



KITCHENER

FINANCIAL REPORT

Year Ended December 31, 2011

Prepared by: Accounting Division
Finance and Corporate
Services Department
Kitchener, Ontario, Canada

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Kitchener has been a thriving, progressive city for nearly a century, built upon proud tradition and strategic leadership that continues to secure its position as one of the most vibrant, prosperous and livable communities in Canada.

Higher labour force participation and employment than Toronto, Montreal and Vancouver.

Renowned for an atmosphere that fosters business growth and a desired quality of life, throughout the decades Kitchener has always invested soundly – both financially and socially - in programs and initiatives that contribute to an active and engaging community for residents, neighbours and visitors.

Widely regarded as the hub of Waterloo Region, Kitchener contributes a positive attitude and fiscal maturity that continues to set standards for steady, measured and healthy economic progress.

As the region continues to evolve past traditional commerce and build a new economy that is exciting, sustainable and growing - Kitchener is enjoying much of that growth while playing a key role as a partner in the future of this sector. This is leading to the creation of new jobs and opportunities for both seasoned workers, and those just entering the workforce.

Strategic and forward thinking, resilient and daring -- Kitchener is a community that embraces innovation and technology and believes in long-term investing.



Kitchener

In 2004, the City launched its economic development investment fund: a 10-year, \$110 million commitment and a pledge to significantly develop local employment lands and work hand-in-hand with local businesses to help them grow and flourish.

The return on that investment includes increased employment, increased tax revenue, and increased public and private-sector investments. In fact, approximately \$660 million worth of commercial, residential and institutional construction has occurred in downtown Kitchener alone since this fund was announced.

The City is now renowned as a hotbed of innovation - and home to among the most successful business start-ups and incubators in the country.

On top of its robust economy is its enviable quality of life.

There's something for every interest, every skill and every age in Kitchener: a vital, sophisticated culture, rich in diversity, a robust arts and culture scene, with festivals and special events year-round, and gorgeous parks, trails and natural areas.

Kitchener offers all of the big-city amenities residents and visitors desire, without losing that friendly, small-town feel. Come - see for yourself!

Most innovative
community in
Canada, 631
patents granted
per million

Kitchener City Council

Kitchener city council is an elected body, made up of one mayor and 10 city councillors. All council members are elected for a four-year term. The mayor is elected by voters from all parts of the city; and councillors are elected by voters within specific wards.

The 22nd largest city in Canada, with the quality of life usually found in a small town

Members of city council meet at regularly scheduled council and committee meetings throughout the year to discuss issues facing the city and its residents - as well as day-to-day operational business, and to make decisions on those items based on information presented by city staff as well as their own knowledge and beliefs, and the opinions expressed by constituents.

Public hearings, special council meetings, business license hearings and courts of revision are also held as needed to consider specific matters.

As a collective group, representing the interests of citizens, council is responsible for:

- Representing the public and considering the well-being and interests of the municipality.
- Developing and evaluating the policies and programs of the municipality.
- Determining which services the municipality provides.
- Ensuring administrative policies, practices and procedures and controllership policies, practices and procedures are in place to implement the decisions of council.
- Ensuring the accountability and transparency of the operations of the municipality, including the activities of the senior management of the municipality.
- Maintaining the financial integrity of the municipality.



**Mayor
Carl Zehr**



**Councillor
Scott Davey
Ward 1**



**Councillor
Berry Vrbanovic
Ward 2**



**Councillor
John Gazzola
Ward 3**



**Councillor
Yvonne Fernandes
Ward 4**



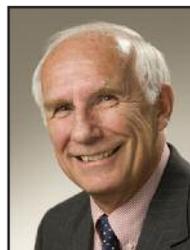
**Councillor
Kelly Galloway
Ward 5**



**Councillor
Paul Singh
Ward 6**



**Councillor
Bil Ioannidis
Ward 7**



**Councillor
Zyg Janecki
Ward 8**



**Councillor
Frank Etherington
Ward 9**



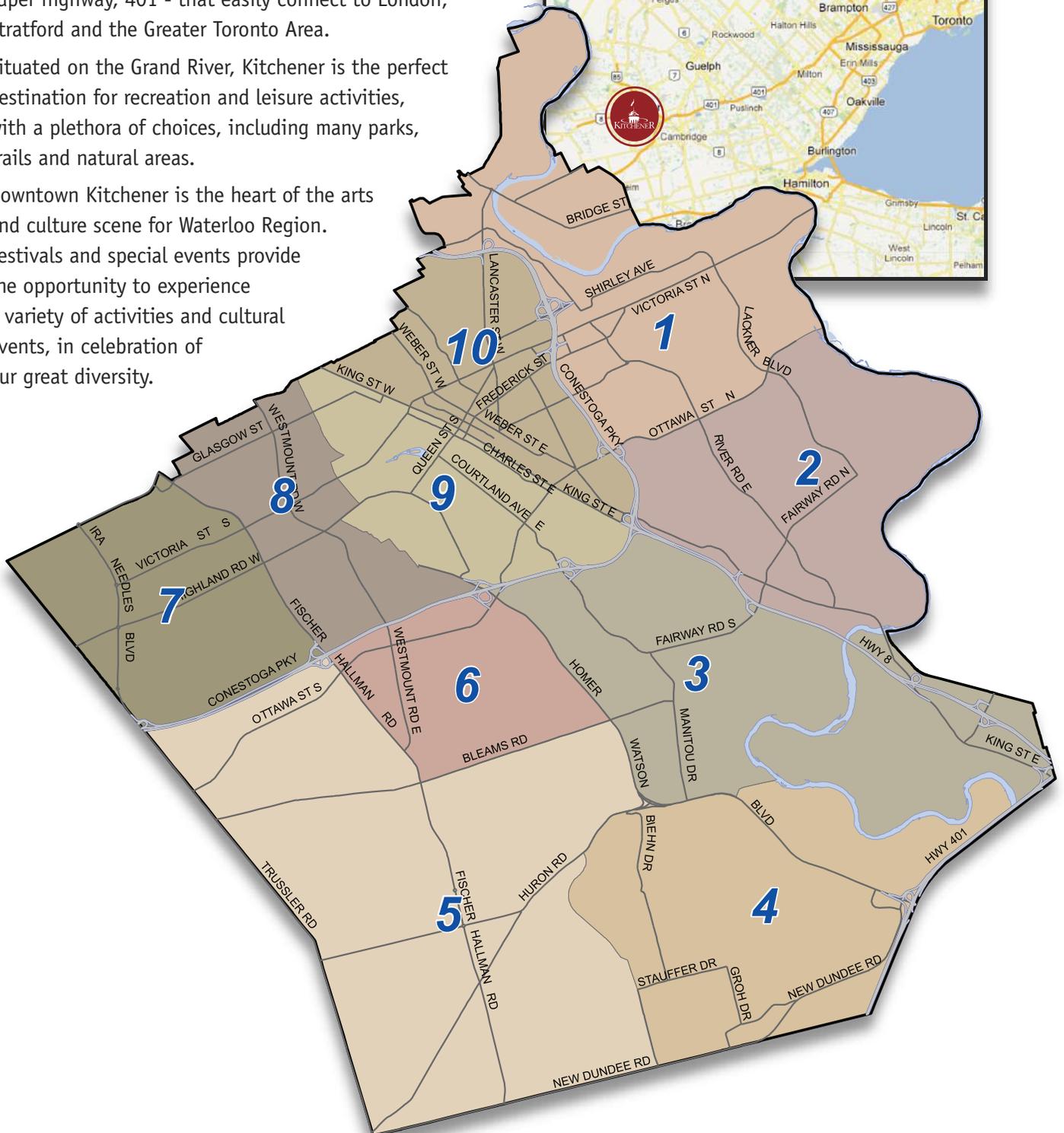
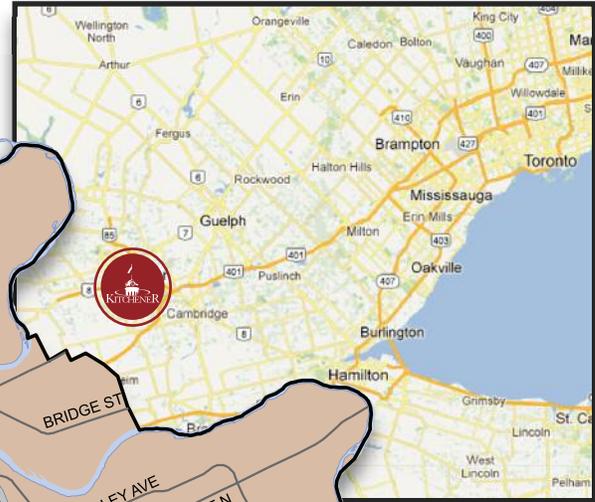
**Councillor
Dan Glenn-Graham
Ward 10**

Where we are

As the largest municipality in Waterloo Region, Kitchener is situated in the heart of Southwestern Ontario, close to major highways - including Canada's super highway, 401 - that easily connect to London, Stratford and the Greater Toronto Area.

Situated on the Grand River, Kitchener is the perfect destination for recreation and leisure activities, with a plethora of choices, including many parks, trails and natural areas.

Downtown Kitchener is the heart of the arts and culture scene for Waterloo Region. Festivals and special events provide the opportunity to experience a variety of activities and cultural events, in celebration of our great diversity.



Message from the Mayor

It gives me pleasure to unveil the City of Kitchener's 2011 annual financial report - a document that paints a clear picture of the fiscal state of our community.

So, how is Kitchener doing? Financially, we're in good shape. The City enjoys a strong financial position relative to our comparators; we have excellent investments. We're fiscally accountable and we have established a solid track record of sound financial planning.

The largest municipality in Waterloo Region

However, like municipalities across this country, we have been facing a new economic reality. All municipalities are facing serious pressures as Canada's 19th century taxation system continues to take too much out of our communities - while returning too little.

In fact, municipalities are responsible for 53 per cent of Canada's infrastructure - up from 36 per cent in the 1960s - yet municipalities receive only eight cents of every tax dollar paid to all orders of government.

Today, cities are more important than ever before. With over 80 per cent of Canadians living in an urban setting, Canada is one of the most highly urbanized countries in the world. Expecting municipalities to continue to rely on the outdated, regressive property tax system is simply not sustainable.

But we must also recognize just how fortunate we are with this region's current economic climate - and a lot of that fortune is a result of our constant quest to strike a balance between three important pressures:

- Keeping the property tax levels competitive and affordable. Year after year Kitchener is consistently ranked as having one of the lowest property taxes of similar-sized Ontario municipalities.
- Providing high quality services our residents and businesses have told us they want from their city.
- Making investments in the long-term health of our community.

This City's long-term investments into diversifying and modernizing our local economy are already paying off much faster than anticipated. These returns have come in the form of increased tax revenues, private sector investments and employment opportunities for residents.

Indeed, when we look at each of these three areas, the City of Kitchener has seen considerable success over many years. Success we should be proud of, success we should not shy away from - and success we can build upon in the months and years ahead.



Carl Zehr
Mayor, City of Kitchener
June 25, 2012

Organizational Structure

City Council

Office of the Chief Administrative Officer

Carla Ladd: Chief Administrative Officer

Communications and Customer Service

Economic Development

Office of the Mayor and Council

Strategic Planing

Community Services

Jeff Willmer: Deputy CAO

Building

ByLaw Enforcement

Community Programs and Services

Enterprise

Fire

Planning

Infrastructure Services

Pauline Houston: Deputy CAO

Engineering

Facilities Management

Fleet

Operations

Utilities

Finance & Corporate Services

Dan Chapman: Deputy CAO

Accounting

Financial Planning

Human Resources

Information Technology

Legal Services

Legislated Services

Revenue

Supply Services

2011 in Review

HIGHLIGHTS AND MILESTONES

Under the national infrastructure stimulus funding program, a three-way funding partnership with the federal and provincial governments which began in 2010, the City of Kitchener was able to complete some very significant capital projects. The three levels of government contributed \$37.6 million to the following 16 local projects:

- Consolidated maintenance facility now formally known as Kitchener Operations Facility
- Solar roof
- McLennan Park
- Sewer and watermain improvements
- Storm water infrastructure improvements
- Bridgeport community centre renovation
- Upgrades to Harry Class Aquatic Facility
- Energy management systems upgrade
- King Street streetscape reconstruction
- Centre in the Square building improvements
- Accessibility improvements at multiple city facilities
- City hall lighting improvements
- Sportsworld Arena improvements
- Upgrades to Wilson/Kingsdale Aquatic Facility
- Upgrades to Chicopee Aquatic Facility
- Upgrades to Breithaupt Aquatic Facility



Highlights of some of the largest stimulus projects are as follows:

The Kitchener Operations Facility (KOF) became operational in early 2011. The project entailed rehabilitating a 45-acre industrial brownfield site and renovating the existing 300,000 square-foot industrial building. The KOF has integrated municipal operations from five existing locations and houses approximately 500 City employees, as well as their work-related vehicles and equipment.

