

Audited Financial Statements  
and Other Financial Information of

**The Corporation of  
the City of Kingston**

Year Ended December 31, 2017

Audited Financial Statements  
and other Financial Information of  
**The Corporation of the City Of Kingston**  
Year ended December 31, 2017

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## Management's Responsibility for the Consolidated Financial Statements

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


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

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

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



Gerard Hunt  
Chief Administrative Officer



Desirée Kennedy  
Chief Financial Officer and  
City Treasurer



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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kingston, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations, changes in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditors' Responsibility**

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

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



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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation of the City of Kingston as at December 31, 2017, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

June 12, 2018

**The Corporation of the City Of Kingston**  
**Consolidated Statement of Financial Position**  
December 31, 2017, with Comparative Figures for 2016  
(In Thousands of Dollars)

	2017	2016
<b>Financial Assets:</b>		
Cash and short-term investments	\$ 93,472	\$ 111,598
Taxes receivable	5,888	6,236
Accounts receivable	42,445	26,552
Inventories for resale	18,450	21,634
Notes receivable from government business enterprises (note 18(c))	18,311	18,311
Long-term investments (note 4)	142,706	135,531
Investment in government business enterprises (note 18)	30,557	29,034
	<u>351,829</u>	<u>348,896</u>
<b>Liabilities:</b>		
Temporary loans (note 7)	(1,650)	(67,809)
Accounts payable and accrued liabilities	(60,244)	(62,517)
Due to government business enterprises:		
Utilities Kingston (note 18)	(12,578)	(3,453)
Kingston Hydro Corporation (note 18)	(2,189)	(4,495)
Employee future benefit obligations (note 10(d))	(4,161)	(3,908)
Deferred revenue - obligatory reserve funds (note 12)	(23,793)	(20,598)
Deferred revenues	(6,327)	(7,544)
Accrued interest on long-term debt	(3,482)	(2,953)
Long-term liabilities (note 11)	(368,172)	(292,941)
Employee future benefit obligations (note 10(d))	(48,341)	(45,514)
Landfill closure and post closure liabilities (note 14)	(5,745)	(6,252)
	<u>(536,682)</u>	<u>(517,984)</u>
<b>Net Financial Debt</b>	<b>(184,853)</b>	<b>(169,088)</b>
<b>Non-Financial Assets:</b>		
Tangible capital assets (note 19)	1,547,069	1,469,015
Inventories of supplies	1,690	1,694
Prepaid expenses	4,590	5,463
	<u>1,553,349</u>	<u>1,476,172</u>
Contingent liabilities (note 15)		
Commitments (note 16)		
<b>Municipal Equity</b>	<b>\$ 1,368,496</b>	<b>\$ 1,307,084</b>

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

# The Corporation of the City Of Kingston

## Consolidated Statement of Operations

Year Ended December 31, 2017, with Comparative Figures for 2016

(In Thousands of Dollars)

	Budget 2017 (note 17)	Actual 2017	Actual 2016
<b>Revenue:</b>			
Property taxation	\$ 215,599	\$ 217,289	\$ 210,665
Taxation from other governments	15,775	15,677	16,493
User charges	121,393	126,461	123,477
User charges – gas commodity	25,000	18,266	15,401
Government grants	73,600	75,296	71,467
Grants from other municipalities	5,102	4,869	5,156
Investment income	7,436	9,287	5,626
Lot levies	8,000	10,070	5,852
Other	4,650	4,700	1,895
Transfers from deferred obligatory reserve funds (note 12)	2,994	2,598	2,817
Government business enterprises net earnings (note 18)	--	1,523	1,683
<b>Total Revenues</b>	<b>479,549</b>	<b>486,036</b>	<b>460,532</b>
<b>Expenses:</b>			
General government	32,811	31,835	34,941
Protection services	77,096	78,511	77,953
Transportation services	76,474	76,127	68,961
Environmental services	66,795	66,656	68,118
Health services	24,977	24,393	22,731
Social and family services	70,683	69,064	69,102
Social housing	28,974	28,482	23,208
Recreational and cultural services	48,637	48,627	47,956
Planning and development	7,232	7,252	7,847
Gas utility	33,045	25,367	22,526
<b>Total Expenses</b>	<b>466,724</b>	<b>456,314</b>	<b>443,343</b>
<b>Net Revenues</b>	<b>12,825</b>	<b>29,722</b>	<b>17,189</b>
<b>Other Revenues:</b>			
Grants and transfers related to capital:			
Government and municipal capital grants		9,290	1,393
Transfers from deferred obligatory reserve funds (note 12)		13,887	19,270
Donations and other		454	197
Contributed tangible capital assets (note 19(a))		8,059	6,261
		31,690	27,121
<b>Annual Surplus</b>		<b>61,412</b>	<b>44,310</b>
<b>Municipal Equity, Beginning of Year</b>		<b>1,307,084</b>	<b>1,262,774</b>
<b>Municipal Equity, End of Year</b>		<b>\$ 1,368,496</b>	<b>\$ 1,307,084</b>

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

**The Corporation of the City Of Kingston**  
**Consolidated Statement of Changes in Net Assets (Debt)**  
Year Ended December 31, 2017, with Comparative Figures for 2016  
(In Thousands of Dollars)

	Actual 2017	Actual 2016
<b>Annual Surplus</b>	\$ 61,412	\$ 44,310
Amortization of tangible capital assets	63,067	58,924
Acquisition of tangible capital assets	(141,638)	(106,680)
Loss on tangible capital assets transactions	517	3,050
	(16,642)	(396)
Consumption of prepaid expenses	873	125
Consumption (acquisition) of supplies inventories	4	(41)
<b>Decrease in Net Assets</b>	(15,765)	(312)
<b>Net Assets (Debt), Beginning of Year</b>	(169,088)	(168,776)
<b>Net Debt, End of Year</b>	\$ (184,853)	\$ (169,088)

