business enterprises (note 22)	11,845,630	11,845,630
Long-term investments (notes 3 and 5)	59,793,049	50,898,795
Investment in government business enterprises (note 22)	19,682,676	18,161,827
	<u>228,128,085</u>	<u>225,824,953</u>
Liabilities:		
Temporary loans (note 8)	57,600,000	578,000
Accounts payable and accrued liabilities	53,679,522	41,016,205
Due to government business enterprises (note 22):		
Utilities Kingston	426,424	1,014,586
Kingston Electricity Distribution Limited	5,592,721	6,063,775
Employee future benefit obligations (note 11(d))	2,254,253	2,205,691
Deferred revenues – obligatory reserve funds (note 14)	16,898,609	11,162,633
Deferred revenues	9,999,915	10,146,030
Accrued interest on long-term debt	1,650,227	1,078,747
Employee future benefit obligations (note 11(d))	26,631,634	24,795,856
Landfill closure and post closure liabilities (note 17)	7,985,838	9,393,469
Long-term liabilities (note 12)	126,470,904	121,529,708
	<u>309,190,047</u>	<u>228,984,700</u>
Net financial liabilities	(81,061,962)	(3,159,747)
Other assets:		
Inventory	944,880	1,141,599
Total net liabilities	\$ (80,117,082)	\$ (2,018,148)
Municipal position:		
Current fund (note 13)	\$ 12,611,825	\$ 12,645,316
Capital fund (note 13)	(69,535,004)	15,060,793
Reserves	8,291,730	8,929,448
Reserve funds	112,622,520	101,006,210
Government business enterprises net equity (note 22)	19,682,676	18,161,827
	<u>83,673,747</u>	<u>155,803,594</u>
Amounts to be recovered from future revenues:		
Net long-term liabilities (note 12)	(126,368,810)	(121,416,477)
Accrued interest on long-term debt	(1,650,227)	(1,078,747)
Employee future benefit obligations (note 11(d))	(21,851,253)	(20,470,141)
Landfill closure and post-closure liabilities (note 17)	(7,985,838)	(9,393,469)
Amounts to be recovered from reserve funds:		
Employee future benefit obligations (note 11(d))	(5,934,701)	(5,462,908)
	<u>(163,790,829)</u>	<u>(157,821,742)</u>
Contingent liabilities (note 18)		
Commitments (note 19)		
Total municipal position	\$ (80,117,082)	\$ (2,018,148)

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, 2007, with comparative figures for 2006

	2007	2006
Revenues:		
Property taxation	\$ 142,199,398	\$ 134,137,772
Taxation from other governments	13,231,342	13,681,897
User charges	81,651,313	72,470,364
User charges – gas commodity	21,491,662	25,061,965
Government grants	89,467,412	98,056,946
Grants from other municipalities	4,860,857	4,721,031
Investment income	10,416,677	7,608,852
Penalties and interest on taxes	1,423,698	1,597,617
Sale of land	746,780	3,760,395
Lot levies	2,756,632	4,354,853
Other	2,531,806	2,838,189
Transfers from deferred obligatory reserve funds (note 14)	5,242,828	13,319,267
Government business enterprises net earnings (note 22)	1,370,849	523,300
Total revenues	377,391,254	382,132,448
Expenditures:		
Current:		
General government	20,719,251	19,137,424
Fire	18,397,840	17,079,210
Police	27,956,503	24,762,666
Protective inspections and control	4,570,023	4,238,227
Roadways and winter control	13,988,548	11,669,813
Transit	12,356,178	11,509,082
Parking	3,384,513	3,498,437
Street lighting	1,424,600	1,278,371
Air transportation	1,087,819	1,101,630
Sanitary sewers	10,565,326	8,747,500
Storm sewers	1,092,994	983,394
Waterworks system	8,229,757	7,750,621
Garbage collection and disposal	8,578,004	8,823,267
Landfill closure and post-closure liabilities	(1,407,631)	(309,855)
Health services	9,912,454	9,375,860
Land ambulance	4,779,278	4,731,779
Social housing	18,316,177	16,959,516
Assistance to families (general)	47,726,674	48,120,840
Assistance to aged persons	16,208,691	16,576,759
Day nurseries	9,716,159	7,563,484
Parks, recreation and other cultural	16,055,451	14,300,217
Libraries	5,979,541	5,659,615
Planning and zoning	1,593,587	1,553,249
Commercial and industrial development	3,332,964	3,516,684
Gas utility – operations	3,183,608	3,385,918
Gas utility – commodity	21,491,662	25,061,965
Total current expenditures	289,239,971	277,075,673