In 2011, the City installed a 500-kW photovoltaic solar roof, made

of 200-watt solar panels, on top of the Kitchener Operations Facility - the largest solar rooftop installation in Canada. The solar roof is expected to generate more than \$364,000 in net revenue for the City each year - and more than \$3.5 million over the course of two decades with the Ontario Power Authority.

McLennan Park officially opened in 2011. This is located on a former landfill site at the corner of Ottawa Street South and Strasburg Road. McLennan Park offers a variety of recreational activities; and supports the city's commitment toward preserving and enhancing the local environment. Within the park there is a community-trail system, playground, splash pad, multi-use court and washroom building, in addition to a state-of-the-art skateboard park.

Although not part of the infrastructure stimulus funding, another significant capital project that got underway in 2011 was the restoration work to improve Victoria Park Lake. Nestled at the heart of downtown Kitchener's crown jewel, Victoria Park, Victoria Park Lake was created as part of the original park development more than 100 years ago; and it serves as an important recreational and visual resource for park visitors. Improvements to the lake will include deepening the lake, adding a sediment forebay at the upstream end, maintaining the aesthetics and heritage values associated with the lake, and improving debris management, operations and maintenance. This work will build on the Environmental Assessment that the City undertook in 2008 and completed in 2009.



In 2011, Kitchener implemented a storm water management utility using an impervious area calculation to set the rate structure. This structure provides full, sustainable and dedicated funding for its critical storm water management - a service that had previously been consistently underfunded through the tax base. The new user rate allows the city to improve its storm water service levels by keeping pollutants out of the storm water system - leading to better protection of the source water; preventing local flooding and pollution from reaching the creeks and streams - preserving their health and vitality; and replacing aging storm water infrastructure (pipes, catch basins), some of which are 80 to 100 years old.

City Treasurer's Message

I am pleased to present the Annual Financial Report for the City of Kitchener for the year ended December 31, 2011. The purpose of this report is to communicate to Council, residents and other interested parties the 2011 financial operations for the City of Kitchener. The financial results demonstrate Kitchener's continued excellence in sound financial management and fiscal prudence.

FINANCIAL MANAGEMENT

The City maintains the following processes to ensure appropriate financial controls and accountability are maintained and to take a proactive approach to identify and address financial challenges.

The preparation and presentation of the financial statements and related information contained in this annual report are the responsibility of the management team of the City of Kitchener. Management has instituted a system of internal controls which is intended to safeguard assets and to provide accurate, timely and complete financial information for both internal decision making and external reporting.

Effective and Efficient Government

The key strategic priorities related to effective and efficient government focus on five specific areas: financial management; asset management; information technology; communications, marketing and customer service; and organizational governance.

The City of Kitchener is constantly looking at ways to improve its financial sustainability through a balanced approach to financial management. The City looks at how to use public monies in the most responsible manner while ensuring fair levels of taxation - in order to create a sustainable financial position today, tomorrow and for generations to come.

In order to preserve its infrastructure, the City has dedicated itself to effectively managing its assets. Understanding the health and status of capital assets, like roads, bridges and facilities, positions the City well to ensure the community can prosper as it did in past generations, by building upon a strong foundation of core infrastructure.

As the world of technology moves forward at a rapid pace, the City's Information Technology group supports the technological infrastructure for many of the City's financial and operational services. With increasing demands for real-time information, the City is looking to bolster the use of mobile technology to help staff report on activities remotely from the field.

The City believes in transparency as a core element to delivering high-quality customer service. This is exemplified by the fact that the City provides accessible, plain language access through a variety of formats to citizens on pressing and emerging issues affecting the City. It is through being open and accessible that the City believes it can improve its engagement with the community on a broader suite of issues.

Finally, the City works to deliver on the programs and services that matter most to the citizens of Kitchener. This is demonstrated by the fact that all City work undertaken is aligned directly with a strategic priority pulled from the community's strategic plan. Yet, it is not just important to simply deliver what matters most to citizens, but also to support that delivery through a robust governance and

management approach, including a close eye on risk management and legislative compliance.

Business Plan and Budgetary Process

Integrated planning, the direct tie between the City's strategic plan and its day-to-day work helps make sense of what is being done and why, and allows for a more effective and efficient delivery of valued services to citizens. Together, staff and Council will continue to build an innovative, caring and vibrant Kitchener with safe and thriving neighbourhoods. The vision originally articulated in 2000 and confirmed again in 2007 is the foothold of the City's strategic work for 2011. The strategic plan was developed in concert with City Council's term of office, now on a four-year cycle from 2011-2014.

Departmental business plans which are completed on a four year cycle, take their direction from the strategic plan. This formalizes the link between the strategic priorities of the community and Council with action items expressed through the organization's workplans.

Staff are building a business planning process which will lead to more informed decision-making and transparency within the administration and for Council. The final steps in the integrated process translates strategic priorities into action, establishing budgets and measurable outcomes, and then reporting back to the public on progress against these goals.

In addition to the multi-year business planning process, City Council approves the operating and capital budgets for the property tax supported operations as well as all City enterprises. Provincial legislation requires that the property tax supported operating budget is balanced so that sufficient revenues are raised to meet all budgeted expenditures. Municipalities may not budget for surpluses or deficits and any that occur must be fully accounted for in the next year's budget.

Variance reports are prepared and presented to Council three times per year. These reports ensure departmental accountability for financial results and are a key tool to allow management to respond to financial pressures during the year.

External Audit

As required by the Municipal Act, City Council has appointed an accounting firm, KPMG LLP to express an independent audit opinion on management's Consolidated Financial Statements. Their reports to the members of Council, inhabitants and ratepayers of the Corporation of the City of Kitchener accompany the various financial statements in the financial section of this report.

Audit Committee

The audited Consolidated Financial Statements are presented to the Audit Committee for approval. The Audit Committee provides a focal point for communications between Council, the external auditor, the internal auditor and management, and facilitates an impartial, objective and independent review of management practices through the internal and external audit functions.



Together,
staff and Council
will continue to
build an innovative,
caring and vibrant
Kitchener

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

The City of Kitchener's Consolidated Financial Statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. KPMG LLP have audited the financial statements and provided the accompanying Auditors' Report. The financial statements and auditors' report satisfy a legislative reporting requirement as set out in the Municipal Act of Ontario.

The following financial statement discussion and analysis has been prepared by management and should be read in conjunction with the audited Consolidated Financial Statements and Financial and Statistical Review.

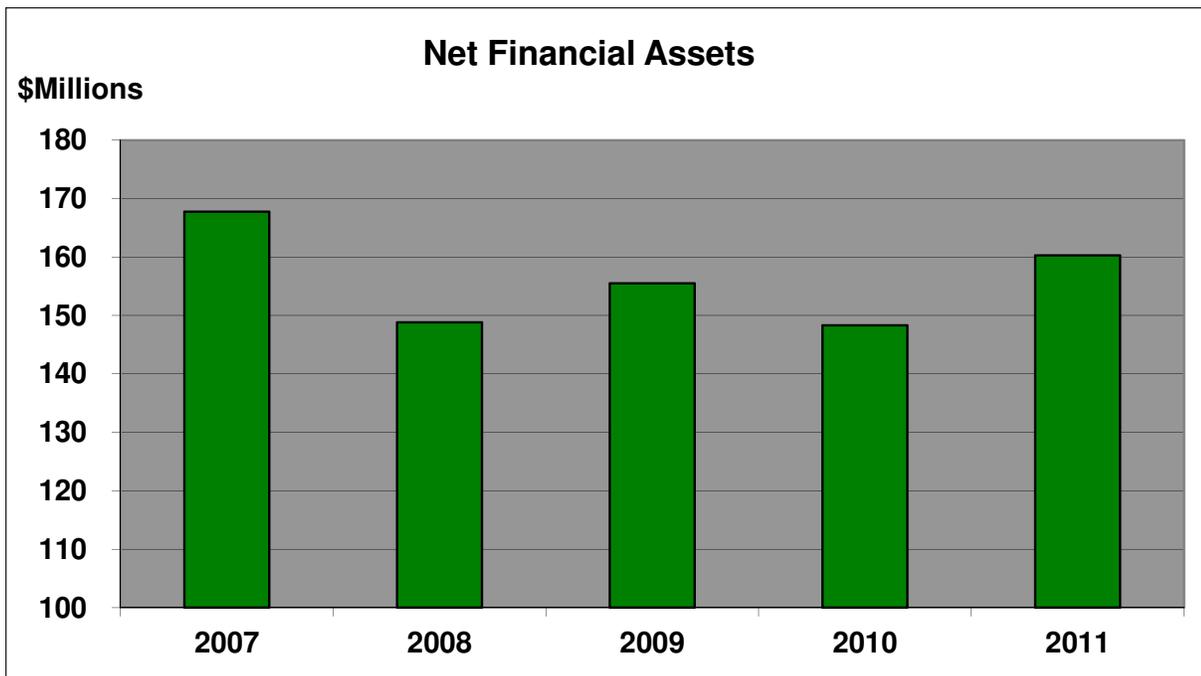
There are four required financial statements:

- statement of financial position
- statement of operations
- statement of changes in net financial assets, and
- statement of cash flows.

The Consolidated Financial Statements reflect the assets, liabilities, reserves, surpluses/deficits, revenues, and expenditures of the City funds and governmental functions or entities. These functions and entities have been determined to comprise a part of the aggregate City operations based upon control exercised

by the City. The exception is the City's government business enterprises which are accounted for on the modified equity basis of accounting. References to the "City" below, include all activity for the consolidated entity.





Consolidated Statement of Financial Position (Balance Sheet)

The Consolidated Statement of Financial Position highlights four key figures that together describe the financial position of a government: 1) cash resources, 2) net financial asset position, 3) non-financial assets that are normally held for service provision such as tangible capital assets, and 4) accumulated surplus/deficit. The statement is used to evaluate the City's ability to meet its financial obligations and commitments.

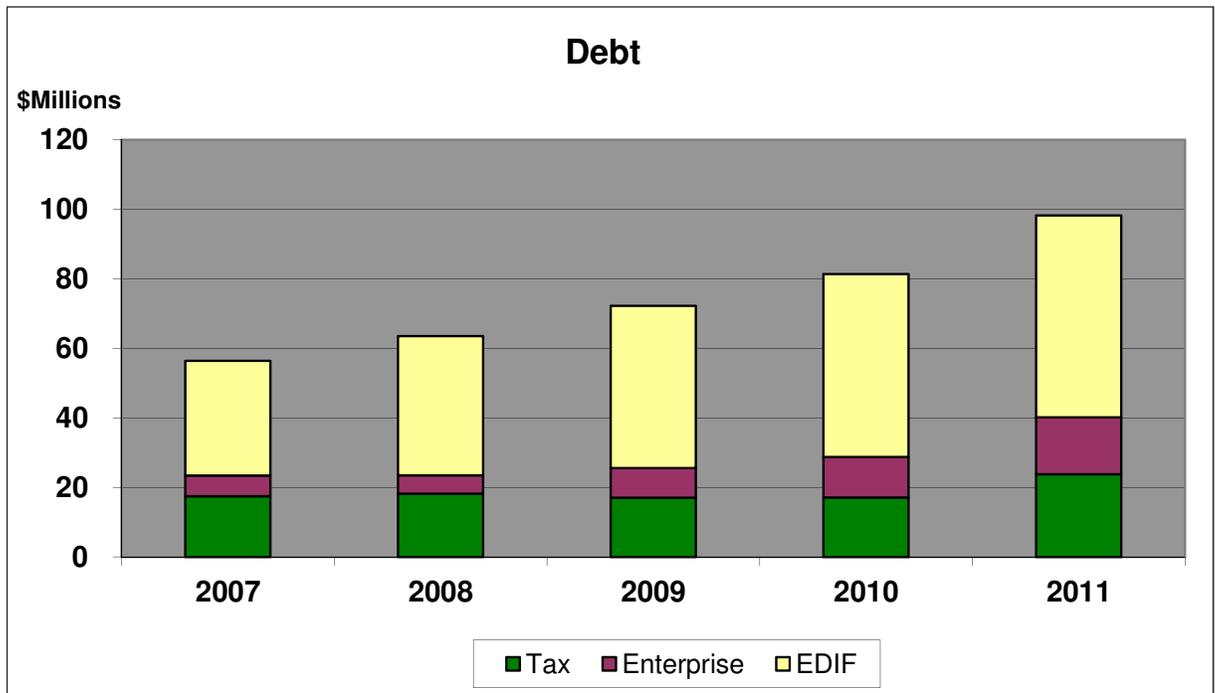
The City's net financial asset balance is \$160 million (2010 \$148 million), an increase of \$12 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations.