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



**The Corporation of the City Of Kingston**  
**Consolidated Schedule of Municipal Equity**

Year Ended December 31, 2017, with Comparative Figures for 2016

(In Thousands of Dollars)

	2017	2016
<b>Current Fund Surplus (Deficit):</b>		
General operating surplus	\$ 4,084	\$ 2,257
Accumulated operating surplus - water	2,183	2,248
Accumulated operating surplus - sewer	835	1,153
Accumulated operating surplus - gas	4,811	5,362
Downtown Business Improvement Area	125	3
Kingston & Frontenac Housing Corporation	1,790	1,200
Kingston Frontenac Public Library Board	310	(58)
<b>Total Current Fund Surplus</b>	<b>14,138</b>	<b>12,165</b>
<b>Investment in Tangible Capital Assets:</b>		
Tangible capital assets (note 19)	1,547,069	1,469,015
Long-term liabilities (note 11)	(385,266)	(310,984)
<b>Unfinanced capital expenditures:</b>		
To be financed from long-term liabilities	(59,543)	(99,131)
To be financed from transfers from reserves and reserve funds	-	(36)
To be financed from taxation or user charges	(1,961)	(14)
<b>Unapplied capital receipts</b>	<b>9,936</b>	<b>16,556</b>
<b>Total Investment in Tangible Capital Assets</b>	<b>1,110,235</b>	<b>1,075,406</b>
Investment in Government Business Enterprises (note 18)	30,557	29,034
<b>Unfunded Liabilities:</b>		
Employee future benefit obligations (note 10(d))	(49,651)	(46,834)
Landfill closure and post-closure liabilities (note 14)	(5,745)	(6,252)
Accrued interest on long-term debt	(3,482)	(2,953)
<b>Total Unfunded Liabilities</b>	<b>(58,878)</b>	<b>(56,039)</b>
<b>Reserves and Reserve Funds:</b>		
Reserves set aside for specific purpose:		
Working funds	18,102	19,580
Reserve funds set aside for specific purpose:		
Replacement of equipment	33,453	29,850
Replacement & renewal of facilities	14,403	12,876
Municipal capital replacement & renewal	29,701	22,777
Other capital	1,077	961
Sanitary sewer system	40,629	36,365
Storm sewer system	357	347
Parks and recreation	4,581	5,965
Libraries	1,670	2,313
Waterworks system	35,628	32,331
Planning and development	637	953
Transit	15,049	10,837
Gas utility	6,573	7,094
Sick leave	10,891	10,198
Protective services	10,537	10,565
Environmental Services	4,687	4,655
Social and family services	194	245
Social housing	3,680	3,306
Parking	9,391	9,081
Impost fees for water and wastewater capital	31,204	26,219
	<b>272,444</b>	<b>246,518</b>
<b>Municipal Equity</b>	<b>\$ 1,368,496</b>	<b>\$ 1,307,084</b>

# The Corporation of the City Of Kingston

## Consolidated Statement of Cash Flows

Year Ended December 31, 2017, with Comparative Figures for 2016

(In Thousands of Dollars)

	2017	2016
Operations transactions:		
Annual surplus	\$ 61,412	\$ 44,310
Net change in non-cash working capital items:		
Decrease in taxes receivable	348	1,293
Increase in accounts receivable	(15,893)	(3,451)
(Increase) decrease in inventories for resale	3,184	(698)
(Increase) decrease in inventories of supplies	4	(41)
Decrease in prepaid expenses	873	125
Increase (decrease) in accounts payable and accrued liabilities	(2,273)	9,400
Increase in due to government business enterprises	7,069	1,599
Increase (decrease) in deferred obligatory reserve funds	3,195	(7,159)
Increase (decrease) in deferred revenues	(1,217)	2,144
Increase in accrued interest on long-term debt	529	73
	<u>(4,181)</u>	<u>3,285</u>
Items not involving cash:		
Amortization of tangible capital assets	63,067	58,924
Contributed tangible capital assets	(8,059)	(6,261)
Loss on tangible capital assets transactions	517	3,050
Change in landfill closure and post-closure liabilities	(507)	270
Change in employee future benefit obligations	2,832	3,363
Equity in government business enterprise from net earnings	(1,523)	(1,683)
	<u>56,327</u>	<u>57,663</u>
Net change in cash from operating transactions	113,558	105,258
Capital transactions:		
Purchase of tangible capital assets	(133,579)	(100,419)
Investment transactions:		
Net purchase of long-term investments	(7,175)	(6,641)
Financing transactions:		
Proceeds from new debt issue	87,583	1,924
Debt principal repayments	(12,354)	(11,976)
Repayment of temporary loans	(66,159)	-
Net change in cash from financing transactions	<u>9,070</u>	<u>(10,052)</u>
Increase (decrease) in cash and short-term investments	(18,126)	(11,854)
Cash and short-term investments, beginning of year	111,598	123,452
Cash and short-term investments, end of year	<u>\$ 93,472</u>	<u>\$ 111,598</u>

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

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

# The Corporation of the City Of Kingston

## Notes to Consolidated Financial Statements

Year Ended December 31, 2017

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### 1. Summary of Accounting Policies:

The consolidated financial statements of the Corporation of the City of Kingston (the "City") are prepared by management in accordance with Canadian public sector accounting standards. 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, revenue and expenses of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards which are accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City. Interdepartmental and inter-organizational transactions and balances between these organizations have been eliminated.