CORPORATION OF THE CITY OF KINGSTON

Consolidated Statement of Financial Activities, page 2

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Expenditures (continued):		
Capital:		
General government	\$ 3,719,673	\$ 5,776,188
Fire	593,966	2,464,734
Police	16,565,440	19,151,315
Protective inspection and control	127,452	33,494
Roadways	14,991,038	18,266,694
Transit	1,744,075	2,660,765
Parking	425,500	290,740
Air transportation	77,583	74,262
Sanitary sewers	51,543,509	20,554,754
Waterworks system	4,576,379	4,853,600
Environmental	267,851	362,494
Garbage collection and disposal	623,991	262,669
Public Health Services	-	27,605
Assistance to families and aged persons	492,110	681,845
Social housing	5,810,921	1,613,788
Parks and recreation and other cultural	60,204,061	19,176,604
Libraries	1,448,752	119,032
Planning and zoning	490,491	270,111
Gas utility	2,350,705	2,945,903
	166,053,497	99,586,597
Total expenditures	455,293,468	376,662,270
Net revenues (expenditures)	(77,902,214)	5,470,178
Financing and transfers:		
New debt issue - municipality	14,264,384	52,560,000
Debt principal repayments	(9,312,052)	(8,734,968)
Change in accrued interest on long-term debt	571,480	79,789
Change in employee future benefit obligations	1,852,905	1,702,007
Change in landfill closure and post-closure liabilities	(1,407,631)	(309,855)
Change in non-financial assets	(196,719)	316,494
	5,772,367	45,613,467
Increase (decrease) in fund balances	\$ (72,129,847)	\$ 51,083,645

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, 2007, with comparative figures for 2006

	2007	2006
Operations:		
Net revenues (expenditures)	\$ (77,902,214)	\$ 4,868,315
Net change in non-cash working capital items:		
Decrease in taxes receivable	456,729	65,366
Decrease (increase) in accounts receivable	(16,624,323)	3,258,683
Decrease (increase) in other current assets	2,905,209	(262,279)
Increase in accounts payable and accrued liabilities	12,663,316	2,354,160
Decrease in due to government business enterprises	(1,010,654)	(1,001,468)
Increase (decrease) in deferred obligatory reserve funds	5,735,976	(1,847,030)
Increase (decrease) in deferred revenue	(146,115)	3,469,804
Increase in accrued interest on long-term debt	571,480	79,789
Increase in employee future benefit obligations	1,835,778	1,701,129
Decrease in landfill closure and post closure liabilities	(1,407,631)	(309,855)
	4,979,765	7,508,299
Net change in cash from operations	(72,922,449)	12,376,614
Investments:		
Increase in long-term investments	(8,894,254)	(1,715,231)
Increase in investment in government business enterprises	(1,520,849)	(673,300)
Net change in cash from investments	(10,415,103)	(2,388,531)
Financing:		
New debt issue - municipality	10,000,000	52,560,000
New debt issue - Kingston & Frontenac Housing Corporation	4,264,384	-
New repayment of tile drainage	(11,137)	(10,472)
Temporary loans	57,022,000	(17,972,000)
Debt principal repayments	(9,312,051)	(8,734,968)
Net change in cash from financing	61,963,196	25,842,560
Increase (decrease) in cash and short-term investments	(21,374,356)	35,830,643
Cash and short-term investments, beginning of year	97,446,449	61,615,806
Cash and short-term investments, end of year	\$ 76,072,093	\$ 97,446,449

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, 2007

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, 2007

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, 2007

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-seven 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, 2007

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:

	2007	2006
Taxation and user charges	\$ 48,629,809	\$ 47,831,787
Payments in lieu	265,103	262,248
Amount transferred to school boards	\$ 48,894,912	\$ 48,094,035