Cash Position

The City's cash position is closely managed and remains adequate along with short-term investments to meet ongoing cash requirements. The cash position increased to \$62 million from \$25 million in 2010 as the City was holding more in cash equivalents rather than investments in anticipation of being able to purchase upcoming investments with higher yields. The increase is also due to timing of funding received for capital projects compared to when the expenditures are made. The Consolidated Statement of Cash Flows summarizes the sources and uses of cash in 2011.

Investment in Kitchener Power Corp.

The City's investment in Kitchener Power Corp. and its affiliates is made up of the City's initial investment and its share of net income since acquisition less dividends received. See Note 5 to the Consolidated Financial Statements for further details.



Debt

The City has three components that comprise the overall debt total. Debt can be issued to fund:

- a portion of the tax-supported capital program
- capital improvements to Enterprises, where the debts charges will be funded through user fees and external sources, such as the Parking Enterprise
- Economic Development Investment Fund (EDIF)

The City's capital investment philosophy ensures that any increases in debt charges from one year to the next do not exceed assessment growth. As well, the overall contribution from the tax base through taxes and debt charges will not increase more than assessment growth plus inflation from one year to the next.

This philosophy has ensured that the impact on the taxpayer does not exceed inflation and that the City must prioritize projects to fit the funding available.

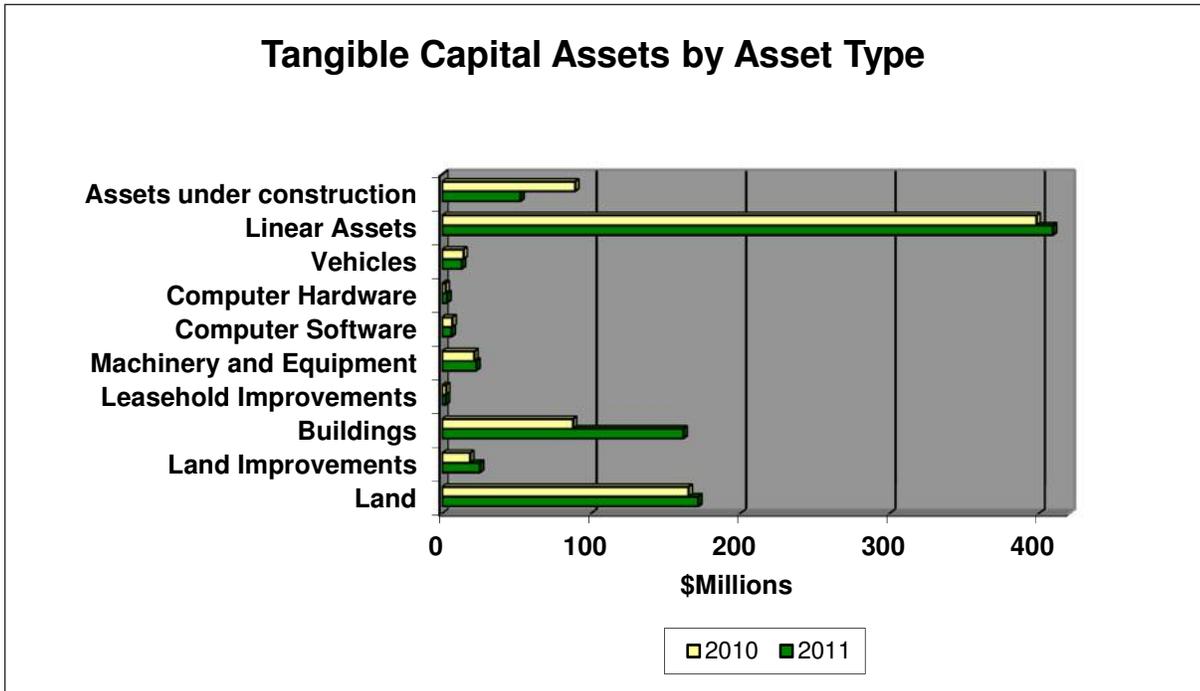
In 2004 after an extensive public and corporate engagement process, the City of Kitchener created a unique and creative economic development strategy to meet the needs of the City's rapidly growing population; and a significant piece of the strategy is the City's 10 year, \$110-million economic development investment fund (EDIF).

As a result of these EDIF investments, a number of other developments have occurred, including:

- Communitech Hub: Digital Media Mobile and Accelerator
- Kaufman Lofts
- McMaster University's Michael G. DeGroot School of Medicine Waterloo Regional Campus
- More than 20 storefront/façade improvements
- The Tannery District

In addition, since EDIF was introduced, the City has enjoyed significant surges in:

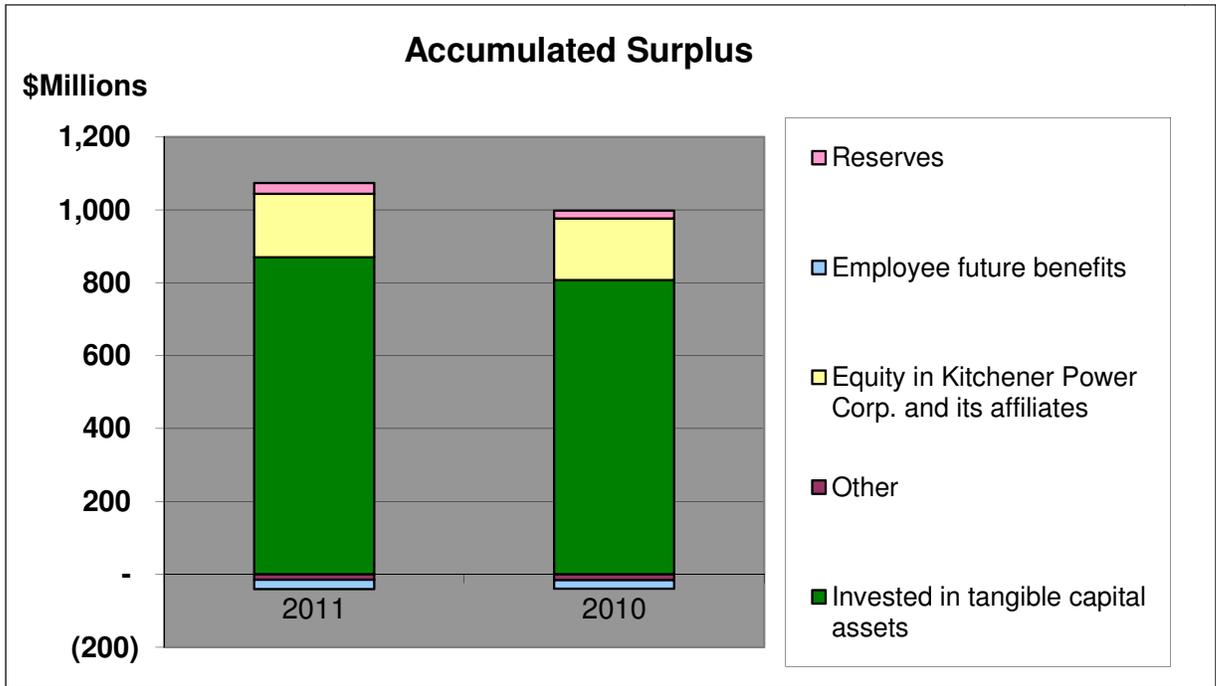
- Assessment growth
- Residential development downtown
- Employment
- Contributions from other sources toward EDIF-supported projects



Tangible Capital Assets

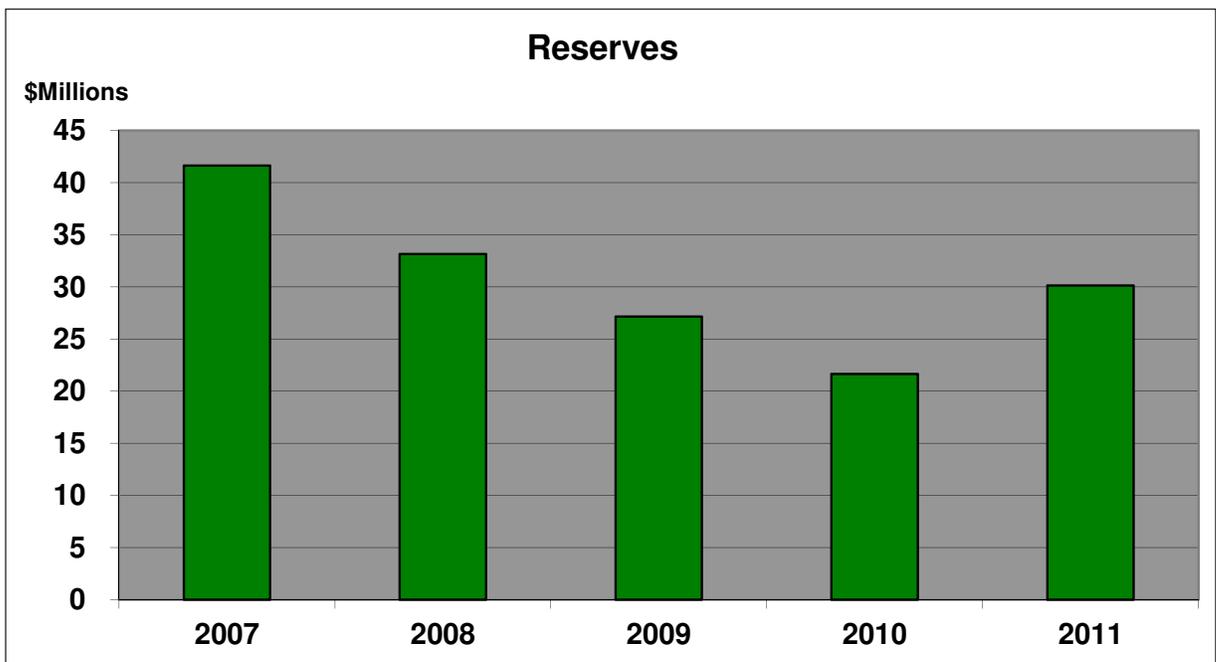
Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost less residual value of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives ranging from 1 to 100 years.

During 2011, the City acquired \$94 million of tangible capital assets (2010 \$120 million) with \$30 million in amortization. Refer to Note 11 and Schedule A in the financial statements for a detailed breakdown of tangible capital asset activity for 2011. The net book value of tangible capital assets at December 31, 2011 is \$870 million, up from \$807 million in 2010.



Accumulated Surplus

The City's accumulated surplus for fiscal 2011 is \$1.03 billion (2010 \$0.96 billion). The accumulated surplus reflects the resources that have been built over time at the City and the balance includes items such as tangible capital assets, equity in Kitchener Power Corp., and reserves.



Reserves and Reserve Funds

Reserves and reserve funds are included as part of accumulated surplus and these balances are disclosed in Note 12 to the financial statements. Reserve Balances have increased during 2011 to \$30 million (\$22 million 2010).

Under the authority of the Municipal Act, the City of Kitchener has established reserve funds to set aside funds to be used for future purposes. Reserves and reserve funds are established to ensure future liabilities can be met, capital assets are properly maintained and sufficient financial flexibility exists to respond to economic cycles or unanticipated financial requirements. Council is responsible for exercising discretion with respect to the use of reserve funds, subject to the terms of Council policy, as well as statutory and legal requirements.

As part of the ongoing update to the City's long-term financial planning framework, a comprehensive review of the City's reserve funds is being completed in 2012 to ensure the reserves continue to support the financial goals and serve the highest priority needs of the City and its citizens.