These consolidated financial statements include:

Downtown Business Improvement Area  
Kingston-Frontenac Public Library Board  
Kingston & Frontenac Housing Corporation  
Kingston, Frontenac and Lennox & Addington Public Health  
(proportionately consolidated)  
1425447 Ontario Limited (consolidated on a modified equity basis)  
Kingston Hydro Corporation (consolidated on a modified equity basis)

- ii. Consolidated by proportionate consolidation:  
Kingston, Frontenac and Lennox & Addington Public Health is accounted for using the proportionate consolidation method of accounting and reporting, whereby the municipality's pro-rata share of each of the assets, liabilities, revenue and expenses is combined on a line-by-line basis in the consolidated financial statements.
- iii. Consolidated on a modified equity basis:  
The City's investment in 1425447 Ontario Limited and Kingston Hydro Corporation is accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprises' accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**1. Summary of Accounting Policies (Continued):**

(a) Reporting Entity (continued):

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

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

v. Accounting for school board transactions:

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

vi. Trust funds:

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

(b) Basis of Accounting:

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

(c) Investments:

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

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**1. Summary of Accounting Policies (Continued):**

(c) Investments (continued):

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

(d) Deferred Revenue – Obligatory Reserve Funds:

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

(e) Deferred Revenues:

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

(f) Employee Future Benefit Obligations:

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

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

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

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**1. Summary of Accounting Policies (Continued):**

(f) Employee Future Benefit Obligations (continued):

Any actuarial gains and losses, which can arise from changes in actuarial assumptions, are amortized over the expected average remaining service life of the employee group.

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

(g) Landfill Closure and Post-closure Liabilities:

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

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

(h) Tangible Capital Assets:

- i. Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.
- ii. Tangible capital assets received as contributions are recorded at their fair value at the date of receipt or transfer with an offsetting amount recorded as revenue.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**1. Summary of Accounting Policies (Continued):**

(h) Tangible Capital Assets (continued):

- iii. The cost, less residual value, of the tangible capital assets is amortized on a straight line basis over estimated useful lives as follows:

Asset	Useful Life – Years
Land improvements	18 to 75
Buildings and structures	40
Vehicles, machinery and equipment	4 to 20
Furniture and fixtures	20 to 40
Transportation:	
Roads and related	18 to 50
Bridges and structures	60
Streetlights and traffic signals	35 to 40
Storm sewer networks	50
Water and sewer facilities:	
Building structures	50
Building fixtures	15
Electrical and mechanical equipment	10 to 25
Tankage	75
Water and sewer pipes	50 to 80
Water and sewer equipment, meters, hydrants, manholes	15 to 75
Gas facilities	40
Gas mains and services	50
Gas regulator stations & other equipment	5 to 20

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

- iv. When tangible capital assets are disposed of, either by way of a sale, destruction or loss, or abandonment of the asset, the asset's net book value, historical cost less accumulated amortization, is written off. Any resulting gain or loss, equal to the proceeds on disposal less the asset's net book value, is reported on the Consolidated Statement of Operations in the year of disposal. Transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**1. Summary of Accounting Policies (Continued):**

(h) Tangible Capital Assets (continued):

- v. When conditions indicate that a tangible capital asset no longer contributes to the City's ability to provide services or the value of the future economic benefits associated with the tangible capital asset are less than its net book value, and the decline is expected to be permanent, the cost and accumulated amortization of the asset are reduced to reflect the revised estimate of the value of the asset's remaining service potential. The resulting net adjustment is reported as an expense on the Consolidated Statement of Operations.
- vi. The City has a capitalization threshold of \$10,000. Individual tangible capital assets of lesser value are expensed, unless they are pooled when, collectively, they have a significant value.

(i) Inventories:

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

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

(j) Government Transfers:

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

(k) Use of Estimates:

The preparation of the consolidated financial statements 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 consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant estimates include the carrying value of tangible capital assets and employee future benefit obligations. Actual results could differ from those estimates.



**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**2. Operations of School Boards:**

The Province of Ontario sets the tax rates to be applied to property assessment to generate tax levies to be collected and remitted to the school boards. The amounts collected and remitted are summarized below:

	2017	2016
	(In thousands of dollars)	
Taxation and user charges	\$ 55,786	\$ 56,383
Payments in lieu	305	322
Amount transferred to school boards	\$ 56,091	\$ 56,705

**3. Bank Indebtedness:**

The City's financial agreement with its bank provides for an operating credit facility of up to \$10,000,000 to finance expenses, pending receipt of property taxes and other income. Interest on funds drawn is charged at the bank's prime rate less 0.5%. As at December 31, 2017, there was \$Nil (2016 - \$Nil) drawn on the operating credit facility.

**4. Long-term Investments:**

Long-term investments, which consist primarily of government and financial institution bonds, have a market value of \$144,114,226 at December 31, 2017 (2016 - \$138,988,971).

**5. Contributions to Kingston Economic Development Corporation:**

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

The Consolidated Statement of Operations includes the following contributions made by the City to the Corporation:

	2017	2016
	(In thousands of dollars)	
Kingston Economic Development Corporation Grant	\$2,616	\$ 2,616

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**6. Trust Funds:**

Trust funds administered by the municipality amount to \$150,546 (2016 - \$157,271) as at December 31, 2017.

**7. Temporary Loans:**

The City has financial agreements with the Ontario Infrastructure And Lands Corporation (OILC) for temporary capital loans up to a maximum of \$132,527,654 for the interim financing of various roads and other capital projects. As at December 31, 2017, the temporary capital loan balance is \$1,650,000 (2016 - \$67,809,371) with interest based on the monthly construction rate.

**8. Provincial Grants:**

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

**9. Pension Agreements:**

The City makes contributions to the Ontario Municipal Employees Retirement System Pension Fund (OMERS), which is a multi-employer plan, on behalf of its employees. The plan is a contributory 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. Employers and employees contribute to the plan. Since any surpluses or deficits are a joint responsibility of all Ontario municipalities and their employees, the City does not recognize any share of the OMERS pension surplus or deficit in these consolidated financial statements.

The amount contributed to OMERS for 2017 was \$11,977,107 (2016 - \$11,696,518) for current service and is included as an expense on the "Consolidated Statement of Operations".

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**10. Employee Future Benefit Obligations:**

(a) Extended Health Care, Dental, Life Insurance and Sick Leave Benefits:

The City pays certain life insurance benefits on behalf of the retired employees as well as extended health and dental benefits for early retirees to age 65. In addition, the City provides for an accumulated sick leave benefit plan for certain employees whereby unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the City's employment. The City recognizes these post-employment and post-retirement costs in the period in which the employees rendered the services. An independent actuarial study of these benefits was undertaken at December 31, 2016, in order to determine the estimated accrued benefit liability to be reported in these consolidated financial statements for the City of Kingston.

