

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION OF

**CORPORATION OF THE
CITY OF KINGSTON**

YEAR ENDED DECEMBER 31, 2013

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION OF**

CORPORATION OF THE CITY OF KINGSTON

Year ended December 31, 2013

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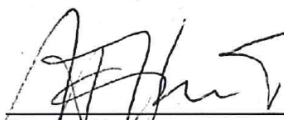
Management's Responsibility for the Consolidated Financial Statements

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.

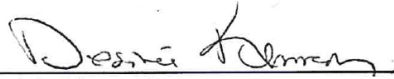
The City's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely 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 Huft
Chief Administrative Officer



Desirée Kennedy
City Treasurer



KPMG LLP
Suite 400
863 Princess Street
Kingston ON K7L 5N4
Canada

Telephone (613) 549-1550
Telefax (613) 549-6349
www.kpmg.ca

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, 2013, 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, 2013, and its consolidated results of operations and its consolidated cash flows 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 horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

May 20, 2014
Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012 (IN THOUSANDS OF DOLLARS)

	2013	2012
FINANCIAL ASSETS:		
Cash and short-term investments	\$ 77,487	\$ 81,763
Taxes receivable	8,821	9,579
Accounts receivable	26,455	22,742
Inventories for resale	17,707	15,817
Notes receivable from government business enterprises (note 18)	14,846	14,846
Long-term investments (note 4)	109,607	112,186
Investment in government business enterprises (note 18)	30,070	28,094
	284,993	285,027
LIABILITIES:		
Temporary loans (note 7)	(7,651)	(31,591)
Accounts payable and accrued liabilities	(46,256)	(37,303)
Due (to) from government business enterprises:		
Utilities Kingston (note 18)	(1,982)	(1,507)
Kingston Hydro Corporation (note 18)	(5,715)	(3,807)
Employee future benefit obligations (note 10(d))	(3,285)	(3,157)
Deferred revenue - obligatory reserve funds (note 12)	(29,814)	(34,995)
Deferred revenues	(5,314)	(4,876)
Accrued interest on long-term debt	(2,379)	(2,292)
Long-term liabilities (note 11)	(274,695)	(230,428)
Employee future benefit obligations (note 10(d))	(38,070)	(36,083)
Landfill closure and post closure liabilities (note 14)	(6,657)	(6,081)
	(421,818)	(392,120)
NET FINANCIAL ASSETS (DEBT)	(136,825)	(107,093)
NON-FINANCIAL ASSETS:		
Tangible capital assets (note 19)	1,312,245	1,232,688
Inventories of supplies	1,646	1,284
Prepaid expenses	3,182	2,897
	1,317,073	1,236,869
Contingent liabilities (note 15)		
Commitments (note 16)		
MUNICIPAL EQUITY	\$ 1,180,248	\$ 1,129,776

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(IN THOUSANDS OF DOLLARS)

	Budget 2013	Actual 2013	Actual 2012
	(note 17)		
REVENUE:			
Property taxation	\$ 189,791	\$ 190,167	\$ 183,011
Taxation from other governments	14,646	15,326	15,027
User charges	109,379	112,654	108,122
User charges – gas commodity	40,000	19,420	19,012
Government grants	62,760	63,441	61,966
Grants from other municipalities	3,522	3,532	3,537
Investment income	7,023	6,433	7,070
Lot levies	6,000	4,124	5,164
Other	2,000	1,886	1,943
Transfers from deferred obligatory reserve funds (note 12)	2,786	2,209	2,451
Government business enterprises net earnings (note 18)	--	1,976	2,892
TOTAL REVENUES	437,907	421,168	410,195
EXPENSES:			
General government	30,131	28,646	28,182
Protection services	69,017	68,611	66,447
Transportation services	59,942	61,700	54,776
Environmental services	58,017	60,174	60,249
Health services	22,747	22,306	21,628
Social and family services	63,265	61,650	64,642
Social housing	22,510	22,639	22,289
Recreational and cultural services	42,331	42,376	40,753
Planning and development	6,922	7,347	6,244
Gas utility	46,876	26,001	24,890
TOTAL EXPENSES	421,758	401,450	390,100
NET REVENUES	16,149	19,718	20,095
OTHER REVENUES:			
Grants and transfers related to capital:			
Government & municipal capital grants		2,169	2,648
Transfers from deferred obligatory reserve funds (note 12)		20,245	19,407
Donations and other		341	1,331
Contributed tangible capital assets (note 19(a))		7,999	11,584
		30,754	34,970
ANNUAL SURPLUS		50,472	55,065
MUNICIPAL EQUITY, BEGINNING OF YEAR		1,129,776	1,074,711
MUNICIPAL EQUITY, END OF YEAR	\$	1,180,248	\$ 1,129,776

