

Audited Financial Statements
and Other Financial Information of

**The Corporation of
the City of Kingston**

Year Ended December 31, 2015

Audited Financial Statements
and other Financial Information of
The Corporation of the City Of Kingston
Year ended December 31, 2015

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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, 2015, the consolidated statements of operations, changes in net assets (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, 2014, 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

Chartered Professional Accountants, Licensed Public Accountants

June 7, 2016
Kingston, Canada

The Corporation of the City Of Kingston
Consolidated Statement of Financial Position
December 31, 2015, with Comparative Figures for 2014
(In Thousands of Dollars)

	2015	2014
Financial Assets:		
Cash and short-term investments	\$ 123,452	\$ 97,448
Taxes receivable	7,529	7,456
Accounts receivable	23,100	21,762
Inventories for resale	20,936	17,086
Notes receivable from government business enterprises (note 18)	18,311	18,311
Long-term investments (note 4)	128,890	110,481
Investment in government business enterprises (note 18)	27,351	27,698
	<u>349,569</u>	<u>300,242</u>
Liabilities:		
Temporary loans (note 7)	(67,809)	(65,045)
Accounts payable and accrued liabilities	(53,116)	(49,244)
Due (to) from government business enterprises:		
Utilities Kingston (note 18)	(2,734)	604
Kingston Hydro Corporation (note 18)	(3,709)	(5,940)
Employee future benefit obligations (note 10(d))	(3,820)	(3,496)
Deferred revenue - obligatory reserve funds (note 12)	(27,757)	(33,634)
Deferred revenues	(5,400)	(6,224)
Accrued interest on long-term debt	(2,880)	(2,291)
Long-term liabilities (note 11)	(302,993)	(263,634)
Employee future benefit obligations (note 10(d))	(42,145)	(39,838)
Landfill closure and post closure liabilities (note 14)	(5,982)	(6,134)
	<u>(518,345)</u>	<u>(474,876)</u>
Net Financial Assets (Debt)	(168,776)	(174,634)
Non-Financial Assets:		
Tangible capital assets (note 19)	1,424,309	1,390,092
Inventories of supplies	1,653	1,508
Prepaid expenses	5,588	4,978
	<u>1,431,550</u>	<u>1,396,578</u>
Contingent liabilities (note 15)		
Commitments (note 16)		
Municipal Equity	\$ 1,262,774	\$ 1,221,944

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, 2015, with Comparative Information for 2014

(In Thousands of Dollars)

	Budget 2015 (note 17)	Actual 2015	Actual 2014
Revenue:			
Property taxation	\$ 203,028	\$ 203,056	\$ 198,919
Taxation from other governments	15,251	15,038	15,053
User charges	116,653	118,398	117,960
User charges – gas commodity	30,000	17,567	18,704
Government grants	68,850	69,689	64,262
Grants from other municipalities	5,155	5,064	4,997
Investment income	7,349	7,349	7,253
Lot levies	8,701	6,097	5,930
Other	1,850	1,945	1,876
Transfers from deferred obligatory reserve funds (note 12)	3,090	2,880	2,141
Government business enterprises net earnings (note 18)	--	(347)	1,093
Total Revenues	459,927	446,736	438,188
Expenses:			
General government	31,825	31,250	33,849
Protection services	73,921	74,436	70,367
Transportation services	67,003	65,825	67,920
Environmental services	65,411	62,746	61,239
Health services	24,289	23,792	23,607
Social and family services	66,528	66,122	63,722
Social housing	25,735	24,593	23,695
Recreational and cultural services	47,937	47,114	43,376
Planning and development	7,800	8,129	8,030
Gas utility	36,877	24,196	26,060
Total Expenses	447,326	428,203	421,865
Net Revenues	12,601	18,533	16,323
Other Revenues:			
Grants and transfers related to capital:			
Government and municipal capital grants		364	382
Transfers from deferred obligatory reserve funds (note 12)		17,707	13,206
Donations and other		236	274
Contributed tangible capital assets (note 19(a))		3,990	11,511
		22,297	25,373
Annual Surplus		40,830	41,696
Municipal Equity, Beginning of Year		1,221,944	1,180,248
Municipal Equity, End of Year		\$ 1,262,774	\$ 1,221,944