Actuarial gains and losses are 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, 2017, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$40,542,800 (2016 - \$36,991,854).

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

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Salary escalation	2.5% per annum for first 3 years, increasing to 3% thereafter
Dental benefits escalation	4.25% per annum
Health benefits escalation	6.2% per annum in 2017, decreasing to 4.25% over 9 years

An independent actuarial valuation was also completed by 1425445 Ontario Limited (operating as Utilities Kingston) for the water, sewer and gas utilities employees' post-employment and post-retirement costs as at December 31, 2015. This liability is reported on these consolidated financial statements as an amount due to 1425445 Ontario Limited (operating as Utilities Kingston) in respect of costs incurred by them to manage the City's utility services.

# The Corporation of the City Of Kingston

## Notes to Consolidated Financial Statements

Year Ended December 31, 2017

### 10. Employee Future Benefit Obligations (Continued):

- (a) Extended Health Care, Dental, Life Insurance and Sick Leave Benefits (continued):

The significant actuarial assumptions adopted in estimating the accrued benefit liability for extended health, dental, life insurance and sick leave benefits for 1425445 Ontario Limited (operating as Utilities Kingston) water, sewer and gas employees are as follows:

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Salary escalation	3.3% per annum
Dental benefits escalation	4.8% per annum
Health benefits escalation	6.93% per annum in 2015, decreasing to 4.8% over 5 years

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

	2017	2016
	(In thousands of dollars)	
Accrued benefit liability, January 1	\$ 36,991	\$ 33,384
Expense recognized for the period	5,252	4,632
Benefits paid for the period	(3,607)	(2,151)
Amortization of actuarial losses	1,907	1,126
Accrued benefit liability, December 31	\$ 40,543	\$ 36,991

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

	2017	2016
	(In thousands of dollars)	
Accrued benefit obligation	\$ 52,448	\$ 50,803
Unamortized actuarial losses	(11,905)	(13,812)
Accrued benefit liability, December 31	\$ 40,543	\$ 36,991

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

With respect to responsibilities under provisions of the Workplace Safety and Insurance Board Act, the City has elected to be treated as a Schedule 2 employer and remits payments to the WSIB as required to fund disability

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**10. Employee Future Benefit Obligations (Continued):**

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

payments. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was undertaken at December 31, 2016 in order to determine the estimated liability reported in these consolidated financial statements.

Actuarial gains and losses are amortized on a straight-line basis over the mean term of the liabilities which is estimated to be 10 years.

At December 31, 2017, the City’s accrued benefit liability relating to future WSIB claims is \$9,908,274 (2016 - \$10,463,311).

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

Discount rate	4.0% per annum
Inflation rate	2.0% per annum
Compensation costs, including loss of earnings benefits, health care costs and non-economic loss awards	0% to 6% per annum, depending on benefit type
Administration costs	35.5% of compensation expense

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

	2017	2016
	(In thousands of dollars)	
Accrued benefit liability, beginning of year	\$ 10,463	\$ 10,721
Expense recognized for the period	579	1,789
Benefits paid for the period	(1,019)	(1,890)
Amortization of net actuarial gains	(115)	(157)
Accrued benefit liability, end of year	\$ 9,908	\$ 10,463

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

	2017	2016
	(In thousands of dollars)	
Accrued benefit obligation	\$ 9,640	\$ 10,080
Unamortized actuarial gains	268	383
Accrued benefit liability, end of year	\$ 9,908	\$ 10,463

**The Corporation of the City Of Kingston**

Notes to Consolidated Financial Statements

Year Ended December 31, 2017

**10. Employee Future Benefit Obligations (Continued):**

(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, 2017 amount to \$1,755,907 (2016 - \$1,671,895).

(d) Total employee benefit obligations:

	2017	2016
(In thousands of dollars)		
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 36,699	\$ 33,382
Workplace safety and insurance	9,908	10,463
Vacation credits	1,431	1,373
Pension payable	303	295
	48,341	45,513
Health benefits and sick leave – water, sewer and gas utilities (note 18(a))	3,836	3,609
Vacation credits – water, sewer and gas utilities	325	299
	4,161	3,908
Total employee benefit obligations	52,502	49,422
Amounts previously funded from operating revenues	(2,851)	(2,588)
Unfunded employee future benefit obligations	\$ 49,651	\$ 46,834
To be recovered from reserve funds	\$ 10,891	\$ 10,198
To be recovered from future municipal and utility revenues	38,760	36,636
	\$ 49,651	\$ 46,834

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

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

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**11. Long-term Liabilities:**

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

	2017	2016
	(In thousands of dollars)	
Long-term liabilities incurred by the City, including those incurred on behalf of other municipalities and municipal enterprises, with varying maturities up to 2047 and a weighted average interest rate of 4.1% (2016 - 4.2%)	\$ 375,759	\$ 301,063
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation, with an interest rate of 5.4%, 3.6% and 3.0%, maturing 2028, 2032 and 2036	6,237	6,455
Proportionate share of KFLA Public Health long-term debt, with a current interest rate of 6.1%, maturing in 2029	3,270	3,466
<b>Total long-term liabilities</b>	<b>\$ 385,266</b>	<b>\$ 310,984</b>
<b>Less long-term borrowings from own funds</b>	<b>\$ (17,094)</b>	<b>\$ (18,043)</b>
Long-term liabilities to be recovered from future revenues	\$ 368,172	\$292,941
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	\$ (67)	\$ (81)