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (DEBT)
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(IN THOUSANDS OF DOLLARS)

	Actual 2013	Actual 2012
ANNUAL SURPLUS	\$ 50,472	\$ 55,065
Amortization of tangible capital assets	49,004	49,483
Acquisition of tangible capital assets	(131,084)	(103,250)
Loss on tangible capital assets transactions	2,523	1,481
	(29,085)	2,779
Acquisition of prepaid expenses	(285)	2,124
Acquisition of supplies inventories	(362)	61
DECREASE IN NET ASSETS	(29,732)	4,964
NET ASSETS (DEBT), BEGINNING OF YEAR	(107,093)	(112,057)
NET ASSETS (DEBT), END OF YEAR	\$ (136,825)	\$ (107,093)

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

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF MUNICIPAL EQUITY
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(IN THOUSANDS OF DOLLARS)

	2013	2012
Current Fund Surplus (Deficit):		
General operating surplus	\$ 3,619	\$ 3,887
Accumulated operating surplus - water	1,937	2,335
Accumulated operating surplus - sewer	2,437	1,432
Accumulated operating surplus - gas	6,241	5,823
Downtown Business Improvement Area	55	(6)
Kingston & Frontenac Housing Corporation	1,103	864
Kingston Frontenac Public Library Board	(78)	220
Total Current Fund Surplus	15,314	14,555
Investment in Tangible Capital Assets:		
Tangible capital assets (note 19)	1,312,245	1,232,688
Long-term liabilities (note 11)	(292,567)	(248,871)
Unfinanced capital expenditures:		
To be financed from long-term liabilities	(62,144)	(71,782)
To be financed from transfers from reserves and reserve funds	(183)	(885)
To be financed from taxation or user charges	(204)	(243)
Unapplied capital receipts	11,538	16,675
Total Investment in Tangible Capital Assets	968,685	927,582
Investment in Government Business Enterprises (note 18)	30,070	28,094
Unfunded Liabilities:		
Employee future benefit obligations (note 10(d))	(39,350)	(37,341)
Landfill closure and post-closure liabilities (note 14)	(6,657)	(6,081)
Accrued interest on long-term debt	(2,379)	(2,292)
Total Unfunded Liabilities	(48,386)	(45,714)
Reserves and Reserve Funds:		
Reserves set aside for specific purpose:		
Working funds	17,741	14,821
Reserve funds set aside for specific purpose:		
Replacement of equipment	21,468	18,791
Replacement & renewal of facilities	7,486	6,330
Municipal capital replacement & renewal	19,238	14,202
Other capital	4,294	853
Sanitary sewer system	35,999	40,728
Storm sewer system	331	321
Parks and recreation	3,190	2,952
Libraries	1,728	1,322
Waterworks system	22,730	21,104
Planning and development	2,816	3,481
Transit	9,225	10,295
Gas utility	8,587	10,245
Sick leave	9,027	8,456
Protective services	6,897	5,726
Environmental Services	4,315	3,798
Social and family services	848	781
Social housing	4,138	4,606
Parking	6,009	5,074
Impost fees for water and wastewater capital	28,498	31,373
	214,565	205,259
MUNICIPAL EQUITY	\$ 1,180,248	\$ 1,129,776