3. Restricted assets:

Cash and investments in the amount of \$129,521,129 (2006 - \$112,168,843) 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, 2007, there was \$Nil (2006 - \$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 \$60,684,885 at December 31, 2007 (2006 - \$50,113,189).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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:

	2007	2006
Kingston Economic Development Corporation Grant	\$ 2,300,000	\$ 2,300,000

7. Trust funds:

Trust funds administered by the municipality amounting to \$273,132 (2006 - \$409,562) 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 financial agreements with the Ontario Infrastructure Projects Corporation (OIPC) for temporary capital loans up to a maximum of \$115,540,000 for the interim financing of various water, sewer, roads and building capital projects. As at December 31, 2007, the temporary capital loan balance is \$57,600,000 (2006 - \$ Nil).

At December 31, 2007, an amount of \$Nil (2006 - \$578,000) was drawn on a non-revolving term facility as part of the Kingston & Frontenac Housing Corporation's banking agreements. The total borrowings were paid in full during the year.

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 2007 was \$5,681,482 (2006 - \$5,349,212) 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, 2007

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, 2007. 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, 2007, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$18,308,649 (2006 - \$17,146,055).

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:

	2007	2006
Accrued benefit liability, January 1	\$ 17,146,055	\$ 15,940,102
Expense recognized for the period	2,072,265	1,992,872
Benefits paid for the period	(1,258,142)	(1,135,390)
Amortization of actuarial losses	348,471	348,471
Accrued benefit liability, December 31	18,308,649	17,146,055
Reserve funds established	5,934,701	5,462,908
Amounts to be recovered from future revenues	\$ 12,373,948	\$ 11,683,147

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

	2007	2006
Accrued benefit obligation	\$ 21,096,408	\$ 20,282,284
Unamortized actuarial losses	(2,787,759)	(3,136,229)
Accrued benefit liability, December 31	\$ 18,308,649	\$ 17,146,055

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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, 2007. 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, 2007, the City's accrued benefit liability relating to future payments on Workplace Safety and Insurance Board claims is \$9,362,712 (2006 - \$8,852,528).

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

	2007	2006
Accrued benefit liability, beginning of year	\$ 8,852,528	\$ 8,298,436
Expense recognized for the period	1,691,235	1,742,915
Benefits paid for the period	(1,360,558)	(1,368,330)
Amortization of actuarial loss	179,507	179,507
Accrued benefit liability, end of year	\$ 9,362,712	\$ 8,852,528

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

	2007	2006
Accrued benefit obligation	\$ 10,619,266	\$ 10,288,591
Unamortized actuarial losses	(1,256,554)	(1,436,063)
Accrued benefit liability, end of year	\$ 9,362,712	\$ 8,852,528

(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, 2007 amount to \$952,418 (2006 - \$739,508).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

11. Employee benefit obligations (continued):

(d) Employee benefit obligations:

	2007	2006
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 16,167,212	\$ 15,053,180
Workplace safety and insurance	9,362,712	8,852,528
Vacation credits	839,602	626,692
Pension payable	262,108	263,456
	<u>26,631,634</u>	<u>24,795,856</u>
Health benefits and sick leave – water, sewer and gas utilities	2,141,437	2,092,875
Vacation credits – water, sewer and gas utilities	112,816	112,816
	<u>2,254,253</u>	<u>2,205,691</u>
	<u>28,885,887</u>	<u>27,001,547</u>
Amounts previously funded from operations	(1,099,933)	(1,068,498)
Amounts to be recovered from reserve funds	(5,934,701)	(5,462,908)
	<u>\$ 21,851,253</u>	<u>\$ 20,470,141</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:

	2007	2006
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	\$ 117,450,865	\$ 116,674,469
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation	4,264,384	–
Proportionate share of KFLA Public Health long-term debt	4,755,655	4,855,239
Total long-term liabilities at the end of the year	<u>126,470,904</u>	<u>121,529,708</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	(102,094)	(113,231)
Total long-term liabilities to be recovered from future revenues	<u>\$ 126,368,810</u>	<u>\$ 121,416,477</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