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

(In thousands of \$)	2018	2019	2020	2021	2022	2023+	Total
Tax sources	\$ 8,255	\$ 7,363	\$ 7,611	\$ 7,870	\$ 8,082	\$101,131	\$140,312
Utility user fees	4,483	4,620	4,773	4,935	5,103	117,963	141,877
Other user fees	2,645	2,643	2,769	2,902	3,040	79,571	93,570
Public Health	208	224	239	255	272	2,072	3,270
Housing Corp	228	239	250	262	275	4,983	6,237
	<b>\$15,819</b>	<b>\$15,089</b>	<b>\$15,642</b>	<b>\$16,224</b>	<b>\$16,772</b>	<b>\$305,720</b>	<b>\$ 385,266</b>

- (c) The long-term liabilities in (a), issued in the name of the City, 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.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**11. Long-term Liabilities (Continued):**

(c) (continued):

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

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

	2017	2016
	(In thousands of dollars)	
Principal payments	\$ 12,354	\$ 11,976
Interest	13,495	13,074
	<u>\$ 25,849</u>	<u>\$ 25,050</u>

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

**12. Deferred Revenue – Obligatory Reserve Funds:**

A requirement of the public sector accounting standards of the Chartered Professional Accountants of Canada 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:

	2017	2016
	(In thousands of dollars)	
Balance, beginning of year	\$ 20,598	\$ 27,757
Revenues		
Development contributions	6,458	3,931
Federal gasoline tax	7,634	7,501
Provincial gasoline tax	2,572	2,316
Building Code Act	2,244	-
Recreational Land (Planning Act)	154	256
Investment income	618	924
Utilization:		
Transfers for operating	(2,598)	(2,817)
Transfers for capital	(13,887)	(19,270)
Balance, end of year	<u>\$ 23,793</u>	<u>\$ 20,598</u>



**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**12. Deferred Revenue – Obligatory Reserve Funds (Continued):**

	2017	2016
	(In thousands of dollars)	
Analyzed as follows:		
Development charges	\$ 16,932	\$ 15,934
Cash in lieu of parkland	89	886
Federal gasoline tax	633	-
Building Code Act	6,139	3,778
	<b>\$ 23,793</b>	<b>\$ 20,598</b>

**13. Provincial Offences Administration (POA):**

Effective March 13, 2000, the City 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:

	2017	2016
	(In thousands of dollars)	
Gross revenues received	\$ 1,630	\$ 1,461
Gross expenditures	(1,037)	(1,001)
Net revenues	<b>\$ 593</b>	<b>\$ 460</b>

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**14. Landfill Closure and Post-Closure Liability:**

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

Landfill closure and post-closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions with respect to events extending over a twenty-five 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 three inactive landfill sites. The Kingston East site was closed in 2013. The Kingston West site was closed in 1989. The Belle Park Landfill site was closed in 1976. Post-closure care requirements include additional closure costs anticipated for these sites as well as annual post-closure maintenance and monitoring requirements, calculated for a twenty-five year period.

Estimated total expenditures represent the sum of the discounted future cash flows for closure and post-closure care activities discounted at the City's average long-term borrowing rate of 4.0% and using an assumed rate of 2.0% for inflation. The estimated total landfill closure and post-closure care expenditures are calculated to be approximately \$5.7 million. For sites that are inactive, the estimated liability for these expenditures is recognized immediately. Included in liabilities on the Consolidated Statement of Financial Position at December 31, 2017 is an amount of \$5,744,660 (2016 - \$6,252,296) with respect to landfill closure and post-closure liabilities recognized to date.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**15. Contingent Liabilities:**

- (a) The nature of municipal activities is such that there may be litigation pending or in prospect at any time. With respect to claims at December 31, 2017, management believes that the City has valid defenses 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 consolidated 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 which case some years ago the City provided written notice to the owner and at the same time confirmed that there were no risks to human health related to coal tar. The City has a community improvement brownfields program in place that may provide funding for incremental costs, if any, that are directly related to coal tar. In addition, the City may enter into agreements that provide for indemnities to landowners against any third party claims or Ministry of Environment orders should any such claim or order arise.

Existing agreements related to coal tar do not establish any current financial obligation for the City. 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 consolidated financial statements.

**16. Commitments:**

- (a) The City of Kingston has negotiated a non-exclusive long-term contract with Progressive Waste Solutions for handling and disposal of garbage which expires on January 31, 2020, with an optional one (1) year extension. Annual charges under the contract are determined by reference to certain waste volumes handled. Payments made for handling and disposal of garbage for the year 2017 were approximately \$1,609,769 (2016 - \$1,385,316).

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**16. Commitments (Continued):**

- (b) 1425445 Ontario Limited (operating as Utilities Kingston) has entered into operating contracts to provide gas transportation, gas storage and purchases of natural gas as part of the management agreement with the City of Kingston. Costs incurred have been reimbursed and are reported as expenses on the Consolidated Statement of Operations.
- (c) The City previously entered into an agreement with the County of Frontenac to share in the capital cost of the reconstruction project for Fairmount Home for the Aged. The majority of total project cost of \$18.2 million has been financed by long-term debt in the amount of \$17.2 million. The City is responsible for 68% of the related debt repayment costs and incurred related debt charges in 2017 in the amount of \$712,503 (2016 - \$712,503). The remaining debt principal outstanding at December 31, 2017 is \$3.4M which expires September 2021.
- (d) In 2016, Council committed a sum of \$6,500,000 to be paid equally over five years beginning in 2017 to a fundraising appeal undertaken by the University Hospitals Kingston Foundation on behalf of local hospitals.
- (e) The Corporation of the City of Kingston and 1425445 Ontario Limited (operating as Utilities Kingston) on behalf of the City have previously entered into capital contracts:

Description of project	Total Contract Price	Costs Incurred to Date
	(In Thousands of Dollars)	
John Counter Blvd Widening	11,156	9,878
Cataraqui Bay Wastewater Treatment Plant	89,100	30,656
Princess Street – Phase 4	13,793	-
Airport Expansion	14,173	1,441

**17. Budget Process:**

The City completes a review of its operating and capital budgets each year. The capital budget is set on a project-oriented basis, the costs of which may be carried over one or more fiscal years.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**17. Budget Process (Continued):**

The budget amounts presented in the consolidated financial statements are based on the 2017 operating and capital budgets approved by Council on December 20, 2016. The following table reconciles the approved budget to the budget amounts presented in the consolidated financial statements using the accrual basis of accounting, in accordance with Canadian public sector accounting standards.