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(IN THOUSANDS OF DOLLARS)

	2013	2012
Operations transactions:		
Annual surplus	\$ 50,472	\$ 55,065
Net change in non-cash working capital items:		
Decrease in taxes receivable	758	1,155
(Increase) decrease in accounts receivable	(3,713)	2,888
Increase in inventories for resale	(1,890)	(2,542)
(Increase) decrease in inventories of supplies	(362)	61
(Increase) decrease in prepaid expenses	(285)	2,124
Increase (decrease) in accounts payable and accrued liabilities	8,953	(3,810)
Increase in due to government business enterprises	2,511	5,324
Decrease in deferred obligatory reserve funds	(5,181)	(5,314)
Increase (decrease) in deferred revenue	438	(126)
Increase in accrued interest on long-term debt	87	100
	1,316	(140)
Items not involving cash:		
Amortization of tangible capital assets	49,004	49,483
Donation of assumed assets	(7,999)	(11,584)
Loss on tangible capital assets transactions	2,523	1,481
Change in landfill closure and post closure liabilities	576	(630)
Change in employee future benefit obligations	1,987	1,804
Equity in government business enterprise from net earnings	(1,976)	(2,892)
	44,115	37,662
Net change in cash from operating transactions	95,903	92,587
Capital transactions:		
Purchase of tangible capital assets	(123,085)	(91,666)
Investment transactions:		
Net purchase of long-term investments	2,579	(2,842)
Financing transactions:		
Proceeds from new debt issue	54,167	32,282
Debt principal repayments	(9,900)	(9,634)
Temporary net loan proceeds (repayments)	(23,940)	(17,170)
Net change in cash from financing transactions	20,327	5,478
Increase (decrease) in cash and short-term investments	(4,276)	3,557
Cash and short-term investments, beginning of year	81,763	78,206
Cash and short-term investments, end of year	\$ 77,487	\$ 81,763

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(a) Reporting Entity (continued):

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

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.

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 revenues – 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(e) Deferred revenue:

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 competition 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. 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(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.
- 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED):

(h) Tangible capital assets (continued):

- 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.
- 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 in conformity requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes.

Due to the inherent uncertainty in making estimates, 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

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:

	2013	2012
	(In thousands of dollars)	
Taxation and user charges	\$ 52,614	\$ 51,261
Payments in lieu	296	265
Amount transferred to school boards	\$ 52,910	\$ 51,526

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, 2013, there was \$Nil (2011 - \$Nil) drawn on the operating credit facility.

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 \$110,052,511 at December 31, 2013 (2012 - \$117,264,070).

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:

	2013	2012
	(In thousands of dollars)	
Kingston Economic Development Corporation Grant	\$ 2,590	\$ 2,564

6. TRUST FUNDS:

Trust funds administered by the municipality amounting to \$356,356 (2012 - \$421,375) have not been included in the "Consolidated Statement of Financial Position" nor have their operations been included in the "Consolidated Statement of Operations".

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

7. TEMPORARY LOANS:

The City has financial agreements with the Ontario Infrastructure Projects Corporation (OIPC) for temporary capital loans up to a maximum of \$90,000,000 for the interim financing of various water, sewer, roads and building capital projects. As at December 31, 2013, the temporary capital loan balance is \$7,650,891 (2012 - \$31,591,324).

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".

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 2013 was \$10,372,090 (2012 - \$9,251,402) 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.