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, 2015, with Comparative Figures for 2014
(In Thousands of Dollars)

	Actual 2015	Actual 2014
Annual Surplus	\$ 40,830	\$ 41,696
Amortization of tangible capital assets	55,674	52,149
Acquisition of tangible capital assets	(91,796)	(133,578)
Loss on tangible capital assets transactions	1,905	3,582
	6,613	(36,151)
Acquisition of prepaid expenses	(610)	(1,796)
Consumption (acquisition) of supplies inventories	(145)	138
Increase (decrease) in Net Assets	5,858	(37,809)
Net Assets (Debt), Beginning of Year	(174,634)	(136,825)
Net Assets (Debt), End of Year	\$ (168,776)	\$ (174,634)

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, 2015, with Comparative Figures for 2014

(In Thousands of Dollars)

	2015	2014
Current Fund Surplus (Deficit):		
General operating surplus	\$ 3,453	\$ 1,162
Accumulated operating surplus - water	2,021	1,458
Accumulated operating surplus - sewer	1,880	1,593
Accumulated operating surplus - gas	5,851	6,322
Downtown Business Improvement Area	8	55
Kingston & Frontenac Housing Corporation	1,420	1,345
Kingston Frontenac Public Library Board	106	117
Total Current Fund Surplus	14,739	12,052
Investment in Tangible Capital Assets:		
Tangible capital assets (note 19)	1,424,309	1,390,092
Long-term liabilities (note 11)	(302,993)	(283,465)
Unfinanced capital expenditures:		
To be financed from long-term liabilities	(102,587)	(98,385)
To be financed from transfers from reserves and reserve funds	(60)	(253)
To be financed from taxation or user charges	(75)	57
Unapplied capital receipts	16,697	13,881
Total Investment in Tangible Capital Assets	1,035,291	1,021,927
Investment in Government Business Enterprises (note 18)	27,351	27,698
Unfunded Liabilities:		
Employee future benefit obligations (note 10(d))	(43,452)	(41,133)
Landfill closure and post-closure liabilities (note 14)	(5,982)	(6,134)
Accrued interest on long-term debt	(2,880)	(2,291)
Total Unfunded Liabilities	(52,314)	(49,558)
Reserves and Reserve Funds:		
Reserves set aside for specific purpose:		
Working funds	17,673	17,411
Reserve funds set aside for specific purpose:		
Replacement of equipment	28,595	25,385
Replacement & renewal of facilities	11,680	9,863
Municipal capital replacement & renewal	22,449	21,952
Other capital	1,002	848
Sanitary sewer system	36,505	34,699
Storm sewer system	343	337
Parks and recreation	5,853	5,145
Libraries	2,405	1,830
Waterworks system	28,063	21,715
Planning and development	791	1,032
Transit	11,297	9,851
Gas utility	7,620	9,094
Sick leave	9,969	9,397
Protective services	8,773	8,794
Environmental Services	3,832	4,377
Social and family services	852	836
Social housing	3,591	3,807
Parking	8,571	6,938
Impost fees for water and wastewater capital	27,843	16,514
	237,707	209,825
Municipal Equity	\$ 1,262,774	\$ 1,221,944

The Corporation of the City Of Kingston

Consolidated Statement of Cash Flows

Year Ended December 31, 2015, with Comparative Figures for 2014

(In Thousands of Dollars)