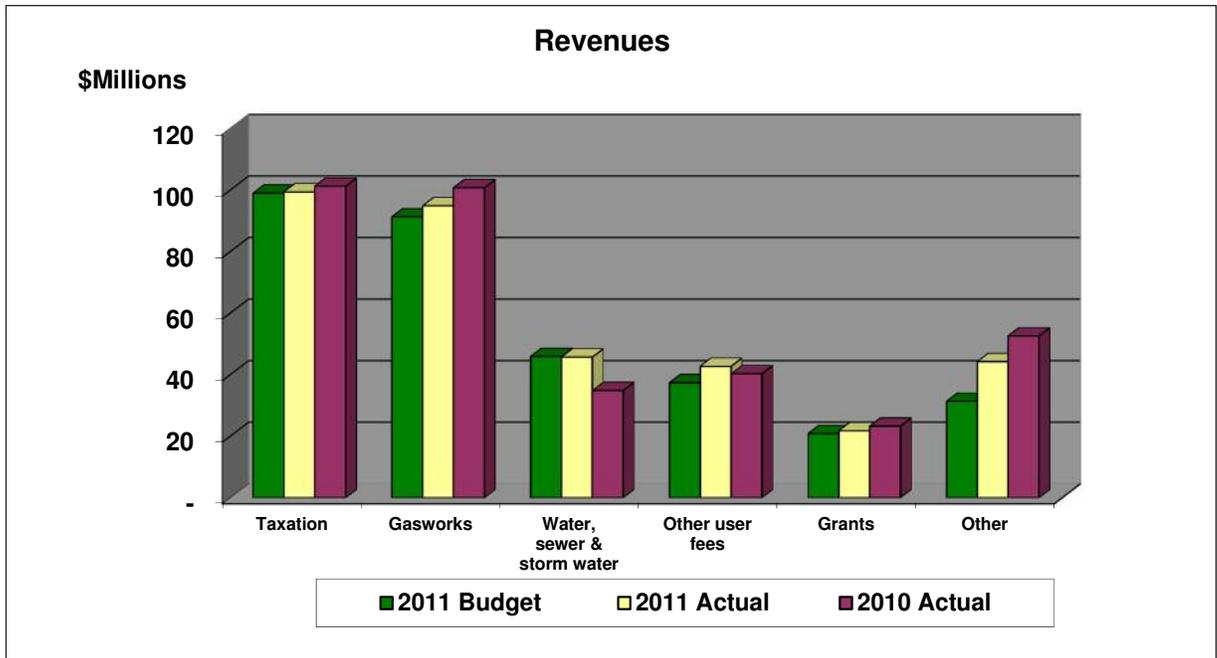
Consolidated Statement of Operations

The Consolidated Statement of Operations reports the revenues collected by the City, the cost of providing municipal services and the resulting annual surplus/deficit in the accounting period.

The City ended the year with property tax supported operations recording a \$0.2 million deficit which equates to approximately 0.2% of the total budget. There were nearly \$1.4 million of capital closeouts available to be transferred into the operating budget, so a net surplus of \$1.2 million was transferred to the Tax Stabilization Reserve Fund in accordance with City policy.

This year, overall assessment growth was 2.08%, generated primarily from new residential development. While this new assessment creates revenue for the City, there is also a cost to provide services to new development. In addition, cost increases in excess of inflation, public demand for new services and unreliable revenue sources all place significant pressure on the City budget. These pressures, coupled with the transfer of the storm water operating costs to the newly created Storm Water Enterprise, resulted in an overall tax decrease of 2.79% for the year, which included an increase in funding for the City's Economic Development Investment Fund (EDIF). This marks the eighth year of the ten-year EDIF fund.

This year, overall assessment growth was 2.08%, generated primarily from new residential development.



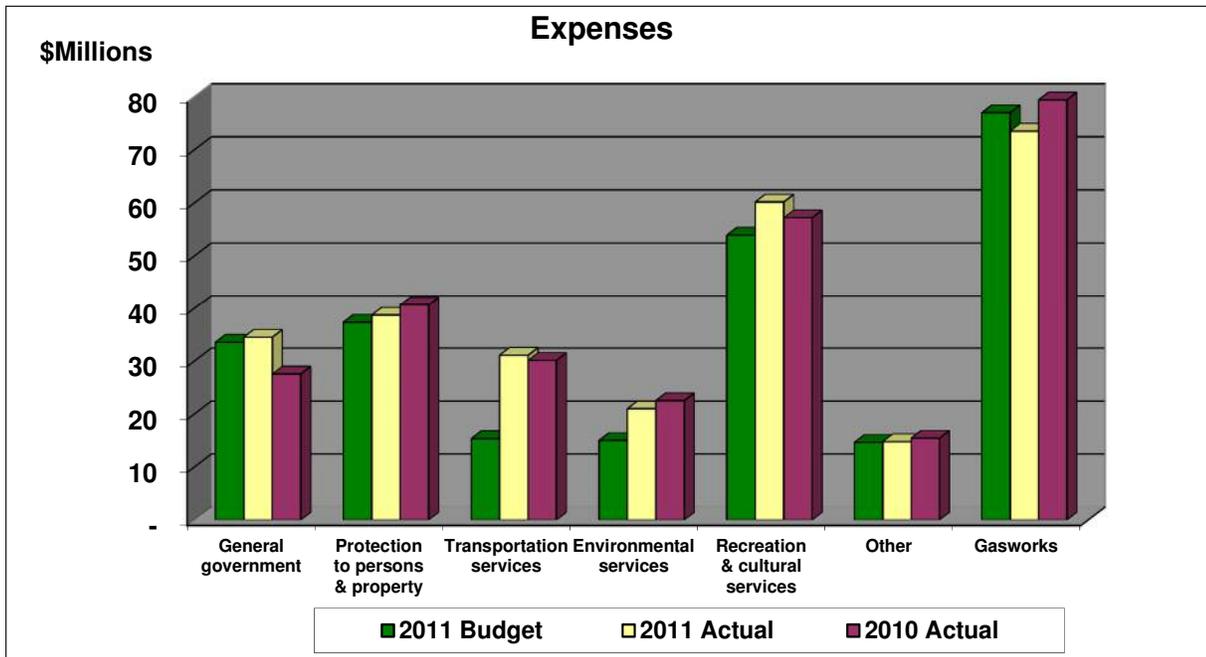
Revenues

Revenues are received from the following sources: taxation, users fees, grants and other. Kitchener is one of only two municipally owned and operated natural gas distributors in Ontario.

The 'Other' category includes revenues such as contribution of tangible capital assets, investment income, penalties and interest on taxes, obligatory reserve funds revenue recognized, and share of net income of Kitchener Power Corp.

New in 2011, the storm water fees have been included in the water, sewer and storm water grouping

New in 2011, the storm water fees have been included in the water, sewer and storm water grouping. Gasworks revenues are down from 2010 and from budget due to lower customer consumption related to a warm winter at the end of 2011. The City does not budget for the contribution of tangible capital assets or share of net income of Kitchener Power Corp. Other revenue is down from the prior year as a result of not being able to recognize all development charge revenue given the reserves are currently in a deficit balance.



Expenses

The City of Kitchener is a diversified government institution and provides a wide range of services to its citizens including fire, roads, water, sewer, gasworks, libraries, and community services. Schedule B of the Consolidated Financial Statements breaks the expenses into major functional activities, consistent with provincially legislated requirements.

As is consistent with the majority of municipalities, the City does not budget for amortization of tangible capital assets or gains and losses on disposal of assets. These tangible capital asset expenses alone account for the majority of the variance in budget to actual figures as presented above. Gasworks expenses are down from prior year due to the lower consumption.

Consolidated Statement of Change in Net Financial Assets

The statement of change in net financial assets explains the difference between a municipality's surplus or deficit for the reporting year and its change in net financial assets in the same reporting year. This statement provides for the reporting of the acquisition of tangible capital assets and other significant items that impact the difference between the annual surplus/deficit and the change in net financial assets.

Consolidated Statement of Cash Flow

The statement of cash flows reports changes in cash and cash equivalents resulting from operations, investing and financing activities and shows how the City financed its activities during the year and met its cash requirements.



Looking Ahead

Looking ahead to 2012, the City will face continued pressure from the public to increase levels of service while at the same time curb tax rate increases. The City has begun work on an integrated business planning process to respond to these pressures. This work aligns the City's Strategic Plan with departmental business plans. This, along with the development of long-term financial planning, and a renewed strategy for debt and reserve management will help the City achieve an optimal balance of taxes levied and services provided.

The City of Kitchener is constantly looking at ways to improve its financial sustainability through a balanced approach to financial management in order to create a sustainable financial position today, tomorrow and for generations to come.

Dan Chapman, CA, MPA
Deputy CAO Finance and Corporate Services
and City Treasurer
June 25, 2012



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Chartered Accountants
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Fax 519-747-8830
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Kitchener

We have audited the accompanying consolidated financial statements of the Corporation of the City of Kitchener, which comprise the consolidated statement of financial position as at December 31, 2011, the consolidated statements of operations, change in net financial assets 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.

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.



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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 Kitchener as at December 31, 2011, 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 Accountants, Licensed Public Accountants

June 25, 2012
Waterloo, Canada

CITY OF KITCHENER

Consolidated Statement of Financial Position

As at December 31, 2011

	2011	2010 (Restated Note 15)
Financial assets		
Cash and cash equivalents	\$ 62,394,615	\$ 24,798,295
Taxes receivable	22,275,777	20,977,878
Trade and other accounts receivable	39,840,980	52,833,252
Inventory for resale	13,871,309	15,048,219
Investments (Note 4)	56,379,944	60,530,305
Investment in Kitchener Power Corp. and its affiliates (Note 5)	173,948,297	168,641,520
	368,710,922	342,829,469
Liabilities		
Accounts payable and accrued liabilities	74,263,690	80,973,606
Deferred revenue - obligatory reserve funds (Note 7)	1,665,764	332,789
Deferred revenue - other	8,672,152	8,389,582
Municipal debt (Note 8)	98,187,960	81,327,413
Employee future benefits (Note 10)	25,643,189	23,486,854
	208,432,755	194,510,244
Net financial assets	160,278,167	148,319,225
Non-financial assets		
Tangible capital assets - net (Note 11)	869,949,742	807,562,321
Inventory of supplies	2,049,446	1,691,095
Prepaid expenses	1,111,167	910,332
	873,110,355	810,163,748
Accumulated surplus	\$ 1,033,388,522	\$ 958,482,973

See accompanying notes

CITY OF KITCHENER

Consolidated Statement of Operations

Year Ended December 31, 2011

	2011 Budget (unaudited)	2011	2010 (Restated Note 15)
Revenues			
Taxation	\$ 98,986,506	\$ 99,419,306	\$ 101,265,560
User fees and charges			
Gasworks	91,301,382	94,871,570	100,782,038
Water, sewer and stormwater	45,889,666	45,687,174	34,820,660
Other	37,359,162	42,703,477	40,271,420
Grants	20,841,316	21,766,293	23,255,638
Contributions of tangible capital assets	-	8,672,341	8,504,526
Investment income	6,465,000	7,281,219	6,602,500
Penalty and interest on taxes	3,216,100	3,155,724	3,226,490
Obligatory reserve funds revenue recognized	16,455,000	9,928,202	17,839,885
Share of net income of Kitchener Power Corp. and its affiliates (Note 5)	-	8,351,027	7,522,009
Other	5,211,735	6,838,439	8,883,263
Total revenues	325,725,867	348,674,772	352,973,989
Expenses			
General government	33,564,592	34,509,466	27,563,305
Protection to persons and property	37,342,933	38,691,182	40,695,461
Transportation services	15,356,673	31,101,409	30,117,870
Environmental services	15,017,979	20,999,387	22,529,620
Health services	1,306,965	1,866,803	1,774,559
Social and family services	1,788,913	1,858,795	1,829,536
Recreation and cultural services	53,942,238	60,168,971	57,206,122
Planning and development	11,542,634	11,064,848	11,829,620
Gasworks	76,996,106	73,508,362	79,392,595
Total expenses	246,859,033	273,769,223	272,938,688
Annual surplus	78,866,834	74,905,549	80,035,301
Accumulated surplus, beginning of year	958,482,973	958,482,973	878,447,672
Accumulated surplus, end of year (Note 12)	\$1,037,349,807	\$1,033,388,522	\$ 958,482,973

See accompanying notes

CITY OF KITCHENER
 Consolidated Statement of
 Change in Net Financial Assets
 Year Ended December 31, 2011