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, 2013, the City's accrued benefit liability relating to post-retirement and post-employment benefit plans is \$28,840,454 (2012 - \$27,016,440).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

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	4.75% 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, 2012. 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	3.8% per annum
Inflation rate	2.0% per annum
Salary escalation	3.0% per annum
Dental benefits escalation	4.0% per annum
Health benefits escalation	7.0% per annum in 2011, decreasing to 4.0% over 9 years

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

	2013	2012
	(In thousands of dollars)	
Accrued benefit liability, January 1	\$ 27,016	\$ 24,963
Expense recognized for the period	3,044	3,146
Benefits paid for the period	(1,774)	(1,922)
Amortization of actuarial gains/losses	554	829
Accrued benefit liability, December 31	\$ 28,840	\$ 27,016

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

	2013	2012
	(In thousands of dollars)	
Accrued benefit obligation	\$ 34,473	\$ 29,888
Unamortized actuarial losses	(6,007)	(3,283)
Unamortized actuarial gains	374	411
Accrued benefit liability, December 31	\$ 28,840	\$ 27,016

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

10. EMPLOYEE FUTURE BENEFIT OBLIGATIONS (CONTINUED):

(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. 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, 2013, the City’s accrued benefit liability relating to future WSIB claims is \$10,673,582 (2012 - \$10,572,969).

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

Discount rate	4.75% 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:

	2013	2012
	(In thousands of dollars)	
Accrued benefit liability, beginning of year	\$ 10,573	\$ 10,501
Expense recognized for the period	1,536	1,501
Benefits paid for the period	(1,518)	(1,512)
Amortization of net actuarial gains/losses	83	83
Accrued benefit liability, end of year	\$ 10,674	\$ 10,573

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

	2013	2012
	(In thousands of dollars)	
Accrued benefit obligation	\$ 9,575	\$ 10,161
Unamortized actuarial losses	(179)	(359)
Unamortized actuarial gains	1,278	771
Accrued benefit liability, end of year	\$ 10,674	\$ 10,573

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

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, 2013 amount to \$1,547,272 (2012 - \$1,349,581).

(d) Total employee benefit obligations:

	2013	2012
(In thousands of dollars)		
Employee benefit obligations are comprised of:		
Health benefits and sick leave - City of Kingston	\$ 25,795	\$ 24,043
Workplace safety and insurance	10,674	10,573
Vacation credits	1,308	1,166
Pension payable	293	301
	38,070	36,083
Health benefits and sick leave – water, sewer and gas utilities (note 18(a))	3,046	2,973
Vacation credits – water, sewer and gas utilities	239	184
	3,285	3,157
Total employee benefit obligations	41,355	39,240
Amounts previously funded from operating revenues	(2,005)	(1,899)
Unfunded employee future benefit obligations	\$ 39,350	\$ 37,341
To be recovered from reserve funds	\$ 9,027	\$ 8,456
To be recovered from future municipal and utility revenues	30,323	28,885
	\$ 39,350	\$ 37,341

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

11. LONG-TERM LIABILITIES:

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

	2013	2012
(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 2040 and a weighted average interest rate of 4.1% (2012 - 4.6%)	\$ 283,510	\$ 239,536
Long-term liabilities incurred by Kingston & Frontenac Housing Corporation, with an interest rate of 5.4%, maturing 2028	5,074	5,201
Proportionate share of KFLA Public Health long-term debt, with a current interest rate of 6.1%, maturing in 2028	3,983	4,134
Total long-term liabilities	\$ 292,567	\$ 248,871
Less long-term borrowings from own funds	\$ (17,872)	\$ (18,443)
Long-term liabilities to be recovered from future revenues	\$ 274,695	\$ 230,428
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	\$ (78)	\$ (101)

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

(In thousands of \$)	2014	2015	2016	2017	2018	2019+	Total
Tax sources	\$ 6,002	\$ 6,150	\$ 6,004	\$ 6,179	\$ 6,059	\$ 84,151	\$ 114,545
Utility user fees	3,030	3,109	2,620	2,695	2,769	62,665	76,888
Other user fees	2,310	2,260	2,359	2,470	2,408	80,270	92,077
Public Health	163	172	183	196	208	3,061	3,983
Housing Corp	132	139	147	154	162	4,340	5,074
	\$ 11,637	\$ 11,830	\$ 11,313	\$ 11,694	\$ 11,606	\$ 234,487	\$ 292,567

- (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.