	2015	2014
Operations transactions:		
Annual surplus	\$ 40,830	\$ 41,696
Net change in non-cash working capital items:		
(Increase) decrease in taxes receivable	(73)	1,365
(Increase) decrease in accounts receivable	(1,338)	4,693
(Increase) decrease in inventories for resale	(3,850)	621
(Increase) decrease in inventories of supplies	(145)	138
Increase in prepaid expenses	(610)	(1,796)
Increase in accounts payable and accrued liabilities	3,872	2,988
Increase (decrease) in due to government business enterprises	1,431	(2,150)
Increase (decrease) in deferred obligatory reserve funds	(5,877)	3,820
Increase (decrease) in deferred revenue	(824)	910
Increase (decrease) in accrued interest on long-term debt	589	(88)
	(6,825)	10,501
Items not involving cash:		
Amortization of tangible capital assets	55,674	52,149
Contributed tangible capital assets (note 19(a))	(3,990)	(11,511)
Loss on tangible capital assets transactions	1,905	3,582
Change in landfill closure and post closure liabilities	(152)	(523)
Change in employee future benefit obligations	2,307	1,768
Equity in government business enterprise from net earnings	347	(1,093)
	56,091	44,372
Net change in cash from operating transactions	90,096	96,569
Capital transactions:		
Purchase of tangible capital assets	(87,806)	(122,067)
Investment transactions:		
Net purchase of long-term investments	(18,409)	(874)
Financing transactions:		
Proceeds from new debt issue	50,552	-
Debt principal repayments	(11,193)	(11,061)
Temporary net loan proceeds	2,764	57,394
Net change in cash from financing transactions	42,123	46,333
Increase in cash and short-term investments	26,004	19,961
Cash and short-term investments, beginning of year	97,448	77,487
Cash and short-term investments, end of year	\$ 123,452	\$ 97,448

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, 2015

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 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, 2015

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 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 financial statements.
- vi. Trust funds:
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) 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, 2015

1. Summary of Accounting Policies (Continued):

(c) Reporting Entity (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, 2015

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 municipality 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, 2015

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	5 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, 2015

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 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. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

1. Summary of Accounting Policies (Continued):

(l) Change in Accounting Policies:

The City has implemented Public Sector Accounting Board (PSAB) Section 3260 Liability for Contaminated Sites. Section 3260 requires governments to record a liability in their financial statements if they have a contaminated site that meets the requirements set out in the standard. The standard defines contamination as the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The standard generally applies to sites that are not in productive use. Sites that are in productive use are only considered contaminated if there was an unexpected event that resulted in contamination. This change has been applied retroactively without the restatement of prior periods.

The adoption of this standard did not have an impact on the City's financial statements.

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:

	2015	2014
	(In thousands of dollars)	
Taxation and user charges	\$ 55,490	\$ 53,833
Payments in lieu	318	316
Amount transferred to school boards	\$ 55,808	\$ 54,149

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, 2015, there was \$Nil (2014 - \$Nil) drawn on the operating credit facility.

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

4. 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 \$134,194,460 at December 31, 2015 (2014 - \$115,832,666).

5. 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 Operations" includes the following contributions made by the municipality to the corporation:

	2015	2014
	(In thousands of dollars)	
Kingston Economic Development Corporation Grant	\$ 2,708	\$ 2,655

6. Trust Funds:

Trust funds administered by the municipality amounting to \$152,944 (2014 - \$158,894) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

7. Temporary Loans:

The City has financial agreements with the Ontario Infrastructure Projects Corporation (OIPC) for temporary capital loans up to a maximum of \$125,840,000 for the interim financing of various water, sewer, roads and building capital projects. As at December 31, 2015, the temporary capital loan balance is \$67,809,371 (2014 - \$65,044,673).

8. 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 Operations".

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

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 2015 was \$10,671,267 (2014 - \$10,479,680) for current service and is included as an expenditure on the "Consolidated Statement of Operations".

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, 2013, in order to determine the estimated accrued benefit liability to be reported in these financial statements for the City of Kingston. The discount rate was updated from 4.75% to 4.0% at the end of December 31, 2015.

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 between 11 and 13 years.

At December 31, 2015, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$33,384,788 (2014 - \$30,668,364).