12. Long-term liabilities (continued):

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

	2008 to 2012	2013 to 2017	2018 onwards	Total
Tax sources	\$ 21,083,400	\$ 10,245,214	\$ 20,659,682	\$ 51,988,296
Gas, sewer, water user fees	9,255,332	6,985,823	16,182,694	32,423,849
Other user fees	4,146,699	3,505,630	25,284,297	32,936,626
From benefiting landowners	65,889	36,205	–	102,094
From KFLA Public Health	627,185	4,128,470	–	4,755,655
From Housing Corporation	437,626	600,000	3,226,758	4,264,384
	\$ 35,616,131	\$ 25,501,342	\$ 65,353,431	\$ 126,470,904

(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 \$12,611,825 (2006 - \$12,645,316) at the end of the year is comprised of the following:

	2007	2006
To be applied to operations of the operating fund for the following year	\$ 1,041,165	\$ 1,712,746
To be applied to operations of the water area	2,085,088	1,988,798
To be applied to operations of the sewer area	1,698,880	2,480,268
To be applied to gas operations	5,623,529	5,186,101
Surplus (deficit) - Downtown Business Improvement Area	53,224	(40,174)
Surplus - Kingston & Frontenac Housing Corporation	146,952	327,730
City share of surplus retained by KFLA Public Health	1,999,560	991,374
Surplus - Kingston - Frontenac Public Library Board	(36,573)	(1,527)
	\$ 12,611,825	\$ 12,645,316

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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

(b) The capital fund balance on the "Consolidated Statement of Financial Position" of \$69,438,539 (2006 – (\$15,060,793)) at the end of the year is comprised of the following:

	2007	2006
Unapplied capital receipts	\$ 8,137,869	\$ 56,349,625
Capital expenditures to be financed from the proceeds of long-term liabilities	(74,315,892)	(38,462,646)
Capital expenditures to be financed from transfers from reserves and reserve funds	(3,072,932)	(972,990)
Capital expenditures to be financed from taxation or user charges	(284,049)	(1,853,196)
	<u>\$ (69,535,004)</u>	<u>\$ 15,060,793</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:

	2007	2006
Balance, beginning of year	\$ 11,162,633	\$ 13,009,663
Development contributions	4,361,067	5,145,838
Investment income	629,649	440,469
Transfers to current fund	(1,007,417)	(1,442,954)
Transfers to capital fund	(4,135,411)	(11,876,313)
Transfers to reserve funds	(100,000)	–
Federal gasoline tax	2,968,642	2,226,730
Provincial gasoline tax	1,974,446	1,555,927
Building code	1,045,000	2,103,273
Balance, end of year	<u>\$ 16,898,609</u>	<u>\$ 11,162,633</u>
Analyzed as follows:		
Development charges	\$ 8,880,340	\$ 5,305,121
Cash in lieu of parkland	666,752	798,566
Provincial gasoline tax	287,363	242,538
Federal gasoline tax	3,511,239	2,238,590
Building Code	3,552,915	2,577,818
	<u>\$ 16,898,609</u>	<u>\$ 11,162,633</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

15. Charges from long-term liabilities:

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

	2007	2006
Principal payments	\$ 9,312,051	\$ 8,734,968
Interest	5,550,683	4,342,727
	<u>\$ 14,862,734</u>	<u>\$ 13,077,695</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:

	2007	2006
Gross revenues received	\$ 2,045,745	\$ 1,321,080
Gross expenditures	899,578	815,045
Net revenues	<u>\$ 1,146,167</u>	<u>\$ 506,035</u>

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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-seven 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 2 years, which represents 13% 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 are anticipated by the year 2009 at an estimated cost of \$300,000. 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. A long-term management plan has been completed. Further closure activities are anticipated over the next three years at an estimated cost of \$3,100,000. These closure activities will include decommissioning of the existing leachate control pumps and construction of engineered treatment wetlands. Annual site monitoring costs are estimated at \$220,000 per annum.

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 \$8.1 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, 2007 is an amount of \$7,985,838 (2006 - \$9,393,469) 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, 2007

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, 2007, 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 2007 were approximately \$1,353,351 (2006 - \$1,374,608).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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)
Restoration of the Grand Theatre	\$ 11.3	\$ 8.3
Construction of the Kingston Regional Sports and Entertainment Centre	\$ 32.0	\$ 29.9
Construction of the Multiplex Facility	\$ 26.3	\$ 21.0

- (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	\$ 50.3

- (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 2007 in the amount of \$712,503 (2006 - \$712,503).