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

11. LONG-TERM LIABILITIES (CONTINUED):

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

	2013	2012
(In thousands of dollars)		
Principal payments	\$ 9,900	\$ 9,634
Interest	10,270	10,112
	\$ 20,170	\$ 19,746

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

	2013	2012
(In thousands of dollars)		
Balance, beginning of year	\$ 34,995	\$ 40,309
Revenues		
Development contributions	6,914	6,076
Federal gasoline tax	7,191	7,191
Provincial gasoline tax	2,036	2,068
Recreational Land (Planning Act)	250	44
Investment income	882	1,165
Utilization:		
Transfers for operating	(2,209)	(2,451)
Transfers for capital	(20,245)	(19,407)
Balance, end of year	\$ 29,814	\$ 34,995
	2013	2012
(In thousands of dollars)		
Analyzed as follows:		
Development charges	\$ 17,097	\$ 23,475
Cash in lieu of parkland	865	300
Federal gasoline tax	4,436	1,386
Infrastructure Ontario Act	4,075	5,805
Building Code Act	3,341	4,029
	\$ 29,814	\$ 34,995

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

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:

	2013	2012
	(In thousands of dollars)	
Gross revenues received	\$ 1,840	\$ 1,796
Gross expenditures	(1,012)	(954)
Net revenues	\$ 828	\$ 842

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

14. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY (CONTINUED):

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 4.75% 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 \$6.7 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, 2013 is an amount of \$6,657,520 (2012 - \$6,080,906) with respect to landfill closure and post-closure liabilities recognized to date.

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, 2013, management believes that the City has valid defences and appropriate and adequate insurance coverages in place. In the event any claims are successful, the amount of any potential liability is not determinable, therefore no amount has been accrued in the financial statements.
- (b) The City operated a coal gasification plant within the downtown area of the City from the mid-1800's through to the 1950's. Coal tar, a by-product of the coal gasification process, may have led to the contamination of soils and groundwater in the area of the former plant.

In some cases, private properties may have coal tar or coal compounds in the deep groundwater beneath them in 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

16. COMMITMENTS:

- (a) The City of Kingston has negotiated a non-exclusive long-term contract with Waste Management of Canada (formerly Canadian Waste Disposal) for handling and disposal of garbage which expires on January 31, 2014. Annual charges under the contract are determined by reference to certain waste volumes handled. Payments made under the contract for the year 2013 were approximately \$1,639,061 (2012 - \$1,915,542). The contract has been extended to January 31, 2015.
- (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 2013 in the amount of \$712,503 (2012 - \$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 \$7,950,000 of this 10-year commitment as of December 31, 2013.
- (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)	
Artillery Park Construction	\$ 10,340	\$ 7,850
JK Tett Centre	\$ 8,340	\$ 4,933
85 Lappan's Lane – UK Main office	\$ 15,602	\$ 6,313
Point Pleasant Water Treatment Facility	\$ 47,066	\$ 3,975
Reconstruction of Princess St – Williamsville Area	\$ 5,374	\$ –

17. BUDGET FIGURES:

Budget figures reported on the Consolidated Statement of Operations are based on the 2013 municipal and utility operating budgets as approved by Council on December 18, 2012, and include subsequent council approved amendments.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

17. BUDGET FIGURES (CONTINUED):

Approved budget figures have been reclassified and adjusted for the purposes of these financial statements to comply with Public Sector Accounting Board ("PSAB") reporting requirements. The chart below reconciles the approved operating budgets to the amended budget figures:

	Budget Amount
	(In thousands of dollars)
Approved operating budget revenues	\$ 403,718
Consolidated external agency budgets	15,462
Budget amendments and reallocations	8,714
PSAB reporting adjustments:	
Reserve fund revenues	12,000
Less transfers from reserves / reserve funds	(1,987)
Net operating budget revenues	437,907
Approved operating budget expenses	403,718
Consolidated external agency budgets	15,290
Budget amendments and reallocations	8,714
PSAB reporting adjustments:	
Amortization of tangible capital assets	42,000
Non-tangible capital asset expenditures	10,420
Reserve fund expenditures for debt interest	12,618
Unfunded accruals for employee future benefit obligations, landfill closure and post-closure liabilities and accrued interest on long term debt	2,200
Less transfers to reserves / reserve funds	(72,702)
Less debt principal repayments	(500)
Net operating budget expenses	421,758
Net revenues before capital investment	\$ 16,149

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.