	Budget Amount
	(In thousands of dollars)
Approved operating budget revenues	\$ 450,081
Consolidated external agency budgets	16,405
Approved PSAB reporting adjustments:	
Reserve fund revenues	14,200
PSAB reporting adjustment – disposal of assets	2,900
Budget amendments and reallocations	(739)
Less transfers from reserves / reserve funds	(3,298)
<b>Net operating budget revenues</b>	<b>479,549</b>
Approved operating budget expenses	450,081
Consolidated external agency budgets	16,518
Approved PSAB reporting adjustments:	
Amortization of tangible capital assets	52,000
Reserve fund expenditures for debt interest	18,000
Unfunded accruals for employee future benefit obligations, landfill closure and post-closure liabilities and accrued interest on long term debt	2,200
PSAB reporting adjustment- amortization and debt interest	6,000
Budget amendments and reallocations	(739)
Non-tangible capital asset expenditures	15,370
Less transfers to reserves and reserve funds	(92,259)
Less debt principal repayments	(447)
<b>Net operating budget expenses</b>	<b>466,724</b>
<b>Net revenues before capital investment</b>	<b>\$ 12,825</b>

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**18. Investment in Government Business Enterprises:**

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

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

Kingston Hydro Corporation adopted International Financial Reporting Standards (IFRS) beginning in 2015. There was no impact to the City's Investment in Government Business Enterprises (GBE) as a result of this accounting change.

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

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**18. Investment in Government Business Enterprises (Continued):**

(a) (continued):

	2017	2016
	(In thousands of dollars)	
Financial position		
Current assets	\$ 28,116	\$ 23,367
Due from City of Kingston:		
Utilities Kingston	12,578	3,453
Kingston Hydro Corporation	2,189	4,495
Post-employment benefit obligation (note 10(d))	3,836	3,609
Accrued vacation liabilities	425	397
Capital assets	63,574	58,114
Regulatory balances	(68)	9,160
Derivative asset	103	-
Deferred charges	(369)	193
<b>Total assets</b>	<b>110,384</b>	<b>102,788</b>
Current liabilities	29,562	27,809
Post-employment benefit obligation	5,677	5,359
Accrued vacation and pension liabilities	194	191
Accrued liabilities non-current	6,191	2,208
Long-term loan payable	19,892	19,876
Long-term notes payable to City of Kingston (note 18 (c))	18,311	18,311
<b>Total liabilities</b>	<b>79,827</b>	<b>73,754</b>
<b>Net assets</b>	<b>\$ 30,557</b>	<b>\$ 29,034</b>
Common shares	\$ 12,381	\$ 12,381
Accumulated other comprehensive income	(303)	(667)
Accumulated earnings	18,479	17,321
<b>Investment in government business enterprises</b>	<b>\$ 30,557</b>	<b>\$ 29,034</b>
Results of operations:		
Net utility revenues	\$ 135,186	\$ 101,223
Operating expenses	(126,031)	(99,780)
Interest on debt	(1,592)	(1,666)
Depreciation	(3,143)	(2,741)
Net earnings before income taxes	4,420	(2,964)
Net movement in regulatory deferral accounts	(1,868)	6,817
Payments in lieu of corporate income taxes	(794)	(1,100)
Net earnings	1,758	2,753
Dividends on common shares	(600)	(1,200)
Accumulated earnings, beginning of year	17,321	15,768
<b>Accumulated earnings, end of year</b>	<b>\$ 18,479</b>	<b>\$ 17,321</b>

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**18. Investment in Government Business Enterprises (Continued):**

- (b) In accordance with related party reporting requirements, 1425445 Ontario Limited (operating as Utilities Kingston) reported contract expense recoveries during the year from Kingston Hydro Corporation and the City in the amounts of \$12,541,915 (2016 - \$13,642,272) and \$99,471,091 (2016 - \$74,163,425) respectively.

In addition, the City contracted to provide financial, human resources, legal and information technology services to both 1425445 Ontario Limited (operating as Utilities Kingston) and Kingston Hydro Corporation in the amount of \$3,287,679 (2016 - \$3,323,378).

As at December 31, 2017, the City had a balance owing to the Companies 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$12,577,957 (2016 - \$3,452,975) and a balance owing to Kingston Hydro Corporation in the amount of \$2,188,858 (2016 - \$4,495,253), 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.

- (c) On January 1, 2000, the City took a note payable for an amount equivalent to 50% of the value of net assets transferred for both Kingston Hydro Corporation and 1425445 Ontario Limited (operating as Utilities Kingston). As at December 31, 2017, the City had a note payable from Kingston Hydro in the amount of \$10,880,619 (2016 - \$10,880,619), bearing interest at 5.87% (2016 - 5.87%) per annum and a note payable from 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$965,010 (2016 - \$965,010), bearing interest at 7.25% per annum. Both notes payable have no fixed terms of repayment before January 1, 2019.

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

On September 22, 2014, the investment of \$965,008 in Class B shares and \$2,500,000 in Class C shares, held by the City, were exchanged for a note payable in the amount of \$3,465,008 bearing interest at 5% with no fixed terms of repayment.