	2011 Budget (unaudited)	2011	2010 (Restated Note 15)
Annual surplus	\$ 78,866,834	\$ 74,905,549	\$ 80,035,301
Amortization of tangible capital assets	-	29,898,245	28,435,130
Acquisition of tangible capital assets	(108,712,224)	(93,591,507)	(119,632,298)
Loss on disposal of tangible capital assets	-	990,947	3,849,706
Proceeds on disposal of tangible capital assets	-	314,894	355,418
Acquisition of supplies of inventories	-	(5,590,870)	(3,832,059)
Acquisition of prepaid expenses	-	(1,004,169)	(265,043)
Consumption of supplies inventory	-	5,232,519	3,788,925
Use of prepaid expenses	-	803,334	93,334
Change in net financial assets	(29,845,390)	11,958,942	(7,171,586)
Net financial assets, beginning of the year	148,319,225	148,319,225	155,490,811
Net financial assets, end of the year	\$ 118,473,835	\$ 160,278,167	\$ 148,319,225

See accompanying notes

CITY OF KITCHENER

Consolidated Statement of Cash Flow

Year Ended December 31, 2011

	2011	2010 (Restated Note 15)
Operating		
Annual surplus	\$ 74,905,549	\$ 80,035,301
Items not involving cash		
Amortization	29,898,245	28,435,130
Loss on sale of tangible capital assets	990,947	3,849,706
Share of net income of Kitchener Power Corp. and its affiliates	(8,351,027)	(7,522,009)
Change in employee future benefits	2,156,335	699,955
Contributions of tangible capital assets	(8,672,341)	(8,504,526)
Change in non-cash assets and liabilities		
Taxes receivable	(1,297,899)	(692,158)
Trade and other accounts receivable	12,992,272	(4,833,759)
Inventory of supplies	(358,351)	(43,134)
Inventory for resale	1,176,910	2,199,270
Prepaid expenses	(200,835)	(171,709)
Deferred revenue - obligatory reserve funds	1,332,975	(5,498,636)
Deferred revenue - other	282,570	1,054,180
Accounts payable and accrued liabilities	(6,709,916)	18,710,616
Net change in cash from operating activities	98,145,434	107,718,227
Investing		
Acquisition of tangible capital assets	(84,919,166)	(111,127,772)
Proceeds on disposal of tangible capital assets	314,894	355,418
Dividends received from Kitchener Power Corp.	3,044,250	1,752,750
Net acquisition of investments	4,150,361	8,435,289
Net change in cash from investing activities	(77,409,661)	(100,584,315)
Financing		
Municipal debt issued	24,117,000	16,129,000
Municipal debt repaid	(7,256,453)	(7,002,026)
Net change in cash from financing activities	16,860,547	9,126,974
Net change in cash and cash equivalents	37,596,320	16,260,886
Cash and cash equivalents, beginning of year	24,798,295	8,537,409
Cash and cash equivalents, end of year	\$ 62,394,615	\$ 24,798,295

See accompanying notes

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

1. Summary of significant accounting policies

These consolidated financial statements of The Corporation of the City of Kitchener (the "City") have been prepared by management in accordance with Canadian generally accepted accounting principles for local governments as established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

a. Basis of consolidation

i. Consolidated entities

These consolidated financial statements reflect the assets, liabilities, reserves, surpluses/deficits, revenues, and expenditures of those City funds and governmental functions or entities which have been determined to comprise a part of the aggregate City operations based upon control exercised by the City except for the City's government businesses which are accounted for on the modified equity basis of accounting. The following boards, municipal enterprises and utilities have been included in the consolidated financial statements:

- Kitchener Public Library
- Kitchener Downtown Improvement Area Board of Management
- Belmont Improvement Area Board of Management
- The Centre in the Square Inc.
- Waterworks Enterprise
- Gasworks Enterprise
- Sewer Surcharge Enterprise
- Storm Water Management Enterprise
- Building Enterprise
- Golf Enterprise
- Parking Enterprise

All inter-organizational and inter-fund transactions and balances have been eliminated.

ii. Government business enterprises

Kitchener Power Corp. and its affiliates are not consolidated but are accounted for on the modified equity basis which reflects the City of Kitchener's investment in the enterprises and its share of net income since acquisition. Under the modified equity basis, the enterprises' accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

iii. Accounting for region and school board transactions

The taxation, other revenues, expenditures, assets and liabilities, with respect to the operations of the school boards and the Regional Municipality of Waterloo, are not reflected in these consolidated financial statements.

iv. Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately on the "Trust Funds Statement of Continuity and Balance Sheet" (see Note 3).

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

1. Summary of significant accounting policies (continued)

b. Basis of accounting

i. Accrual basis of accounting

The consolidated financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that gave rise to the revenues. Expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

ii. Cash and cash equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturity of 90 days or less as at the end of the year.

iii. Trade and other accounts receivable

Trade and other accounts receivable are reported net of any allowance for doubtful accounts.

iv. Inventory for resale

Inventory for resale is valued at the lower of cost or net realizable value on an average cost basis.

v. Investments

Portfolio investments are carried at cost, net of accumulated amortization on premiums and discounts. Premiums and discounts are amortized on a straight line basis over the term to maturity. Interest income is recorded as it accrues. When the value of any portfolio investment is identified as impaired, the carrying amount is adjusted to the estimated realizable amount and any adjustments are included in investment income in the period the impairment is recognized.

vi. Deferred revenue

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs, in the completion of specific work or for the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible capital assets are acquired.

vii. Employee future benefits

The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due. The costs of post-employment benefits are recognized when the event that obligates the City occurs. Costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

1. Summary of significant accounting policies (continued)

The costs of post-employment benefits are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Liabilities are actuarially determined using discount rates that are consistent with the market rates of high quality debt instruments. Any gains or losses from changes in assumptions or experience are amortized over the average remaining service period for active employees.

viii. Non-financial assets

Non-financial assets are not available to discharge liabilities and are held for use in the provision of services. They have useful lives that extend beyond the current year and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the consolidated change in net financial assets for the year.

a. Tangible capital assets

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

Assets	Amortization period
Land	The original cost of land is not amortized
Land improvements	10 to 25 years
Building & building improvements	20 to 50 years
Leasehold improvements	Over the useful life of the improvement or the lease term, whichever is shorter
Machinery & equipment	3 to 15 years
Computer hardware	3 to 10 years
Computer software	1 to 10 years
Linear assets	20 to 100 years
Vehicles	3 to 25 years

b. Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at time of receipt and are recorded as revenue.

c. Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all the risks and benefits incidental of ownership are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

d. Inventory of supplies

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

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

1. Summary of significant accounting policies (continued)

e. Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements.

ix. 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.

Government transfers and developer contributions-in-kind related to capital acquisitions are required to be recognized as revenue in the consolidated financial statements in the period in which the tangible capital assets are acquired.

x. Use of estimates

Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments. Actual results could differ from these estimates.

2. Operations of school boards and the Regional Municipality of Waterloo

Further to Note 1 a) iii, the taxation, other revenues and requisitions for the school boards and the Regional Municipality of Waterloo are comprised of the following:

	School Boards	Region	Total
Taxation and user charges	\$ 85,085,417	\$ 186,532,587	\$ 271,618,004
Share of payments in lieu of taxes	7,242	1,224,170	1,231,412
Share of linear properties	63,469	122,187	185,656
Amounts requisitioned	\$ 85,156,128	\$ 187,878,944	\$ 273,035,072

3. Trust funds

Trust funds administered by the City have not been included in the "Consolidated Statement of Financial Position", nor have their operations been included in the "Consolidated Statement of Operations". The trust funds under administration are comprised of cemetery perpetual care and prepaid interment funds totaling \$10,788,779 (2010 - \$10,323,567).

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

4. Investments

Investments are made up of the following:

	2011 Cost	2011 Market Value	2010 Cost	2010 Market Value
Guaranteed investment certificates	\$ 46,500,000	\$ 47,026,397	\$ 34,598,823	\$ 34,829,949
ONE Funds	-	-	6,554	6,403
Bonds and debentures	8,885,836	8,823,002	24,789,342	24,857,561
Common stock	994,108	1,123,668	1,135,586	1,351,315
	\$ 56,379,944	\$ 56,973,067	\$ 60,530,305	\$ 61,045,228

5. Investment in Kitchener Power Corp. and its Affiliates

Under the provincial government's Electricity Competition Act (Bill 35), Kitchener Power Corp., a holding company, along with its wholly owned subsidiaries, including Kitchener-Wilmot Hydro Inc., was incorporated on July 1, 2000.

On August 1, 2000, under by-laws passed by the City and the Township of Wilmot, the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot were transferred to the new corporation. The City took back a 92.25% share in the common shares of Kitchener Power Corp. and a 92.25% share in long-term notes payable by the affiliates for the assets transferred. Certain surplus property assets and cash funds were excluded from the transfer and turned over to the City and the Township.

The investment is composed of the following:

	2011	2010
Kitchener Power Corp. common shares	\$ 61,244,208	\$ 61,244,208
Kitchener - Wilmot Hydro Inc. long-term notes receivable	70,997,576	70,997,576
Share of net income and prior period adjustments due to changes in accounting policies since acquisition, net of dividends	41,706,513	36,399,736
	\$ 173,948,297	\$ 168,641,520

The Kitchener-Wilmot Hydro Inc. notes are unsecured and bear interest at the rate of 5.87%. There are no repayment terms and there is no intent to redeem the notes or the shares.

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

5. Investment in Kitchener Power Corp. and its Affiliates (continued)

The following table provides condensed financial information with respect to Kitchener Power Corp.:

	2011	2010
Current assets	\$ 68,435,132	\$ 75,023,889
Capital assets	152,895,083	143,258,355
Regulatory assets	21,536,416	20,970,013
Future income taxes	13,287,674	12,860,747
Total assets	256,154,305	252,113,004
Current liabilities	33,107,940	34,677,240
Long-term debt	84,844,106	85,713,896
Regulatory liabilities	17,338,259	16,606,383
Other liabilities	9,264,302	9,268,391
Total liabilities	144,554,607	146,265,910
Net assets	111,599,698	105,847,094
Results of operation		
Revenues	203,946,014	195,770,643
Expenses	(194,893,410)	(187,616,704)
Net income	9,052,604	8,153,939
City's share of net income - 92.25%	\$ 8,351,027	\$ 7,522,009

6. Insurance pool

Liabilities include an amount of \$3,721,040 (2010 - \$4,711,429) which represents funds belonging to the Waterloo Region Municipalities Insurance Pool and administered by the City on behalf of the Pool's members. The members entered an agreement in 1998 to purchase property damage and public liability insurance on a group basis and share a retained level of risk.

The members pay an actuarially determined annual levy to fund insurance, prefund expected losses and contribute to a surplus. The Pool has purchased insurance to fund losses above a predetermined deductible and any losses above a predetermined total in any year.

The City's share of Pool levies is 24.88% (2010 - 25.05%) and its share of the Pool surplus as at May 31, 2011 was \$1,086,203 (2010 - \$1,052,252). The City's share of the Pool surplus has not been included in the Consolidated Statement of Financial Position.

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

7. Obligatory deferred revenue

	2011	2010
Development charges	\$ -	\$ (2,444,240)
Recreational land	1,665,764	2,777,029
	\$ 1,665,764	\$ 332,789

The continuity of deferred revenue is as follows:

	2011	2010
Balance, beginning of year	\$ 332,789	\$ 5,831,426
Collections	10,410,211	11,552,559
Interest earned	7,858	46,485
Other revenue	843,108	742,203
Contributions used	(9,928,202)	(17,839,884)
Balance, end of year	\$ 1,665,764	\$ 332,789

8. Municipal debt

The City has assumed responsibility for the payment of principal and interest charges on certain long-term debt issued by other municipalities. At the end of the year, the outstanding principal amount of this liability is \$98,187,961 (2010 - \$ 81,327,413).

The annual principal repayments are:

2012	\$ 8,480,162
2013	8,452,712
2014	8,756,188
2015	8,466,007
2016	8,726,509
2017 and thereafter	55,306,382
	\$ 98,187,960

The annual principal and interest payments required to service the long-term debt are within the annual debt repayment limit prescribed by the Ontario Ministry of Municipal Affairs and Housing.

The long-term liabilities carry interest rates ranging from 1.35% to 5.50%. Interest charges for 2011 relating to municipal debt totaled \$3,542,626 (2010 - \$3,275,100).