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

18. INVESTMENT IN GOVERNMENT BUSINESS ENTERPRISES (CONTINUED):

(a) continued:

	2013	2012
	(In thousands of dollars)	
Financial position		
Current assets	\$ 19,261	\$ 17,389
Due from City of Kingston:		
Utilities Kingston	1,982	1,507
Kingston Hydro Corporation	5,715	3,807
Post-employment benefit obligation	3,046	2,973
Accrued vacation liabilities	318	249
Capital assets	45,867	39,635
Regulatory assets	10,227	12,919
Derivative assets	91	–
Deferred charges	1,195	1,970
Total assets	87,702	80,449
Current liabilities	23,411	19,598
Post-employment benefit obligation	4,552	4,241
Accrued vacation and pension liabilities	194	199
Accrued liabilities non-current	1,784	2,478
Long-term loan payable	12,845	10,993
Long-term notes payable to City of Kingston (note 18 (c))	14,846	14,846
Total liabilities	57,632	52,355
Net assets	\$ 30,070	\$ 28,094
Common shares	\$ 12,381	\$ 12,381
Redeemable preferred shares	3,465	3,465
Accumulated other comprehensive income	91	–
Accumulated earnings	14,133	12,248
Investment in government business enterprises	\$ 30,070	\$ 28,094
Results of operations:		
Net utility revenues	\$ 111,645	\$ 90,781
Operating expenses	(103,841)	(82,729)
Interest on debt	(1,543)	(1,261)
Depreciation	(3,090)	(3,077)
Net earnings before income taxes	3,171	3,714
Payments in lieu of corporate income taxes	(636)	(822)
Net earnings	2,535	2,892
Dividends on common shares	(650)	–
Accumulated earnings, beginning of year	12,248	9,356
Accumulated earnings, end of year	\$ 14,133	\$ 12,248

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

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 \$12,050,344 (2012 - \$12,660,486) and \$81,184,443 (2012 - \$59,189,146) 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 \$2,914,970 (2012 - \$2,714,133).

As at December 31, 2013, the City had a balance owing to 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$1,981,930 (2012 - \$1,506,540) and a balance owing to Kingston Hydro Corporation in the amount of \$5,714,669 (2012 - \$3,806,851), 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, 2013, the City had a note payable from Kingston Hydro in the amount of \$10,880,619 (2012 - \$10,880,619), bearing interest at 5.87% (2012 - 5.87%) per annum and due from 1425445 Ontario Limited (operating as Utilities Kingston) in the amount of \$965,010 (2012 - \$965,010), bearing interest at 7.25% per annum. Both notes payable have no fixed terms of repayment before January 1, 2015.

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

19. TANGIBLE CAPITAL ASSETS:

			2013	2012
	Cost	Accumulated amortization	Net book value	Net book value
(In thousands of dollars)				
GENERAL ASSETS				
Land	\$ 73,463	\$ –	\$ 73,463	\$ 73,990
Land improvements	52,021	12,654	39,367	28,509
Buildings	316,029	89,005	227,024	220,323
Vehicles and machinery	71,018	36,156	34,862	29,951
Furniture, fixtures and equipment	74,877	32,364	42,513	40,239
INFRASTRUCTURE ASSETS				
Land	10,041	–	10,041	9,416
Land improvements	34,080	23,882	10,198	11,591
Plants and facilities	296,644	120,505	176,139	180,534
Roads	358,520	188,341	170,179	155,873
Bridges and culverts	31,780	9,368	22,412	23,181
Utility networks	402,058	96,422	305,636	288,243
Other	214,752	84,910	129,842	118,603
	1,935,283	693,607	1,241,676	1,180,453
Assets under construction	70,569	–	70,569	52,235
	\$ 2,005,852	\$ 693,607	\$ 1,312,245	\$ 1,232,688

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 2013, a total of \$7,998,755 (2012 - \$11,583,543) was recorded as tangible capital asset additions with respect to contributed capital assets which was comprised of roads infrastructure in the amount of \$4,627,641 (2012 - \$9,904,450) and water and wastewater infrastructure in the amount of \$3,371,114 (2012 - \$1,679,093).