**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

**19. Tangible Capital Assets:**

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
(In thousands of dollars)				
<b>General Assets</b>				
Land	\$ 83,036	\$ -	\$ 83,036	\$ 81,489
Land improvements	77,296	19,639	57,657	47,315
Buildings and structures	365,107	121,593	243,514	245,560
Vehicles and machinery	86,209	47,349	38,860	39,529
Furniture, fixtures and equipment	132,006	56,366	75,640	72,200
<b>Infrastructure Assets</b>				
Land	10,822	-	10,822	10,788
Land improvements	36,148	24,610	11,538	11,730
Plants and facilities	351,827	151,644	200,183	204,236
Roads	395,600	221,305	174,295	179,148
Bridges and culverts	34,506	11,488	23,018	23,580
Utility networks	456,449	120,523	335,926	328,992
Other	272,247	99,708	172,539	169,341
	2,301,253	874,225	1,427,028	1,413,908
Assets under construction	120,041	-	120,041	55,107
	<b>\$ 2,421,294</b>	<b>\$ 874,225</b>	<b>\$ 1,547,069</b>	<b>\$ 1,469,015</b>

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

(a) Contributed tangible capital assets:

The City records all tangible capital assets contributed by an external party at fair value on the earlier of the date received or the date of transfer of risk and responsibility. In 2017, a total of \$8,058,859 (2016 - \$6,261,392) was recorded as tangible capital asset additions with respect to contributed capital assets which was comprised of roads infrastructure in the amount of \$5,250,370 (2016 - \$4,565,196) and water and wastewater infrastructure in the amount of \$2,808,489 (2016 - \$1,696,196).

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**19. Tangible Capital Assets (Continued):**

(b) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2016 \$Nil).

(c) Works of art and historical treasures:

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

(d) Capitalization of interest:

As per City policy, interest costs incurred with respect to financing the acquisition or construction of a tangible capital asset up to the date that the asset goes into use are not capitalized. In 2017, these interest costs are included as expenses on the Consolidated Statement of Operations in the amount of \$2,130,052 (2016 - \$2,478,282).

**20. Segmented information:**

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

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

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

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**20. Segmented information (Continued):**

A brief description of each segment follows:

- (a) General government: Includes corporate services and governance of the City. Administration as a segment includes operating and maintaining city owned buildings, human resource management, legal, communications, information systems and technology, support to Council for policy, and by-law development, tax billing and collection responsibilities, financial and budget management and reporting, and frontline reception and customer service.
- (b) Protection services: Includes policing, fire protection, conservation authority, protective inspection and control and emergency measures. The mandate of the police services is to ensure the safety of the lives and property of citizens; preserve peace and good order; prevent crimes from occurring; detect offenders; and enforce the law. Fire protection includes inspection, extinguishing and suppression services; emergency medical first response; and prevention education and training programs. Inspection and control includes building inspection, by-law enforcement and dog control services.
- (c) Transportation services: Includes administration and operation of traffic, parking and transit services. Also includes, road maintenance and winter control services, repair and the construction of the municipal roads system including bridges and culverts, as well as operation and maintenance of the corporate fleet of vehicles and equipment.
- (d) Environmental services: Includes waste collection, disposal and recycling services.
- (e) Wastewater: Own and operate waste water facilities and infrastructure within specific areas of the municipality.
- (f) Water: Own and operate a water treatment and distribution network within specific areas of the municipality.
- (g) Health services: Provides funding for local Public health organizations and land ambulance operations.
- (h) Social and family services and housing: Manages social assistance as well as funding for childcare and housing. In addition, the municipality owns and operates a long term care residence for seniors.

**The Corporation of the City Of Kingston**  
**Notes to Consolidated Financial Statements**  
Year Ended December 31, 2017

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**20. Segmented information (Continued):**

- (i) Recreation and cultural services: Provides services that contribute to neighbourhood development and sustainability through the provision of recreation and leisure programs and facilities including community halls, libraries, parks, recreation fields, museums, arenas, the Grand Theatre and the Rogers K-Rock Centre.
- (j) Planning and development services: Manages development for business interests, environmental concerns, heritage matters, local neighbourhoods and community development. Also facilitates economic development by providing services for the approval of all land development plans and the application and enforcement of the zoning by-law and official plan.
- (k) Gas works: Own and operate a natural gas distribution network within specific areas of the municipality.

**21. Comparative Information:**

Certain comparative information has been reclassified to conform to the current year financial statement presentation.

# The Corporation of the City Of Kingston

## Consolidated Schedule of Tangible Capital Assets – by Major Asset Class

Year ended December 31, 2017, with Comparative Figures for 2016

(In Thousands of Dollars)

### CORPORATION OF THE CITY OF KINGSTON

#### CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS - BY MAJOR ASSET CLASS

Year ended December 31, 2017, with comparative figures for 2016

	GENERAL ASSETS					INFRASTRUCTURE ASSETS								Capital Works in Progress	TOTALS	
	Land	Land Improvements	Buildings	Vehicles and Machinery	Furniture, Fixtures and Equipment	Land	Land Improvements	Plants and Facilities	Roads	Bridges and Culverts	Utility Networks	Other	2017		2016	
<b>Cost</b>																
Balance, beginning of year	\$ 81,489	\$ 64,940	\$ 358,035	\$ 84,026	\$ 121,878	\$ 10,788	\$ 36,148	\$ 344,158	\$ 390,430	\$ 34,506	\$ 442,872	\$ 263,082	\$ 55,108	\$ 2,287,459	\$ 2,208,077	
Add: Additions	1,547	12,356	7,433	5,266	12,957	34	-	7,878	5,572	-	13,963	9,699	\$ 64,933	141,638	106,680	
Less: Disposals	-	-	(361)	(3,083)	(2,828)	-	-	(209)	(402)	-	(386)	(534)	-	(7,803)	(27,298)	
Balance, end of year	83,036	77,296	365,107	86,209	132,007	10,822	36,148	351,827	395,600	34,506	456,449	272,247	120,041	2,421,294	2,287,459	
<b>Accumulated Amortization</b>																
Balance, beginning of year	-	17,625	112,475	44,497	49,678	-	24,418	139,922	211,282	10,926	113,880	93,741	-	818,444	783,769	
Add: Amortization	-	2,014	9,479	5,754	9,226	-	192	11,931	10,425	562	7,004	6,480	-	63,067	58,924	
Less: Accumulated amortization on disposals	-	-	(361)	(2,902)	(2,537)	-	-	(209)	(402)	-	(361)	(513)	-	(7,286)	(24,249)	
Balance, end of year	-	19,639	121,593	47,349	56,367	-	24,610	151,644	221,305	11,488	120,523	99,708	-	874,225	818,444	
Net Book Value of Tangible Capital Assets	\$ 83,036	\$ 57,657	\$ 243,514	\$ 38,860	\$ 75,640	\$ 10,822	\$ 11,538	\$ 200,183	\$ 174,295	\$ 23,018	\$ 335,926	\$ 172,539	\$ 120,041	\$ 1,547,069	\$ 1,469,015	