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

20. Budget figures:

The City of Kingston reviews its operating and capital budgets annually. The approved operating and capital budgets for 2007 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:

	2007	2006
Current fund expenditures by object:		
Salaries, wages and employee benefits	\$ 115,775,172	\$ 108,817,113
Long-term debt interest expense	5,550,683	480,816
Materials	34,565,030	35,968,897
Contracted services	30,066,070	32,827,178
Rents and financial expenses	4,482,582	3,694,982
Natural gas commodity purchases	21,491,662	25,061,965
Transfers to others	70,066,523	66,283,012
Total	\$ 281,997,722	\$ 273,133,963

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, 2007

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.

	2007	2006
Financial position		
Current assets	\$ 13,878,888	\$ 12,722,524
Due from City of Kingston:		
Utilities Kingston	426,424	1,014,586
Kingston Electricity Distribution Limited	5,592,721	6,063,775
Post employment benefit obligation	2,141,438	2,045,689
Accrued vacation liabilities	160,000	160,000
Capital assets	30,383,847	29,104,898
Deferred charges	153,450	1,415,276
Total assets	52,736,768	52,526,748
Current liabilities	13,432,480	13,533,326
Post employment benefit obligation	3,057,516	2,991,153
Accrued vacation and pension liabilities	338,879	293,276
Accrued liabilities non-current	4,379,587	5,701,536
Long-term notes payable to City of Kingston, 7.25% per annum, no fixed terms of repayment	11,845,630	11,845,630
Total liabilities	33,054,092	34,364,921
Net assets	\$ 19,682,676	\$ 18,161,827
Common shares	\$ 12,380,619	\$ 12,380,619
Redeemable preferred shares	6,915,008	6,765,008
Accumulated earnings (loss)	387,049	(983,800)
Investment in government business enterprises	\$ 19,682,676	\$ 18,161,827

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

22. Investment in government business enterprises (continued):

(a) (continued):

	2007	2006
Results of operations:		
Net utility revenues	\$ 94,286,880	\$ 61,566,182
Operating expenses	(87,308,399)	(56,284,961)
Interest on debt	(1,092,328)	(1,097,938)
Depreciation	(2,610,172)	(2,582,800)
Net earnings before income taxes	3,275,981	1,600,483
Payments in lieu of corporate income taxes	1,655,132	1,077,183
Net earnings	1,620,849	523,300
Accumulated loss, beginning of year	(983,800)	(1,507,100)
	637,049	(983,800)
Dividends paid	(250,000)	–
Accumulated earnings (loss), end of year	\$ 387,049	\$ (983,800)

(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 \$7,975,252 (2006 - \$7,089,355) and \$78,658,854 (2006 - \$47,514,055) 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 \$2,241,940 (2006 - \$2,346,384). As at December 31, 2007, the City had balances owing to both companies in the amount of \$426,424 (2006 - \$1,014,586) and \$5,592,721 (2006 - \$6,063,775) 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.

23. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2007.

CORPORATION OF THE CITY OF KINGSTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

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.

25. Tangible capital assets:

Commencing with the fiscal year beginning January 1, 2009, the municipality will be adopting CICA Public Sector Accounting Handbook Section PS 3150, "Tangible Capital Assets". This section establishes standards on how to account for and report tangible capital assets in government financial statements. Tangible assets include such diverse items as roads, bridges, lands and buildings, vehicles and equipment and water, wastewater and natural gas systems.

Effective January 1, 2007, the City adopted Accounting Guideline 7 (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 – Tangible Capital Assets comes into effect on January 1, 2009.

During 2007, the municipality continued to work towards compliance with the new recommendations for accounting for tangible capital assets. Significant progress has been made on compiling preliminary asset inventory listings for most asset categories. Work to value all asset categories is currently underway and expected to be completed by December 31, 2008.

As of December 31 2007, the municipality does not have relevant information to disclose cost, accumulated amortization and net book values for any specific tangible capital asset category. Tangible capital assets are reported as an expenditure on the "Consolidated Statement of Financial Activities" in the year of acquisition.