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

9. Pension plan

The City makes contributions to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employee contributions are matched by the City. Contributions were required on account of current service in 2011 amounting to \$7,290,301 (2010 - \$6,214,298).

10. Employee future benefits

The estimated liability for employee future benefits is comprised of the following:

	2011	2010
Sick leave benefit plan	\$ 12,698,320	\$ 11,827,420
Post retirement benefits	9,505,669	9,117,734
Future payments required to WSIB	3,439,200	2,541,700
	\$ 25,643,189	\$ 23,486,854

a. Sick leave

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to cash payments when they leave the City's employment. The expense for the current year was \$2,235,282 (2010 - \$2,156,845) and is comprised of the following items:

	2011	2010
Current period benefit cost	\$ 963,198	\$ 893,530
Amortization of actuarial losses	441,237	391,395
Retirement benefit expenditures	1,404,435	1,284,925
Retirement benefit interest expenditures	830,847	871,920
Total expenditures related to retirement benefits	\$ 2,235,282	\$ 2,156,845

The actuarial valuation of the future liability for sick leave assumes a discount rate of 3.75% (2010 - 4.75%). The last actuarial valuation for this liability was completed at December 31, 2009, with an actuarial update provided to the end of the current year.

As at December 31, 2011, the unamortized actuarial losses were \$8,784,414 (2010 - \$5,383,106) and are amortized over 13 to 14 years (2010 - 13 to 14 years). The amount of benefits paid during the year were \$1,364,382 (2010 - \$1,900,120).

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of \$4,530,942 (2010 - \$4,604,768).

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

10. Employee future benefits (continued)

Anticipated payments over the next five years to employees who are eligible to retire are:

2012	\$	1,725,986
2013		618,789
2014		686,130
2015		814,066
2016		855,230
	\$	4,700,201

b. Post-retirement benefits

The City pays certain health, dental and life insurance benefits on behalf of its retired employees up to the age of 65 if they have at least ten years service with the City. The expense for the year was \$1,288,498 (2010 - \$1,191,549) and is comprised of the following items:

	2011	2010
Current period benefit cost	\$ 491,928	\$ 430,368
Amortization of actuarial losses	266,668	215,001
Retirement benefit expenditures	758,596	645,369
Retirement benefit interest expenditures	529,902	546,180
Total expenditures related to retirement benefits	\$ 1,288,498	\$ 1,191,549

The actuarial valuation of the future liability for post-retirement benefits assumes a discount rate of 3.75% (2010 – 4.75%) and inflation rates for benefit premiums of 4% to 8% (2010 – 5% to 9%).

As at December 31, 2011, the unamortized actuarial losses were \$6,329,401 (2010 – \$1,996,447) and are amortized over 10 to 12 years (2010 – 10 to 12 years). The amount of benefits paid during the year were \$900,563 (2010 - \$837,733). The last actuarial valuation for this liability was completed at December 31, 2009, with an actuarial update provided to the end of the current year.

The City holds no reserve in accumulated surplus to meet this liability.

c. WSIB

The Workplace Safety and Insurance Board (WSIB) administer injured worker benefits payments on behalf of the City as a Schedule 2 employer. The expense for the current year was \$1,668,800 (2010 - \$817,400) and is comprised of the following items:

	2011	2010
Current period benefit cost	\$ 1,148,600	\$ 679,000
Amortization of actuarial losses	246,300	-
Retirement benefit expenditures	1,394,900	679,000
Retirement benefit interest expenditures	273,900	138,400
Total expenditures related to retirement benefits	\$ 1,668,800	\$ 817,400

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

10. Employee future benefits (continued)

The actuarial valuation of the future liability for WSIB assumes a discount rate of 3.75% (2010 – 4.75%). The last actuarial valuation for this liability was completed at December 31, 2010, with an actuarial update provided to the end of the current year.

As at December 31, 2011, the unamortized actuarial losses were \$2,368,600 (2010 – \$2,462,700) and are amortized over 10 years (2010 – 10 years). The amount of benefits paid during the year were \$771,300 (2010 - \$728,000).

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of \$836,218 (2010 - \$0).

11. Tangible capital assets

The write-down of tangible capital assets during the year was \$0 (2010 – \$1,933,627). Assets contributed to the City totaled \$8,672,341 (2010 - \$8,504,526).

See Schedule A

12. Accumulated surplus

The accumulated surplus consists of individual fund surpluses/ (deficits) and reserves as follows:

	2011	2010 (Restated Note 15)
Surplus:		
Invested in tangible capital assets	\$ 869,949,742	\$ 807,562,321
Other	(14,984,489)	(15,885,715)
Equity in Kitchener Power Corp. and its affiliates	173,948,297	168,641,520
Unfunded		
Employee future benefits	(25,643,189)	(23,486,854)
Total surplus	<u>1,003,270,361</u>	936,831,272
Reserves:		
Acquisition of capital assets	6,831,974	6,265,635
Total reserves	<u>6,831,974</u>	6,265,635
Reserve funds set aside for specific purpose by Council for:		
Sick leave	4,530,942	4,604,768
Capital expenditures	5,631,669	4,682,137
Tax rate stabilization	3,596,967	1,159,081
Workplace safety and insurance	836,218	-
Insurance	253,118	131,175
The Centre in the Square Inc.	2,522,335	2,680,105
Enterprise stabilization	7,959,981	-
Other	(2,045,043)	2,128,800
Total reserve funds	<u>23,286,187</u>	15,386,066
	<u>\$ 1,033,388,522</u>	<u>\$ 958,482,973</u>

CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2011

13. Contingent liabilities

- a. The City has extended a line of credit not to exceed \$2,000,000 to Kitchener Housing Inc. Interest is charged on the outstanding balance at bank prime plus 1% (rate as at December 31, 2011 was 4%).
- b. Legal action has been undertaken against the City relating to a number of contract disputes and other matters. The outcome of these actions is not presently determinable. It is management's opinion that the City's insurance will adequately cover any potential liability arising from these contract disputes and other matters. Should any liability be determined and not covered by insurance it will be recognized in the period when it is determined.

14. Segmented information

The City of Kitchener is a diversified municipal government institution that provides a wide range of services to its citizens, including fire, roads, water, sewer, storm sewer, gasworks, libraries, and community services.

Segmented information has been prepared by major functional classification of activities provided, consistent with the Consolidated Statement of Operations and provincially legislated requirements.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

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.

See Schedule B

15. Restatement of comparative figures

In 2009, the City implemented Section 3150 of the Public Sector Accounting Handbook which requires governments to record and amortize their tangible capital assets in their financial statements.

Through the normal process of reviewing amounts moving from assets under construction to final assets in 2011, it was determined that amounts that had been recorded in the opening 2010 tangible capital asset balance had not been removed from assets under construction at the time of capitalization.

The City also reviewed the completeness of the recorded amounts and revised the recorded estimated amounts for assets under construction for items that were previously expensed.

As a result, the comparative figures for the year ended December 31, 2010 have been restated resulting in a reduction in the opening balance of tangible capital assets in the amount of \$9,374,698, a net reduction in expenses in the amount of \$535,045 and a reduction in the accumulated surplus, beginning of the year in the amount of \$9,909,743.

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

15. Restatement of comparative figures (continued)

The comparative financial statements have been restated as follows:

	As previously stated	Adjustments	Restated
Tangible capital assets - net	\$ 816,937,019	\$ (9,374,698)	\$ 807,562,321
Recreation Expenses	58,577,392	(1,371,270)	57,206,122
General Government Expenses	26,727,080	836,225	27,563,305
Accumulated surplus, beginning of year	888,357,415	(9,909,743)	878,447,672

16. Budget figures

The budget figures reflected in these consolidated statements are those approved by Council at a meeting on January 20, 2011. Budget figures have been translated to reflect changes in Public Sector Accounting Board standards.

17. Comparative figures

Certain of the prior year's comparative figures have been restated to conform to the current year's presentation.

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

Schedule A – Tangible Capital Assets

	General								Infrastructure				Total
	Land Land improvements	Buildings	Leasehold improvements	Machinery & equipment	Computer software	Computer hardware	Vehicles	Land	Buildings	Linear assets	Assets under construction		
Cost													
Balance, beginning of year (Restated Note 15)	\$ 41,227,588	\$ 36,833,104	\$ 146,709,656	\$ 3,050,753	\$ 47,107,307	\$ 19,697,672	\$ 4,939,702	\$ 29,111,783	\$ 123,981,977	\$ 17,337,154	\$ 629,929,696	\$ 89,140,302	\$ 1,189,066,694
Additions	361,814	4,418,108	7,233,550	3,498	4,028,152	358,719	1,956,186	1,228,943	6,424,863	12,729,744	18,682,437	36,165,493	93,591,507
Transfers	(1,017,432)	3,447,982	17,451,382	-	586,559	84,241	3,457	2,383	1,017,432	40,970,056	10,022,212	(72,568,272)	-
Disposals	(110,513)	(134,361)	(434,827)	-	(613,362)	(278,120)	(1,461,625)	(1,434,473)	(13,019)	(332,376)	(1,986,817)	-	(6,799,493)
Balance, end of year	40,461,457	44,564,833	170,959,761	3,054,251	51,108,656	19,862,512	5,437,720	28,908,636	131,411,253	70,704,578	656,647,528	52,737,523	1,275,858,708
Accumulated Amortization													
Balance, beginning of year (Restated Note 15)	-	(17,950,142)	(71,947,507)	(309,880)	(25,397,638)	(12,778,026)	(2,559,455)	(14,794,067)	-	(4,204,144)	(231,563,514)	-	(381,504,373)
Disposals	-	114,207	387,968	-	544,981	278,120	1,377,893	1,191,190	-	324,265	1,275,028	-	5,493,652
Amortization expense	-	(1,312,788)	(4,105,605)	(71,196)	(3,289,135)	(1,057,462)	(821,429)	(1,998,758)	-	(330,626)	(16,911,246)	-	(29,898,245)
Balance, end of year	-	(19,148,723)	(75,665,144)	(381,076)	(28,141,792)	(13,557,368)	(2,002,991)	(15,601,635)	-	(4,210,505)	(247,199,732)	-	(405,908,966)
Net book value, end of year	40,461,457	25,416,110	95,294,617	2,673,175	22,966,864	6,305,144	3,434,729	13,307,001	131,411,253	66,494,073	409,447,796	52,737,523	869,949,742
Net book value, beginning of year	\$ 41,227,588	\$ 18,882,962	\$ 74,762,149	\$ 2,740,873	\$ 21,709,669	\$ 6,919,646	\$ 2,380,247	\$ 14,317,716	\$ 123,981,977	\$ 13,133,010	\$ 398,366,182	\$ 89,140,302	\$ 807,562,321

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

Schedule B – Segmented Information

<i>year ended December 31, 2011</i>	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
Revenues										
Taxation	\$ (30,866,343)	\$ (14,021,135)	\$ (392,053)	\$ (121,608)	\$ (868,906)	\$ (31,455,457)	\$ (5,580,579)	\$ -	\$ (16,113,225)	\$ (99,419,306)
User fees and charges	(7,372,266)	(8,616,220)	(45,687,174)	(1,349,217)	(309,565)	(20,349,400)	(2,648,002)	(94,871,570)	(2,058,807)	(183,262,221)
Grants	(55,111)	(11,102,520)	(1,680,553)	-	(578,880)	(4,249,654)	(5,176)	(904,828)	(3,189,571)	(21,766,293)
Investment income	(154,460)	(80,223)	(109,231)	(298,288)	(3,062)	(166,781)	27,321	95,947	(6,592,442)	(7,281,219)
Penalty and interest on taxes	-	-	-	-	-	-	-	-	(3,155,724)	(3,155,724)
Obligatory reserve funds revenue recognized	14,577	(1,668,033)	(5,440,350)	-	-	(1,778,878)	-	(129,959)	(925,559)	(9,928,202)
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	(8,351,027)	(8,351,027)
Asset donations	(95)	(8,008,101)	(206,849)	(143,676)	-	(303,390)	-	(10,230)	-	(8,672,341)
Other	(143,605)	(83,986)	(1,551,070)	(47,419)	(8,662)	(2,440,041)	(49,090)	(1,415,902)	(1,098,664)	(6,838,439)
Total revenue	(38,577,303)	(43,580,218)	(55,067,280)	(1,960,208)	(1,769,075)	(60,743,601)	(8,255,526)	(97,236,542)	(41,485,019)	(348,674,772)
Expenses										
Salaries, wages and benefits	33,032,953	11,496,080	6,642,712	1,177,647	1,381,321	32,325,486	5,933,580	5,230,204	26,502,507	123,722,490
Materials and services	2,592,883	9,288,123	4,282,804	433,355	287,696	17,415,437	1,769,401	62,480,059	14,070,723	112,620,481
Debenture debt interest	192,865	889,924	92,366	1,022	60,623	928,442	1,213,309	-	164,075	3,542,626
Internal charges and recoveries	1,380,122	(791,552)	3,710,753	144,739	41,757	2,045,540	987,479	789,294	(8,308,132)	-
Grants and other	-	6,688	717,242	-	10,027	2,302,013	478,509	-	-	3,514,479
Amortization	1,366,879	8,556,813	5,367,958	89,497	77,371	5,013,734	653,903	4,953,632	3,818,458	29,898,245
Loss / (gain) on sale of assets	125,480	1,655,333	185,552	20,543	-	138,319	28,667	55,173	(1,738,165)	470,902
Total expenses	38,691,182	31,101,409	20,999,387	1,866,803	1,858,795	60,168,971	11,064,848	73,508,362	34,509,466	273,769,223
Net (surplus) / deficit	\$ 113,879	\$ (12,478,809)	\$ (34,067,893)	\$ (93,405)	\$ 89,720	\$ (574,630)	\$ 2,809,322	\$ (23,728,180)	\$ (6,975,553)	\$ (74,905,549)