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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 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	4.0% per annum
Health benefits escalation	6.0% per annum in 2014, decreasing to 4.0% 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 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 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

The Corporation of the City Of Kingston

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

10. Employee Future Benefit Obligations (Continued):

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

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

	2015	2014
(In thousands of dollars)		
Accrued benefit liability, January 1	\$ 30,668	\$ 28,840
Expense recognized for the period	3,941	3,710
Benefits paid for the period	(2,080)	(2,737)
Amortization of actuarial gains/losses	855	855
Accrued benefit liability, December 31	\$ 33,384	\$ 30,668

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

	2015	2014
(In thousands of dollars)		
Accrued benefit obligation	\$ 39,746	\$ 35,445
Unamortized actuarial losses	(6,660)	(5,114)
Unamortized actuarial gains	298	337
Accrued benefit liability, December 31	\$ 33,384	\$ 30,668

- (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 payments. An independent actuarial study of the Workplace Safety and Insurance Board liabilities was undertaken at December 31, 2013 in order to determine the estimated liability reported in these financial statements. The discount rate was updated from 4.75% to 4.0% at the end of December 31, 2015.

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, 2015, the City's accrued benefit liability relating to future WSIB claims is \$10,720,739 (2014 - \$10,844,532).

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

10. Employee Future Benefit Obligations (Continued):

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

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	32% of compensation expense

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

	2015	2014
	(In thousands of dollars)	
Accrued benefit liability, beginning of year	\$ 10,845	\$ 10,674
Expense recognized for the period	1,808	1,828
Benefits paid for the period	(1,775)	(1,679)
Amortization of net actuarial gains/losses	(157)	22
Accrued benefit liability, end of year	\$ 10,721	\$ 10,845

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

	2015	2014
	(In thousands of dollars)	
Accrued benefit obligation	\$ 10,230	\$ 9,724
Unamortized actuarial gains	491	1,121
Accrued benefit liability, end of year	\$ 10,721	\$ 10,845

(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, 2015 amount to \$1,556,571 (2014 - \$1,535,750).

The Corporation of the City Of Kingston

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

10. Employee Future Benefit Obligations (Continued):

(d) Total employee benefit obligations:

	2015	2014
(In thousands of dollars)		
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 29,855	\$ 27,437
Workplace safety and insurance	10,721	10,845
Vacation credits	1,267	1,271
Pension payable	302	285
	42,145	39,838
Health benefits and sick leave – water, sewer and gas utilities (note 18(a))	3,530	3,231
Vacation credits – water, sewer and gas utilities	290	265
	3,820	3,496
Total employee benefit obligations	45,965	43,334
Amounts previously funded from operating revenues	(2,513)	(2,201)
Unfunded employee future benefit obligations	\$ 43,452	\$ 41,133
To be recovered from reserve funds	\$ 9,969	\$ 9,397
To be recovered from future municipal and utility revenues	33,483	31,736
	\$ 43,452	\$ 41,133

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 the Company in managing these utility operations for the City.

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

11. Long-term Liabilities:

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

	2015	2014
	(In thousands of dollars)	
Long-term liabilities incurred by the municipality, including those incurred on behalf of other municipalities and municipal enterprises, with varying maturities up to 2045 and a weighted average interest rate of 4.2% (2014 - 4.3%)	\$ 313,497	\$274,701
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation, with an interest rate of 5.4% and 3.6%, maturing 2028 and 2032	4,803	4,943
Proportionate share of KFLA Public Health long-term debt, with a current interest rate of 6.1%, maturing in 2029	3,649	3,821
Total long-term liabilities	\$ 321,949	\$283,465
Less long-term borrowings from own funds	\$ (18,956)	\$ (19,831)
Long-term liabilities to be recovered from future revenues	\$ 302,993	\$263,634
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	\$ (39)	\$ (56)

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

(In thousands of \$)	2016	2017	2018	2019	2020	2021+	Total
Tax sources	\$ 6,664	\$ 6,863	\$ 6,762	\$ 5,935	\$ 6,138	\$ 85,884	\$118,246
Utility user fees	3,402	3,510	3,611	3,722	3,844	87,835	105,924
Other user fees	2,458	2,572	2,513	2,495	2,617	76,672	89,327
Public Health	183	196	208	224	239	2,599	3,649
Housing Corp	147	154	162	171	180	3,989	4,803
	\$12,854	\$13,295	\$13,256	\$12,547	\$13,018	\$256,979	\$321,949

- (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.