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Current Fund Operations

Year ended December 31, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006
	(note 20)		
Revenues:			
Property taxation	\$ 142,455,772	\$ 142,199,398	\$ 134,137,772
Taxation from other governments	14,541,416	13,231,342	13,681,897
User charges	77,118,466	81,651,313	72,470,364
User charges – gas commodity	50,000,000	21,491,662	25,061,965
Government grants	59,940,516	69,818,576	58,577,830
Grants from other municipalities	4,981,257	4,860,857	4,721,031
Investment income	1,309,500	3,135,635	2,211,188
Penalties and interest on taxes	1,600,000	1,423,698	1,597,617
Sale of land and equipment	–	746,780	3,760,395
Other	–	–	394,304
Transfers from deferred obligatory reserve funds (note 14)	1,354,637	1,007,417	1,442,954
Total revenues	353,301,564	339,566,678	318,057,317
Expenditures:			
General government	19,860,798	20,162,787	19,056,190
Protection to persons and property	48,191,513	49,716,570	45,326,951
Transportation services	30,312,951	30,411,973	27,362,161
Environmental services	22,486,210	25,461,775	25,340,005
Health services	16,033,689	14,691,732	14,107,639
Social and family services	73,763,301	73,554,598	72,108,309
Social housing	17,752,385	18,316,177	16,959,516
Recreation and cultural services	19,553,715	20,275,977	19,570,910
Planning and development	5,245,410	4,924,618	5,069,932
Gas operations	58,389,788	24,481,515	28,232,350
Total expenditures	311,589,760	281,997,722	273,133,963
Net revenues	41,711,804	57,568,956	44,923,354
Financing and transfers:			
Net transfers to other funds:			
Reserves and reserve funds	(43,201,033)	(58,058,806)	(43,224,002)
Debt principal repayments	(363,676)	(363,676)	(340,290)
Change in accrued interest on long-term debt	–	571,480	79,789
Change in employee future benefit obligations	1,852,905	1,852,905	1,702,007
Change in landfill closure and post-closure liabilities	–	(1,407,631)	(309,855)
Change in non-financial assets	–	(196,719)	316,494
Net financing and transfers	(41,711,804)	(57,602,447)	(41,775,857)
Change in current fund balance	–	(33,491)	3,147,497
Opening current fund balance	–	12,645,316	9,497,819
Closing current fund balance	\$ –	\$ 12,611,825	\$ 12,645,316

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Capital Fund Operations

Year ended December 31, 2007, with comparative figures for 2006

	Budget 2007	Actual 2007	Actual 2006
	(note 20)		
Revenues:			
Government grants	\$ 54,641,046	\$ 19,648,836	\$ 39,479,116
Transfers from deferred obligatory reserve funds (note 14)	8,289,727	4,135,411	11,876,313
Donations and other	11,314,682	2,287,478	2,342,458
Total revenues	74,245,455	26,071,725	53,697,887
Expenditures:			
General government	13,190,951	3,719,673	5,776,188
Protection to persons and property	43,830,600	17,286,858	21,649,543
Transportation services	18,738,203	17,238,196	21,292,461
Environmental services	142,116,825	57,011,730	26,033,517
Health services	–	–	27,605
Social and family services	357,500	492,110	681,845
Social housing	8,700,000	5,810,921	1,613,788
Planning and development	425,000	490,491	270,111
Recreation and cultural services	75,337,272	61,652,813	19,295,636
Gas	3,305,050	2,350,705	2,945,903
Total expenditures	306,001,401	166,053,497	99,586,597
Net expenditures	(231,755,946)	(139,981,772)	(45,888,710)
Financing and transfers:			
Net transfers from other funds:			
Reserves and reserve funds	103,363,164	41,121,591	23,568,215
New debt issue	128,392,782	14,264,384	52,560,000
Net financing and transfers	231,755,946	55,385,975	76,128,215
Change in capital fund balance	–	(84,595,797)	30,239,505
Opening capital fund balance	–	15,060,793	(15,178,712)
Closing capital fund balance	\$ –	\$ (69,535,004)	\$ 15,060,793