CITY OF KITCHENER
Notes to Consolidated Financial
Statements
Year Ended December 31, 2011

Schedule B - Segmented Information (continued)

<i>year ended December 31, 2010</i>	Protection Services	Transportation Services	Environmental Services	Health Services	Social and Family Services	Recreation and Cultural Services	Planning and Development	Gasworks	General Government	Total
Revenues										
Taxation	(29,676,980)	(13,293,921)	(244,866)	(152,742)	(882,218)	(30,355,366)	(4,830,786)	-	(21,828,681)	(101,265,560)
User fees and charges	(7,957,603)	(8,148,839)	(34,820,660)	(1,339,219)	(299,031)	(18,801,104)	(2,343,962)	(100,782,038)	(1,381,662)	(175,874,118)
Grants	-	(8,827,853)	(1,865,378)	-	(582,297)	(3,786,358)	(6,009)	-	(8,187,743)	(23,255,638)
Investment income	(124,630)	(17,525)	(118,450)	(233,383)	(4,447)	(215,188)	(129,162)	(14,240)	(5,745,475)	(6,602,500)
Penalty and interest on taxes	-	-	-	-	-	-	-	-	(3,226,490)	(3,226,490)
Obligatory reserve funds revenue recognized	(49,000)	(4,777,655)	(8,634,111)	-	-	(1,120,679)	(345,500)	-	(2,912,940)	(17,839,885)
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	(7,522,009)	(7,522,009)
Asset donations	(17,159)	(7,674,852)	(32,564)	-	-	(760,416)	-	(19,535)	-	(8,504,526)
Other	(444,086)	(2,825,763)	(988,262)	(270,860)	(9,831)	(805,175)	(134,694)	(2,699,453)	(705,139)	(8,883,263)
Total revenue	(38,269,458)	(45,566,408)	(46,704,291)	(1,996,204)	(1,777,824)	(55,844,286)	(7,790,113)	(103,515,266)	(51,510,139)	(352,973,989)
Expenses										
Salaries, wages and benefits	31,701,438	10,192,100	5,827,546	1,046,868	1,365,580	31,742,984	4,845,551	5,114,959	20,991,574	112,828,600
Materials and services	3,928,338	10,016,467	11,040,063	620,923	279,489	17,152,065	4,639,127	69,634,496	4,232,494	121,543,462
Debt interest	183,829	866,438	65,223	1,166	65,516	646,123	1,277,333	-	169,472	3,275,100
Internal charges and recoveries	1,788,795	(642,125)	200,483	4,814	33,492	129,041	565,428	91,776	(2,171,704)	-
Grants and other	2,849	9,142	269,674	126	8,882	2,369,155	338,712	1,249	6,901	3,006,690
Amortization	1,239,137	8,016,538	5,110,816	101,112	76,577	4,991,821	650,220	4,504,036	3,744,873	28,435,130
Loss / (gain) on sale of assets	1,851,075	1,659,310	15,815	(450)	-	174,933	(486,751)	46,079	589,695	3,849,706
Total expenses	40,695,461	30,117,870	22,529,620	1,774,559	1,829,536	57,206,122	11,829,620	79,392,595	27,563,305	272,938,688
Net (surplus) / deficit	2,426,003	(15,448,538)	(24,174,671)	(221,645)	51,712	1,361,836	4,039,507	(24,122,671)	(23,946,834)	(80,035,301)



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INDEPENDENT AUDITORS' REPORT

Trust Funds

To the Mayor and Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Kitchener

We have audited the accompanying financial statements of the Trust Funds of the Corporation of the City of Kitchener, which comprise the statement of financial position as at December 31, 2011, the statements of operations, change in net financial assets 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 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 audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust Funds of the Corporation of the City of Kitchener as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 25, 2012
Waterloo, Canada

TRUST FUNDS

Balance Sheet

Year Ended December 31, 2011

	2011	2010
Assets		
Accounts receivable	\$ 146,983	\$ 191,071
Interest receivable	49,121	35,666
Investments (Note 2)		
Short-term	1,920,306	2,072,082
Long-term	8,674,469	8,026,848
	10,790,879	10,325,667
Liabilities		
Accounts payable	2,100	2,100
Fund Balance	10,788,779	10,323,567
	\$ 10,790,879	\$ 10,325,667

TRUST FUNDS

Statement of Continuity

Year Ended December 31, 2011

	2011	2010
Capital Receipts		
Perpetual care	\$ 274,368	\$ 328,056
Interest earned	428,965	338,892
Other	58,484	548,934
	761,817	1,215,882
Expenditures		
Transfer to cemeteries operations	296,605	245,047
Other	0	976,917
	296,605	1,221,964
Net change in fund	465,212	(6,082)
Balance, beginning of year	10,323,567	10,329,649
Balance, end of the year	\$ 10,788,779	\$ 10,323,567

TRUST FUNDS

Notes to the Financial Statements

Year Ended December 31, 2011

1. Summary of Significant Accounting Policies

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles for local government as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. The significant accounting policies are summarized below.

Basis of Accounting

Sources of financing and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes receipts as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

2. Investments

The long-term investments of \$8,674,469 (2010 - \$8,026,848) reported on the Balance Sheet at cost, have a market value of \$8,782,669 (2010 - \$8,029,908).

3. Statement of Cash Flows

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

TRUST FUNDS

Schedule of Continuity by Fund

Year Ended December 31, 2011

	Balance 12/31/10	Perpetual Care Funds	Interest Earned	Other Receipts	Transfer Interest to Cemeteries	Disbursements	Balance 12/31/11
Perpetual Care							
Mount Hope Cemetery	\$ 582,233	\$ 108	\$ 23,746	\$ 910	\$ 23,746	\$ -	\$ 583,251
Woodland Cemetery	4,197,577	86,664	172,924	9,819	172,924	0	4,294,060
Bridgeport Cemetery	135,000	2,725	5,605	600	5,605	0	138,325
Williamsburg Cemetery	1,614,129	184,871	69,206	15,769	69,206	0	1,814,769
St. Peter's Cemetery	488,045	0	19,894	500	19,894	0	488,545
Cemetery Trusts							
F.E. Teremain	15,550	0	634	0	634	0	15,550
Florence V. Cober	8,783	0	358	0	358	0	8,783
L.F. Glick	20,664	0	842	0	842	0	20,664
Edna Atherton	1,331	0	54	0	54	0	1,331
George Wright Estate	42,614	0	1,736	0	1,736	0	42,614
E. L. Goetz	1,357	0	55	0	55	0	1,357
E. Weiderhold	38,065	0	1,551	0	1,551	0	38,065
Prepaid Interments	3,178,219	0	132,360	30,886	0	0	3,341,465
	\$ 10,323,567	\$ 274,368	\$ 428,965	\$ 58,484	\$ 296,605	\$ -	\$ 10,788,779



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INDEPENDENT AUDITORS' REPORT

To the Members of the Belmont Improvement Area Board of Management

We have audited the accompanying financial statements of the Belmont Improvement Area Board of Management, which comprise the statement of financial position as at December 31, 2011, the statements of operations, change in net financial assets 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 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 audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Belmont Improvement Area Board of Management as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 25, 2012
Waterloo, Canada

BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Financial Position

As at December 31, 2011

	2011	2010
Financial assets		
Cash	\$ 13,756	\$ 12,228
Term deposit	-	15,286
Accounts receivable	175	-
	13,931	27,514
Financial liabilities		
Accounts payable	7,408	6,866
Net financial assets	6,523	20,648
Non-financial assets		
Tangible capital assets	5,492	-
Net assets	12,015	20,648
Accumulated surplus		
Accumulated net revenue	6,523	20,648
Invested in tangible capital assets	5,492	-
Total accumulated surplus	\$ 12,015	\$ 20,648

See accompanying notes

BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Revenue and Expenses and Accumulated Surplus Year Ended December 31, 2011

	2011	2010
Revenue		
Assessments	\$ 25,000	\$ 25,000
Interest revenue	94	58
Other revenue	2,488	-
	27,582	25,058
Expenses		
Streetscaping	1,564	3,459
Audit	1,695	1,639
Summer maintenance	8,245	8,598
Insurance	1,192	1,134
Winter maintenance	13,656	10,151
Advertising	7,646	5,457
Miscellaneous	1,607	141
Amortization	610	-
	36,215	30,579
Net deficit for year	(8,633)	(5,521)
Accumulated surplus, beginning of year	20,648	26,169
Accumulated surplus, end of year	\$ 12,015	\$ 20,648

See accompanying notes

BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Change in Net Financial Assets

As at December 31, 2011

	2011	2010
Net deficit for year	\$ (8,633)	\$ (5,521)
Acquisition of tangible capital assets	(6,102)	-
Amortization of tangible capital assets	610	-
Change in net financial assets	(14,125)	(5,521)
Net financial assets, beginning of year	20,648	26,169
Net financial assets, end of year	\$ 6,523	\$ 20,648

See accompanying notes

BELMONT IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to the Financial Statements

Year ended December 31, 2011

1. Summary of Significant Accounting Policies

The financial statements of the Belmont Improvement Area Board of Management are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment. The following is a summary of the significant accounting policies followed in the preparation of these financial statements

a) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, are amortized on a straight-line basis over their estimated useful lives as follows:

Assets	Amortization period
Equipment	5 years

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

b) Accrual basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

2. Statement of Cash Flows

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.



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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Kitchener Downtown Improvement Area Board of Management, which comprise the financial position as at December 31, 2011, the statements of revenue and expenses and accumulated surplus and changes in net financial assets 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 generally accepted accounting principles, 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 an 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 audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kitchener Downtown Improvement Area Board of Management as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 20, 2012
Waterloo, Canada

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Financial Position

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Financial Assets		
Cash	\$ 7,255	\$ 98,550
Term deposits (note 2)	64,086	64,087
Accounts receivable	50,418	18,789
Prepaid expenses	1,488	5,479
	123,247	186,905
Financial Liabilities		
Accounts payable and accrued charges	51,268	91,374
Due to the City of Kitchener (note 4)	12,712	33,755
Deferred sublease revenue	-	2,350
	63,980	127,479
Net financial assets	59,267	59,426
Non-Financial Assets		
Tangible capital assets (note 6)	21,727	2,320
Net assets	\$ 80,994	\$ 61,746
Accumulated Surplus		
Reserve for future assessment write-offs	\$ 29,478	\$ 29,478
Accumulated net revenue	29,789	29,918
Invested in tangible capital assets	21,727	2,350
Total accumulated surplus	\$ 80,994	\$ 61,746

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Revenue and Expenses and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget 2011	Actual 2011	Actual 2010
Revenue:			
Assessments	\$ 585,000	\$ 600,000	\$ 580,000
Interest	1,500	1,505	1,468
Graffiti removal co-op	5,000	5,000	10,000
Other income	22,000	32,942	48,505
	613,500	639,447	639,973
Expenses:			
Promotions and advertising	208,000	206,294	117,791
Salaries and wages	232,800	246,620	223,918
Administration	69,200	68,945	102,406
Meetings and seminars	18,000	14,256	16,912
Safety and beautification	50,500	17,626	62,604
Member relations	35,000	48,464	84,645
Amortization	-	5,282	1,552
	613,500	607,487	609,828
Net revenue before other items	-	31,960	30,145
Net assessment write-offs (note 4)	-	12,712	33,755
Net revenue (expenses)	-	19,248	(3,610)
Accumulated surplus, beginning of year	61,746	61,746	65,356
Accumulated surplus, end of year	\$ 61,746	\$ 80,994	\$ 61,746

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Changes in Net Financial Assets

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Net revenue (expenses)	\$ 19,248	\$ (3,610)
Acquisition of tangible capital assets	(24,689)	(2,100)
Amortization of tangible capital assets	5,282	1,552
Change in net financial assets	(159)	(4,158)
Net financial assets, beginning of year	59,426	63,584
Net financial assets, end of year	\$ 59,267	\$ 59,426

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements

Year ended December 31, 2011

1. Summary of significant accounting policies:

Kitchener Downtown Improvement Area Board of Management ("the Board") is established for the main purpose of revitalizing the Central Business District of the City of Kitchener. It is designated as a Business Improvement Area (BIA) through the Ontario Municipal Act and a City of Kitchener by-law enacted in 1977.