# The Corporation of the City Of Kingston

## Consolidated Schedule of Segmented Information

Year ended December 31, 2017, with Comparative Figures for 2016

(In Thousands of Dollars)

	General Government	Protection Services	Transportation Services	Environmental Services	Waste Water	Water	Health Services	Social & Family Services & Housing	Recreation & Cultural Services	Planning & Development Services	Gas Works	Total 2017	Total 2016
<b>Revenue:</b>													
Government grants	45	3,066	20	1,282	1,366	3,522	10,584	63,414	1,268	19	-	84,586	72,860
Other municipalities	-	205	573	61	-	-	1,315	1,907	808	-	-	4,869	5,156
User fees and service charges	5,532	7,351	20,334	2,417	30,628	26,338	513	8,209	11,143	1,276	12,720	126,461	123,477
User fees - gas commodity	-	-	-	-	-	-	-	-	-	-	18,266	18,266	15,401
Other	9,156	148	20,686	-	1,261	2,643	-	2,212	2,775	922	(35)	39,768	36,292
	14,733	10,770	41,613	3,760	33,255	32,503	12,412	75,742	15,994	2,217	30,951	273,950	253,186
<b>Expenses:</b>													
Salaries, wages and employee benefits	19,626	61,625	27,966	4,320	-	-	11,987	24,476	19,545	3,447	-	172,992	176,679
Materials	4,381	5,189	14,694	911	-	-	1,845	6,507	6,147	401	91	40,166	38,679
Contracted services	7,905	2,073	7,158	5,220	14,870	12,229	628	6,445	6,863	798	4,206	68,395	59,424
Gas commodity purchases	-	-	-	-	-	-	-	-	-	-	18,266	18,266	15,401
Rents and financial expenses	5,744	1,066	2,870	794	2,771	820	114	411	4,824	92	-	19,506	23,911
External transfers	1,281	2,265	2,975	90	-	-	9,481	53,756	1,550	2,524	-	73,922	70,325
Amortization	4,243	4,034	18,987	3,186	9,954	9,352	338	2,525	7,646	-	2,802	63,067	58,924
Inter-departmental charges	(11,346)	2,260	1,477	1,999	61	78	-	3,426	2,053	(10)	2	-	-
	31,834	78,512	76,127	16,520	27,656	22,479	24,393	97,546	48,628	7,252	25,367	456,314	443,343
<b>Excess of revenue over expenses (expenses over revenues)</b>													
	(17,101)	(67,742)	(34,514)	(12,760)	5,599	10,024	(11,981)	(21,804)	(32,634)	(5,035)	5,584	(182,364)	(190,157)
												217,289	210,665
												15,677	16,493
												1,523	1,683
												9,287	5,626
												243,776	234,467
												\$ 61,412	\$ 44,310



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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the financial statements of the trust funds of the Corporation of the City of Kingston, which comprise the statement of financial position as at December 31, 2017 and the statement of continuity of trust fund for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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



### **Basis for Qualified Opinion**

In common with many trust funds, the Corporation of the City of Kingston trust funds derive revenue from residents' deposits, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the entity and we were not able to determine whether, as at or for the years ended December 31, 2017 and December 31, 2016, any adjustments might be necessary to contributions, excess of revenues over expenses, assets and fund balances.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Kingston trust funds as at December 31, 2017, and the results of its operations for the year then ended in accordance with Canadian public sector accounting standards.

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 Professional Accountants, Licensed Public Accountants

June 12, 2018

Kingston, Canada



**The Corporation of the City Of Kingston**  
**Trust Funds**

Year Ended December 31, 2017, with comparative figures for 2016

Name of Fund	Residents Fund	Donations & Endowments	Other	Rideaucrest Total 2017	Rideaucrest Total 2016
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Cash and short-term investments	\$ 25,238	\$ 40,400	\$ 84,908	\$150,546	\$ 157,271
	\$ 25,238	\$ 40,400	\$ 84,908	\$150,546	\$ 157,271
<b>Fund Balances</b>					
Unexpendable trust Capital/ earned surplus	\$ -	\$ 40,400	\$ 25,000	\$ 65,400	\$ 65,400
	25,238	-	59,908	85,146	91,871
	\$ 25,238	\$ 40,400	\$ 84,908	\$150,546	\$ 157,271
<b>Statement of Continuity</b>					
Balances, beginning of year	\$ 31,025	\$ 40,400	\$ 85,846	\$ 157,271	\$ 152,944
Donations and other revenue	45,196	-	-	45,196	56,735
Interest earned	-	474	1,012	1,486	1,261
	\$ 76,221	\$ 40,874	\$ 86,858	\$ 203,953	\$ 210,940
Expenditures	50,983	474	1,950	53,407	53,669
Balances, end of year	\$ 25,238	\$ 40,400	\$ 84,908	\$ 150,546	\$ 157,271

**The Corporation of the City Of Kingston**  
**Trust Funds**  
**Notes to Financial Statements**

Year Ended December 31, 2017

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**1. Significant Accounting Policies:**

The financial statements of the Corporation of the City of Kingston Trust Funds are prepared by management in accordance with Canadian public sector accounting standards.

(a) **Basis of Accounting:**

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

(b) **Revenue Recognition:**

Revenue and expenditures are recorded on an accrual basis.

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

(c) **Use of Estimates:**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the period. Actual results could differ from those estimates.

**2. Statement of Cash Flows:**

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