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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:

	2015	2014
	(In thousands of dollars)	
Principal payments	\$ 11,193	\$ 11,061
Interest	12,480	12,381
	<u>\$ 23,673</u>	<u>\$ 23,442</u>

Interest charges are included on the "Consolidated Statement of Operations", classified under the appropriate functional expenditure 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:

	2015	2014
	(In thousands of dollars)	
Balance, beginning of year	\$ 33,634	\$ 29,814
Revenues		
Development contributions	4,673	6,873
Federal gasoline tax	7,144	7,336
Provincial gasoline tax	2,167	2,031
Building Code Act	-	2,096
Recreational Land (Planning Act)	98	139
Investment income	628	692
Utilization:		
Transfers for operating	(2,880)	(2,141)
Transfers for capital	(17,707)	(13,206)
Balance, end of year	<u>\$ 27,757</u>	<u>\$ 33,634</u>

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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

	2015	2014
	(In thousands of dollars)	
Analyzed as follows:		
Development charges	\$ 18,609	\$ 20,575
Cash in lieu of parkland	623	1,016
Federal gasoline tax	4,176	5,699
Infrastructure Ontario Act	224	953
Building Code Act	4,125	5,391
	\$ 27,757	\$ 33,634

13. 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:

	2015	2014
	(In thousands of dollars)	
Gross revenues received	\$ 2,053	\$ 1,709
Gross expenditures	(1,088)	(985)
Net revenues	\$ 965	\$ 724

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

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 to use by the public by December 31, 2010, and was closed completely in 2013. Estimated total landfill closure and post-closure care requirements include closure activities as well as annual post-closure maintenance and monitoring requirements for a twenty-five year period.

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 \$6.0 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, 2015 is an amount of \$5,981,911 (2014 - \$6,134,445) 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, 2015

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, 2015, 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 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 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 2015 were approximately \$1,399,624 (2014 - \$1,826,673).

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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 expenditures 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 2015 in the amount of \$712,503 (2014 - \$712,503).
- (d) In 2008, the Corporation of the City of Kingston pledged to the University Hospitals Kingston Foundation, a joint fundraising appeal undertaken by the Foundation on behalf of local hospitals, \$10,000,000 plus 50% of the costs of development charges and impost fees up to a maximum of \$6,000,000. The City has paid \$11,150,000 of this 10-year commitment as of December 31, 2015.
- (e) The Corporation of the City of Kingston and 1425445 Ontario Limited (operating as Utilities Kingston) on behalf of the City of Kingston have previously entered into capital contracts:

Description of project	Total Contract Price	Costs Incurred to Date
	(In Thousands of Dollars)	
Point Pleasant Water Treatment Facility	\$ 47,066	\$ 41,326
John Counter Blvd Widening	\$ 11,156	\$ 3,807

17. Budget Process:

The City of Kingston 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, 2015

17. Budget Figures (Continued):

The budget amounts presented in the consolidated financial statements are based on the 2015 operating and capital budgets approved by Council on February 3, 2015. 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	\$ 433,003
Consolidated external agency budgets	16,193
Approved PSAB reporting adjustments:	
Reserve fund revenues	14,500
Budget amendments and reallocations	(1,768)
Less transfers from reserves / reserve funds	(2,001)
Net operating budget revenues	459,927
Approved operating budget expenses	433,003
Consolidated external agency budgets	16,389
Approved PSAB reporting adjustments:	
Amortization of tangible capital assets	50,000
Reserve fund expenditures for debt interest	14,500
Unfunded accruals for employee future benefit obligations, landfill closure and post-closure liabilities and accrued interest on long term debt	2,200
Budget amendments and reallocations	(1,768)
Non-tangible capital asset expenditures	16,250
Gain on tangible capital asset transactions	(1,500)
Less transfers to reserves and reserve funds	(81,267)
Less debt principal repayments	(481)
Net operating budget expenses	447,326
Net revenues before capital investment	\$ 12,601