CORPORATION OF THE CITY OF KINGSTON

Consolidated Schedule of Reserves and Reserve Funds

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenues:		
Investment income	\$ 7,281,042	\$ 5,397,664
Lot levies	2,756,632	4,354,853
Other revenues	244,328	101,427
Transfers from deferred obligatory reserve funds (note 14)	100,000	-
Total revenues	10,382,002	9,853,944
Expenditures:		
Long-term debt interest	7,242,249	3,941,710
Increase in government business enterprise equity	150,000	150,000
	7,392,249	4,091,710
Net revenues	2,989,753	5,762,234
Net transfers from (to) other funds:		
Current fund	58,058,806	43,224,002
Capital fund	(41,121,591)	(23,568,215)
Total net transfers	16,937,215	19,655,787
Debt principal repayments	(8,948,376)	(8,394,678)
Net financing and transfers	7,988,839	11,261,109
Change in reserves and reserve fund balances	10,978,592	17,023,343
Opening reserves and reserve fund balances	109,935,658	92,912,315
Closing reserves and reserve fund balances	\$ 120,914,250	\$ 109,935,658
Analyzed as follows:		
Reserves set aside for specific purpose:		
- working funds	\$ 8,291,730	\$ 8,929,448
Reserve funds set aside for specific purposes:		
- replacement of equipment	16,532,301	10,409,209
- other capital	7,718,839	7,815,513
- sanitary sewer system	20,499,608	15,199,327
- storm sewer system	301,865	249,572
- parks and recreation	1,254,950	1,526,811
- libraries	1,140,987	735,915
- waterworks system	16,258,248	14,706,893
- planning and development	2,693,592	3,149,666
- roads	2,693,192	5,710,972
- transit	5,645,082	1,377,332
- gas utility	5,084,889	3,389,292
- sick leave	5,934,701	5,462,908
- protective services	821,255	2,525,658
- social and family services	1,525,612	1,454,413
- social housing	8,947,302	2,134,445
- parking	3,246,480	1,855,180
- lot levies	12,323,617	23,303,104
	112,622,520	101,006,210
	\$ 120,914,250	\$ 109,935,658



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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' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada
March 28, 2008

CORPORATION OF THE CITY OF KINGSTON

Water Operations Statement of Revenues and Expenditures

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Operating revenues:		
Water revenue	\$ 12,107,673	\$ 11,235,633
Other revenue	329,082	315,222
Total revenues	12,436,755	11,550,855
Operating expenditures:		
Contracted services	8,029,421	7,745,814
Net revenues before capital expenditures and financing and transfers	4,407,334	3,805,041
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	1,528,392	4,220,072
Capital expenditures current year:		
Contracted services	4,576,379	4,853,600
Less capital financing:		
Water capital reserve funds	(3,037,467)	(1,538,351)
Impost reserve fund	(1,763,801)	(1,251,003)
Debt	—	(4,643,947)
Other	(112,546)	(111,979)
	1,190,957	1,528,392
Unfinanced capital expenditures, end of year	(1,190,957)	(1,528,392)
Capital financed from operations	—	—
Financing and transfers:		
Debt principal repayments	—	(94,128)
Debt interest	—	(22,452)
Transfer to water capital reserve funds (prior years)	(580,269)	(169,323)
Transfer to water capital reserve funds	(3,730,775)	(3,108,192)
Net financing and transfers	(4,311,044)	(3,394,095)
Net revenues for the year	96,290	410,946
Opening accumulated net revenues	1,988,798	1,577,852
Closing accumulated net revenues	\$ 2,085,088	\$ 1,988,798