(b) Write-down of tangible capital assets:

The write-down of tangible capital assets during the year was \$Nil (2012 - \$Nil).

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

19. TANGIBLE CAPITAL ASSETS (CONTINUED):

(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 2013, these interest costs are included as expenses on the "Consolidated Statement of Operations" in the amount of \$1,897,519 (2012 - \$1,643,361).

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.

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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

20. SEGMENTED INFORMATION (CONTINUED):

- (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.
- (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, arena, the Grand Theatre and the 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.

CORPORATION OF THE CITY OF KINGSTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

21. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS – BY MAJOR ASSET CLASS
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(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	2013		2012	
Cost																
Balance, beginning of year	\$ 73,990	\$ 41,009	\$ 301,824	\$ 64,593	\$ 68,656	\$ 9,416	\$ 34,080	\$ 290,773	\$ 341,132	\$ 32,038	\$ 379,346	\$ 199,471	\$ 52,235	\$ 1,888,563	\$ 1,795,864	
Add: Additions	441	11,012	14,274	9,799	7,582	625	-	5,871	23,706	967	23,592	16,246	18,334	132,449	103,250	
Less: Disposals	(874)	-	(69)	(3,374)	(1,361)	-	-	-	(6,412)	(1,225)	(880)	(965)	-	(15,160)	(10,551)	
Reclassification of assets	(94)	-	-	-	-	-	-	-	94	-	-	-	-	-	-	
Balance, end of year	73,463	52,021	316,029	71,018	74,877	10,041	34,080	296,644	358,520	31,780	402,058	214,752	70,569	2,005,852	1,888,563	
Accumulated Amortization																
Balance, beginning of year	-	12,500	81,501	34,642	28,417	-	22,489	110,239	185,259	8,857	91,103	80,868	-	655,875	615,462	
Add: Amortization	-	1,383	7,573	4,555	5,262	-	164	10,266	8,353	527	6,172	4,747	-	49,002	49,483	
Less: Accumulated amortization on disposals	-	-	(69)	(3,041)	(1,315)	-	-	-	(5,271)	(16)	(853)	(705)	-	(11,270)	(9,070)	
Reclassification of assets	-	(1,229)	-	-	-	-	1,229	-	-	-	-	-	-	-	-	
Balance, end of year	-	12,654	89,005	36,156	32,364	-	23,882	120,505	188,341	9,368	96,422	84,910	-	693,607	655,875	
Net Book Value of Tangible Capital Assets	\$ 73,463	\$ 39,367	\$ 227,024	\$ 34,862	\$ 42,513	\$ 10,041	\$ 10,198	\$ 176,139	\$ 170,179	\$ 22,412	\$ 305,636	\$ 129,842	\$ 70,569	\$ 1,312,245	\$ 1,232,688	

CORPORATION OF THE CITY OF KINGSTON
CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION
YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE FIGURES FOR 2012
(IN THOUSANDS OF DOLLARS)