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

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 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 has adopted International Financial Reporting Standards (IFRS) beginning in 2015 and relevant prior year figures have been reclassified to reflect the changes. There is 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, 2015

18. Investment in Government Business Enterprises (Continued):

(a) (continued):

	2015	2014
	(In thousands of dollars)	
Financial position		
Current assets	\$ 21,560	\$ 22,322
Due from City of Kingston:		
Utilities Kingston	2,734	(604)
Kingston Hydro Corporation	3,709	5,940
Post-employment benefit obligation (note 10(d))	3,530	3,231
Accrued vacation liabilities	383	357
Capital assets	49,870	47,900
Regulatory assets (net)	6,455	9,269
Deferred charges	620	796
Total assets	88,861	89,211
Current liabilities	18,269	22,545
Post-employment benefit obligation	5,271	4,829
Accrued vacation and pension liabilities	197	188
Accrued liabilities non-current	2,153	2,001
Long-term loan payable	17,309	13,639
Long-term notes payable to City of Kingston (note 18 (c))	18,311	18,311
Total liabilities	61,510	61,513
Net assets	\$ 27,351	\$ 27,698
Common shares	\$ 12,381	\$ 12,381
Accumulated other comprehensive income	(798)	(571)
Accumulated earnings	15,768	15,888
Investment in government business enterprises	\$ 27,351	\$ 27,698
Results of operations:		
Net utility revenues	\$ 101,116	\$ 126,033
Operating expenses	(96,465)	(120,997)
Interest on debt	(1,438)	(1,553)
Depreciation	(2,459)	(2,537)
Net earnings before income taxes	754	946
Net movement in regulatory deferral accounts	1,406	3,133
Payments in lieu of corporate income taxes	(594)	(1,037)
Net earnings	1,566	3,042
Dividends on common shares	(1,686)	(1,666)
Accumulated earnings, beginning of year	15,888	14,512
Accumulated earnings, end of year	\$ 15,768	\$ 15,888

Notes to Consolidated Financial Statements

Year Ended December 31, 2015

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 of Kingston in the amounts of \$10,354,454 (2014 - \$10,126,834) and \$74,971,643 (2014 - \$100,843,104) 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 \$3,117,904 (2014 - \$2,969,756).

As at December 31, 2015, the City had a balance owing to (from) 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$2,734,160 (2014 - (\$604,330)) and a balance owing to Kingston Hydro Corporation in the amount of \$3,709,411 (2014 - \$5,939,971), 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 of Kingston 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, 2015, the City had a note payable from Kingston Hydro in the amount of \$10,880,619 (2014 - \$10,880,619), bearing interest at 5.87% (2014 - 5.87%) per annum and due from 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$965,010 (2014 - \$965,010), bearing interest at 7.25% per annum. Both notes payable have no fixed terms of repayment before January 1, 2017.

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 of Kingston, 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, 2015

19. Tangible Capital Assets:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
(In thousands of dollars)				
General Assets				
Land	\$ 77,470	\$ -	\$ 77,470	\$ 76,633
Land improvements	58,800	15,834	42,966	41,270
Buildings	350,675	103,687	246,988	242,031
Vehicles and machinery	77,822	41,790	36,032	36,634
Furniture, fixtures and equipment	115,434	42,199	73,235	53,306
Infrastructure Assets				
Land	10,573	-	10,573	10,361
Land improvements	36,148	24,226	11,922	10,032
Plants and facilities	297,893	140,428	157,465	166,398
Roads	382,291	202,535	179,756	179,977
Bridges and culverts	32,115	10,406	21,709	22,091
Utility networks	431,371	107,124	324,247	321,241
Other	255,512	95,539	159,973	152,142
	2,126,104	783,768	1,342,336	1,312,116
Assets under construction	81,973	-	81,973	77,976
	\$ 2,208,077	\$ 783,768	\$1,424,309	\$ 1,390,092