CORPORATION OF THE CITY OF KINGSTON

Sewer Operations Statement of Revenues and Expenditures

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenues:		
Sewer revenue	\$ 18,835,583	\$ 17,070,341
Other revenue	661,043	608,405
Total revenues	19,496,626	17,678,746
Operating expenditures:		
Contracted services	9,168,987	8,239,490
Net revenues before capital expenditures and financing and transfers	10,327,639	9,439,256
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	(2,404,948)	16,689,863
Capital expenditures current year:		
Contracted services	51,543,509	20,559,754
Less:		
Debt	(8,999,710)	(9,350,000)
Impost reserve fund	(12,732,823)	(336,952)
Sewer capital reserve funds	(4,606,457)	(1,401,817)
Grants	(13,561,144)	(28,565,796)
Other capital revenues	(18,360)	-
	9,220,067	(2,404,948)
Unapplied capital receipts (unfinanced capital expenditures), end of year	(9,220,067)	2,404,948
Capital financed from operations	-	-
Financing and transfers:		
Debt principal repayments	-	(1,581,912)
Debt interest	-	(508,992)
Transfer to sewer capital reserve funds (prior years)	(1,195,928)	(805,532)
Transfer to sewer capital reserve funds	(9,913,099)	(6,152,424)
Net financing and transfers	(11,109,027)	(9,048,860)
Net revenues for the year	(781,388)	390,396
Opening accumulated net revenues	2,480,268	2,089,872
Closing accumulated net revenues	\$ 1,698,880	\$ 2,480,268

CORPORATION OF THE CITY OF KINGSTON

Gas Operations Statement of Revenues and Expenditures

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Sales and distribution revenue	\$ 21,491,662	\$ 25,061,965
Cost of gas	21,491,662	25,061,965
	-	-
Local distribution	8,120,102	7,247,003
Other revenue	2,038,379	1,792,210
Total revenues	10,158,481	9,039,213
Operating expenditures:		
Contracted services	2,989,853	3,174,493
Net revenues before capital expenditures and financing and transfers	7,168,628	5,864,720
Capital expenditures:		
Unfinanced capital expenditures, beginning of year	-	153,000
Capital expenditures current year:		
Contracted services	2,350,705	2,945,903
Less:		
Gas capital reserve funds	(2,349,722)	(3,098,903)
Other capital revenues	(983)	-
	-	-
Unfinanced capital expenditures, end of year	-	-
Capital financed from operations	-	-
Financing and transfers:		
Transfers to gas capital reserve funds	(4,284,632)	(2,822,040)
Debenture debt charges	-	(596,112)
Transfer to gas capital reserve funds (prior years)	(946,568)	(711,561)
Transfers to City of Kingston	(1,500,000)	(1,500,000)
Net financing and transfers	(6,731,200)	(5,629,713)
Net revenues for the year	437,428	235,007
Opening accumulated net revenues	5,186,101	4,951,094
Closing accumulated net revenues	\$ 5,623,529	\$ 5,186,101



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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, 2007 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, 2007 and the continuity of trust funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Kingston, Canada
March 28, 2008

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 2007	Total 2006
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Statements of Financial Position

As at December 31, 2007, with comparative figures for 2006

Assets

Cash and short-term investments	\$ -	\$ 193,013	\$ -	\$ 78,699	\$ 271,712	\$ 407,639
Loans receivable	1,120	-	-	-	1,120	1,923
Accounts receivable	-	300	-	-	300	-
	\$ 1,120	\$ 193,313	\$ -	\$ 78,699	\$ 273,132	\$ 409,562

Fund balances:

Unexpendable trust	\$ -	\$ 40,400	\$ -	\$ 25,000	\$ 65,400	\$ 221,263
Capital/earned surplus	1,120	152,913	-	53,699	207,732	188,299
	\$ 1,120	\$ 193,313	\$ -	\$ 78,699	\$ 273,132	\$ 409,562

Statements of Continuity

Year ended December 31, 2007, with comparative figures for 2006

Balances, beginning of year	\$ 1,923	\$ 182,152	\$ 155,863	\$ 69,624	\$ 409,562	\$ 374,869
Donations and other revenue	-	187,869	-	5,734	193,603	172,268
Interest earned	182	9,022	5,074	3,341	17,619	17,832
	2,105	379,043	160,937	78,699	620,784	564,969
Expenditures	985	185,730	160,937	-	347,652	155,406
Balances, end of year	\$ 1,120	\$ 193,313	\$ -	\$ 78,699	\$ 273,132	\$ 409,562

CORPORATION OF THE CITY OF KINGSTON

Trust Funds
Notes to Financial Statements

Year ended December 31, 2007

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, 2007 comprise repayable loans of \$1,120 (2006 - \$1,923) 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.