	General Government	Protection Services	Transportation Services	Environmental Services	Waste Water	Water	Health Services	Social & Family Services	Recreation & Cultural Services	Planning & Development Services	Gas Works	Total 2013	Total 2012	
Revenue:														
Government grants	557	1,859	-	1,006	1,700	-	10,032	49,537	851	61	-	65,603	64,614	
Other municipalities	-	179	463	286	-	-	-	1,877	735	-	-	3,540	3,537	
User fees and service charges	6,755	4,405	16,535	1,898	26,642	22,868	822	7,926	10,912	1,331	12,560	112,654	108,122	
User fees - gas commodity	-	-	-	-	-	-	-	-	-	-	19,420	19,420	19,012	
Other	5,693	1,078	17,460	-	3,104	3,920	-	(70)	5,536	81	1	36,803	41,880	
	13,005	7,521	34,458	3,190	31,446	26,788	10,854	59,270	18,034	1,473	31,981	238,020	237,165	
Expenses:														
Salaries, wages and employee benefits	19,634	54,968	22,762	4,044	-	-	11,323	23,464	18,270	3,637	-	158,102	154,460	
Materials	4,080	4,818	12,587	811	-	-	2,127	6,749	5,693	542	-	37,407	34,708	
Contracted services	6,333	1,859	7,702	5,422	11,656	10,746	448	1,844	4,792	400	3,712	54,914	52,050	
Gas commodity purchases	-	-	-	-	-	-	-	-	-	-	19,420	19,420	19,012	
Rents and financial expenses	1,526	1,349	3,814	1,939	3,178	319	204	392	5,167	171	81	18,140	14,508	
External transfers	1,205	1,881	2,056	50	-	-	7,820	47,732	1,109	2,611	-	64,464	65,879	
Amortization	2,323	2,484	14,910	2,576	9,829	6,337	384	2,079	5,892	-	2,189	49,003	49,483	
Inter-departmental charges	(6,455)	1,252	(2,131)	1,665	801	801	-	2,029	1,453	(14)	599	-	-	
	28,646	68,611	61,700	16,507	25,464	18,203	22,306	84,289	42,376	7,347	26,001	401,450	390,100	
Excess of expenditures over revenue	(15,641)	(61,090)	(27,242)	(13,317)	5,982	8,585	(11,452)	(25,019)	(24,342)	(5,873)	5,980	(163,430)	(152,935)	
												190,167	183,011	
												15,326	15,027	
												1,976	2,892	
												6,433	7,070	
												213,902	208,000	
												\$	\$ 50,472	\$ 55,065



KPMG LLP
Suite 400
863 Princess Street
Kingston ON K7L 5N4
Canada

Telephone (613) 549-1550
Telefax (613) 549-6349
www.kpmg.ca

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, 2013 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, 2013 and December 31, 2012, 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, 2013, and the results of its operations and its cash flows 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, long, horizontal stroke that underlines the text.

Chartered Accountants, Licensed Public Accountants

May 20, 2014
Kingston, Canada

CORPORATION OF THE CITY OF KINGSTON

TRUST FUNDS

Name of Fund	Rideaucreast Residents Funds	Rideaucreast Donations and Endowments	Other	Total 2013	Total 2012
Statements of Financial Position					
As at December 31, 2013, with comparative figures for 2012					
Assets					
Cash and short-term investments	\$ 41,848	\$ 225,770	\$ 88,738	\$ 356,356	\$ 421,375
	\$ 41,848	\$ 225,770	\$ 88,738	\$ 356,356	\$ 421,375
Fund Balances:					
Unexpended trust	\$ -	\$ 40,400	\$ 25,000	\$ 65,400	\$ 65,400
Capital/earned surplus	41,848	185,370	63,738	290,956	355,975
	\$ 41,848	\$ 225,770	\$ 88,738	\$ 356,356	\$ 421,375
Statements of Continuity					
Year ended December 31, 2013, with comparative figures for 2012					
Balances, beginning of year	\$ 44,207	\$ 289,619	\$ 87,549	\$ 421,375	\$ 279,992
Donations and other revenue	78,185	7,070	-	85,255	239,995
Interest earned	-	3,027	1,189	4,216	3,979
	\$ 122,392	\$ 299,716	\$ 88,738	\$ 510,846	\$ 523,966
Expenditures	80,544	73,946	-	154,490	102,591
Balances, end of year	\$ 41,848	\$ 225,770	\$ 88,738	\$ 356,356	\$ 421,375

CORPORATION OF THE CITY OF KINGSTON

TRUST FUNDS NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2013

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 in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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.