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 2015, a total of \$3,990,485 (2014 - \$11,511,382) was recorded as tangible capital asset additions with respect to contributed capital assets which was comprised of roads infrastructure in the amount of \$2,971,726 (2014 - \$10,914,322) and water and wastewater infrastructure in the amount of \$1,018,759 (2014 - \$598,060).

The Corporation of the City Of Kingston
Notes to Consolidated Financial Statements
Year Ended December 31, 2015

19. Tangible Capital Assets (Continued):

(b) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2014 \$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 2015, these interest costs are included as expenses on the "Consolidated Statement of Operations" in the amount of \$2,113,064 (2014 - \$2,000,733).

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 of Kingston 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, 2015

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 development, by-law development in compliance with the Municipal Act, tax billing and collection responsibilities, financial management reporting, monitoring and overall budget status as well as 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 for the municipality. In addition, services are provided for the winter and summer road maintenance along with the repair and the construction of the municipal roads system including bridges and culverts, as well as operation and maintenance of a fleet of vehicles and equipment for use in providing services to the city.
- (d) Environmental services: Includes waste collection, disposal and recycling services.
- (e) Wastewater: Own and operate waste water facilities and infrastructure and provide sanitary sewer services within the municipality.
- (f) Water: Own and operate a water treatment and distribution network within 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, 2015

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, 2015, with Comparative Figures for 2014

(In Thousands of Dollars)

	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	2015		2014	
Cost																
Balance, beginning of year	\$ 76,633	\$ 55,496	\$ 337,770	\$ 74,254	\$ 89,304	\$ 10,361	\$ 34,080	\$ 297,224	\$ 374,441	\$ 31,977	\$ 421,866	\$ 242,027	\$ 77,976	\$ 2,123,409	\$ 2,005,852	
Add: Additions	1,130	3,515	15,101	4,398	27,733	212	2,068	669	9,161	138	9,726	13,948	3,997	91,796	133,578	
Less: Disposals	(293)	(211)	(2,196)	(830)	(1,603)	-	-	-	(1,311)	-	(221)	(463)	-	(7,128)	(16,021)	
Balance, end of year	77,470	58,800	350,675	77,822	115,434	10,573	36,148	297,893	382,291	32,115	431,371	255,512	81,973	2,208,077	2,123,409	
Accumulated Amortization																
Balance, beginning of year	-	14,226	95,739	37,620	35,998	-	24,048	130,826	194,464	9,886	100,625	89,885	-	733,317	693,607	
Add: Amortization	-	1,684	9,463	4,755	7,759	-	178	9,602	9,036	520	6,700	5,977	-	55,674	52,149	
Less: Accumulated amortization on disposals	-	(76)	(1,515)	(585)	(1,558)	-	-	-	(965)	-	(201)	(323)	-	(5,223)	(12,439)	
Balance, end of year	-	15,834	103,687	41,790	42,199	-	24,226	140,428	202,535	10,406	107,124	95,539	-	783,768	733,317	
Net Book Value of Tangible Capital Assets																
	\$ 77,470	\$ 42,966	\$ 246,988	\$ 36,032	\$ 73,235	\$ 10,573	\$ 11,922	\$ 157,465	\$ 179,756	\$ 21,709	\$ 324,247	\$ 159,973	\$ 81,973	\$ 1,424,309	\$ 1,390,092	

The Corporation of the City Of Kingston

Consolidated Schedule of Segmented Information

Year ended December 31, 2015, with Comparative Figures for 2014

(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 2015	Total 2014	
Revenue:														
Government grants	206	1,907	-	1,266	-	-	10,391	55,458	810	15	-	70,053	64,644	
Other municipalities	-	191	762	185	-	-	1,264	1,890	772	-	-	5,064	3,758	
User fees and service charges	7,821	4,328	17,805	1,809	28,350	25,011	649	7,858	11,229	1,183	12,355	118,398	117,960	
User fees - gas commodity	-	-	-	-	-	-	-	-	-	-	17,567	17,567	18,704	
Other	5,583	1,176	19,076	-	1,627	2,456	-	752	2,002	183	-	32,855	34,938	
	13,610	7,602	37,643	3,260	29,977	27,467	12,304	65,958	14,813	1,381	29,922	243,937	240,004	
Expenses:														
Salaries, wages and employee benefits	20,353	58,120	25,986	4,165	-	-	11,403	23,949	19,370	4,083	-	167,429	161,121	
Materials	4,020	4,988	13,283	792	-	-	2,116	6,697	5,723	463	-	38,082	38,318	
Contracted services	7,215	2,404	8,569	5,669	13,018	11,755	507	2,278	6,692	935	3,481	62,523	59,788	
Gas commodity purchases	-	-	-	-	-	-	-	-	-	-	17,567	17,567	18,704	
Rents and financial expenses	3,660	1,310	1,278	670	3,046	547	143	919	4,933	(45)	107	16,568	23,583	
External transfers	1,051	1,985	2,269	20	-	-	9,274	51,694	1,342	2,726	-	70,361	66,963	
Amortization	5,593	3,262	14,982	2,903	10,107	6,378	349	2,299	7,340	14	2,446	55,673	52,149	
Inter-departmental charges	(10,642)	2,367	(542)	1,825	943	908	-	2,879	1,714	(47)	595	-	-	
	31,250	74,436	65,825	16,044	27,114	19,588	23,792	90,715	47,114	8,129	24,196	428,203	420,626	
Excess of revenue over expenses (expenses over revenues)	(17,640)	(66,834)	(28,182)	(12,784)	2,863	7,879	(11,488)	(24,757)	(32,301)	(6,748)	5,726	(184,266)	(180,622)	
												Taxation	203,056	198,919
												Payments in Lieu	15,038	15,053
												Investment in Government Business Enterprise	(347)	1,093
												Investment Income	7,349	7,253
													225,096	222,318
													\$ 40,830	\$ 41,696



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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 statements of financial position as at December 31, 2015 and the statements 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, 2015 and December 31, 2014, any adjustments might be necessary to contributions, excess of revenues over expenses, current 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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 7, 2016
Kingston, Canada

The Corporation of the City Of Kingston
Trust Funds

Year Ended December 31, 2015, with comparative figures for 2014

Name of Fund	Rideaucrest Residents Fund	Rideaucrest Donations & Endowments	Other	Total 2015	Total 2014
Statements of Financial Position					
Assets					
Cash and short-term investments	\$ 27,554	\$ 40,400	\$ 84,990	\$152,944	\$ 158,894
	\$ 27,554	\$ 40,400	\$ 84,990	\$152,944	\$ 158,894
Fund Balances					
Unexpendable trust Capital/ earned surplus	\$ - 27,554	\$ 40,400 -	\$ 25,000 59,990	\$ 65,400 87,544	\$ 65,400 93,494
	\$ 27,554	\$ 40,400	\$ 84,990	\$152,944	\$ 158,894
Statements of Continuity					
Balances, beginning of year	\$ 35,065	\$ 40,400	\$ 83,429	\$ 158,894	\$ 356,356
Donations and Other revenue	73,992	-	629	74,621	104,959
Interest earned	-	427	932	1,359	1,669
	\$ 109,057	\$ 40,827	\$ 84,990	\$ 234,874	\$ 462,984
Expenditures	81,503	427	-	81,930	304,090
Balances, end of year	\$ 27,554	\$ 40,400	\$ 84,990	\$ 152,944	\$ 158,894

The Corporation of the City Of Kingston

Trust Funds

Notes to Financial Statements

Year Ended December 31, 2015

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. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

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.