These financial statements of the Board are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment.

(a) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land and landfill sites, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life - Years
Computers	4 years
Furniture and fixtures	7 years
Leasehold improvements	7 years

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(b) Accrual basis of accounting:

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

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements, page 2

Year ended December 31, 2011

2. Term deposit:

The term deposits consist of the following:

Principal	Maturity	Rate
\$54,000	June 6, 2012	1.85%
\$10,087	October 22, 2012	1.45%

3. Commitments:

During 2011, the Board executed a new joint premises lease agreement with two other unrelated parties. The lease allows for certain amounts of exclusive space for the Board and certain amounts of common area space shared with the other joint tenants. The lease expires on June 30, 2016. The Board is committed to the following minimum payments under the agreement:

2012	\$	28,921
2013		29,282
2014		30,005
2015		30,728
2016		15,545

4. City of Kitchener:

The Board receives assessment income from the City of Kitchener for its operations. During the year, assessment write-offs were incurred for \$12,712. This amount was paid to the City of Kitchener in 2012.

5. Statement of cash flows:

A separate statement of cash flows is not presented since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Notes to Financial Statements, continued

Year ended December 31, 2011

6. Tangible capital assets:

	Opening balance	Additions	Disposals/ Transfers	Write- downs	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Deletions	Amortization	Accumulated amortization, end of year	Net book value, end of year
Computers	\$ 6,210	\$ -	\$ -	\$ -	\$ 6,210	\$ 3,890	\$ 2,320	\$ -	\$ 898	\$ 4,788	\$ 1,422
Furniture	-	21,191	-	-	21,191	-	-	-	3,884	3,884	17,307
Leasehold improvements	-	3,498	-	-	3,498	-	-	-	500	500	2,998
	\$ 6,210	\$ 24,689	\$ -	\$ -	\$ 30,899	\$ 3,890	\$ 2,320	\$ -	\$ 5,282	\$ 9,172	\$ 21,727



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INDEPENDENT AUDITORS' REPORT

To the members of the Kitchener Public Library Board

We have audited the accompanying financial statements of the Kitchener Public Library, which comprise the statement of financial position as at December 31, 2011 and the statements of revenues and expenses and accumulated net revenue and changes in net financial assets 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 generally accepted accounting principles, 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.



Page 2

Basis for Qualified Opinion

In common with many public library boards, the Kitchener Public Library derives revenue from fines, rentals, partnerships, photocopying and other miscellaneous revenues, 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 any adjustments might be necessary to contributions, excess of revenues over expenses, current assets and net financial assets.

Qualified Opinion

In our opinion, except for the possible effects on the financial statements 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 Kitchener Public Library as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 9, 2012
Waterloo, Canada

KITCHENER PUBLIC LIBRARY

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Financial Assets		
Cash	\$ 1,099,422	\$ 912,763
Accounts receivable	86,094	99,116
Due from City of Kitchener	66,507	104,378
	<u>1,252,023</u>	<u>1,116,257</u>
Financial Liabilities		
Accounts payable and accrued liabilities	534,798	634,946
Deferred revenue (note 2)	717,421	480,958
	<u>1,252,219</u>	<u>1,115,904</u>
Net financial assets	(196)	353
Non-Financial Assets		
Tangible capital assets (note 3)	5,538,308	5,720,794
	<u>\$ 5,538,112</u>	<u>\$ 5,721,147</u>
Accumulated Surplus		
General	\$ (196)	\$ 353
Invested in tangible capital assets	5,538,308	5,720,794
Net assets	<u>\$ 5,538,112</u>	<u>\$ 5,721,147</u>

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Revenues and Expenses and Accumulated Net Revenue

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Grants:		
Province of Ontario	\$ 286,755	\$ 286,755
City of Kitchener:		
Operating	8,927,661	8,673,816
Capital and special (note 4)	560,887	534,631
Special grants (note 5)	67,165	79,412
Fines	256,405	292,596
Interest and miscellaneous	28,337	24,324
Partnerships	38,977	40,704
Room rental	7,212	21,800
Photocopy	22,282	23,783
	10,195,681	9,977,821
Expenses:		
Personnel costs (Schedule)	7,357,235	7,181,103
Resource materials	1,578,672	1,587,481
Equipment (Schedule)	411,017	334,909
Administrative (Schedule)	212,715	179,832
Facilities costs (Schedule)	435,880	457,760
Processing/bindery	86,691	131,613
Programs and publicity (Schedule)	63,572	27,797
General library equipment	9,070	16,747
Expenditures related to capital and special (note 4)	156,699	227,192
Required expenditures related to special grants (note 5)	67,165	79,412
	10,378,716	10,223,846
Net deficit	(183,035)	(246,025)
Accumulated net revenue, beginning of year	5,721,147	5,967,172
Accumulated net revenue, end of year	\$ 5,538,112	\$ 5,721,147

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Changes in Net Financial Assets

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Deficiency of revenue over expenditures	\$ (183,035)	\$ (246,025)
Acquisition of tangible capital assets	(1,266,294)	(1,146,298)
Amortization of tangible capital assets	1,448,780	1,392,637
Change in net financial assets	(549)	314
Net financial assets, beginning of year	353	39
Net financial assets, end of year	\$ (196)	\$ 353

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Notes to Financial Statements

Year ended December 31, 2011

The Kitchener Public Library (the "Board") was incorporated as a not-for-profit organization, without share capital, under the laws of Ontario. It is a Board of the City of Kitchener (the "City") and is dependent on the City for a significant portion of its operating and capital funding.

The Board contributes to the community as a resource and a gateway with sources of information and works of imagination.

The financial statements of the Board are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgements. The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

1. Significant accounting policies:

(a) Accrual basis of accounting:

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

(b) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land are amortized on a straight-line basis over their estimated useful lives as follows:

Furniture, fixtures and equipment	10 - 30 years
Specialty and other equipment	8 years
Computer	3 - 10 years
Books and audio visual resources	2 - 10 years

2. Deferred revenue:

Deferred revenue represents the annual Board's approval of the appropriation of unspent funds, and are subject to external restrictions as to how the funds are disbursed. These appropriations are included in required expenses and are subsequently charged directly to operations when spent.

KITCHENER PUBLIC LIBRARY

Notes to Financial Statements, page 2

Year ended December 31, 2011

3. Tangible capital assets (December 31, 2011):

	Opening balance	Additions	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Amortization	Accumulated amortization, end of year	Net book value, end of year
Books and audio visual resources	\$ 12,541,568	\$ 842,779	\$ 13,384,347	\$ 7,694,277	\$ 4,847,291	\$ 1,233,431	\$ 8,927,708	\$ 4,456,639
Computer	948,161	331,249	1,279,410	482,199	465,962	168,484	650,683	628,727
Furniture fixtures and equipment	631,487	71,160	702,647	267,710	363,777	15,417	283,127	419,520
Other equipment and vehicle	80,290	21,106	101,396	36,526	43,764	31,448	67,974	33,422
	\$ 14,201,506	\$ 1,266,294	\$ 15,467,800	\$ 8,480,712	\$ 5,720,794	\$ 1,448,780	\$ 9,929,492	\$ 5,538,308

KITCHENER PUBLIC LIBRARY

Notes to Financial Statements, page 3

Year ended December 31, 2011

3. Tangible capital assets (December 31, 2010):

	Opening balance	Additions	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Amortization	Accumulated amortization, end of year	Net book value, end of year
Books and audio visual resources	\$ 11,755,057	\$ 786,511	\$ 12,541,568	\$ 6,456,203	\$ 5,298,854	\$ 1,238,073	\$ 7,694,277	\$ 4,847,291
Computer	669,136	279,025	948,161	374,490	300,736	107,709	482,199	465,962
Furniture fixtures and equipment	550,725	80,762	631,487	233,392	367,033	34,319	267,710	363,777
Other equipment and vehicle	80,290	-	80,290	23,990	510	12,536	36,526	43,764
	\$ 13,055,208	\$ 1,146,298	\$ 14,201,506	\$ 7,088,075	\$ 5,967,133	\$ 1,392,637	\$ 8,480,712	\$ 5,720,794

KITCHENER PUBLIC LIBRARY

Notes to Financial Statements, page 4

Year ended December 31, 2011

4. Capital and special grants:

Each year, the City approves capital and special grants for the Board to purchase specific capital items.

The capital grants approved for 2011 included \$82,600 for general renovations, maintenance and upgrading of existing facilities, \$376,298 for communication infrastructure and technology upgrades, and \$35,000 for customer needs surveys.

The portion of these grants and previous year grants that are included in revenue in 2011, is \$560,887 (2010 - \$534,631).

5. Special grants:

In 2011, the Board received various special non-recurring grants and donations totaling \$226,313 (2010 - \$210,480). The portion of these grants and previous year special grants that are included in revenue in 2011, is 67,165 (2010 - \$79,412). The remainder is included in deferred revenue.

6. Pension plan:

The Board makes contributions to the Ontario Municipal Employees Retirement Systems (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rate of pay.

During the year, the Board incurred expenses equal to \$436,805 (2010 - \$374,838) for current service on behalf of its staff.

7. Related party transactions:

The Kitchener Public Library Foundation (the "Foundation") is an independent organization which raises funds to support the development of the Kitchener Public Library.

The accounts of the Foundation are not included in these financial statements.

During the year, the Foundation donated \$7,833 (2010 - \$24,871) to the Board to fund various projects.

8. Statement of cash flows:

A separate statement of cash flows is not presented, since cash flows from operating, investing and financing activities are readily apparent from the other financial statements.

KITCHENER PUBLIC LIBRARY

Schedule of Personnel, Equipment, Administrative, Facilities and Programs and Publicity Expenses

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Personnel:		
Salaries	\$ 6,151,533	\$ 6,057,545
Health benefits	312,392	331,102
Pension benefits	670,924	607,422
Employment insurance	119,918	115,242
WSIB	19,803	18,314
Sick leave reserve	25,000	25,000
Staff training	57,665	26,478
	\$ 7,357,235	\$ 7,181,103
Equipment:		
Technology	\$ 162,136	\$ 161,044
Equipment maintenance	33,902	19,301
Amortization	214,979	154,564
	\$ 411,017	\$ 334,909
Administrative:		
Postage and delivery	\$ 17,549	\$ 11,150
Insurance	16,555	16,555
Professional services	74,153	38,876
General business	50,411	49,437
Telephone	20,222	31,941
Stationery	33,825	31,873
	\$ 212,715	\$ 179,832
Facilities:		
Facilities expenses	\$ 209,183	\$ 236,511
Country Hills building	41,982	24,750
Main utilities	143,843	152,388
Forest Heights utilities	18,137	17,982
Pioneer Park building	19,309	21,898
Grand River Stanley Park building	3,426	4,231
	\$ 435,880	\$ 457,760
Programs and publicity:		
Promotional	\$ 29,960	\$ 19,683
Public programs	33,612	8,114
	\$ 63,572	\$ 27,797



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INDEPENDENT AUDITORS' REPORT

To the Directors of The Centre in the Square Inc.

We have audited the accompanying financial statements of The Centre in the Square Inc., which comprise the financial position as at December 31, 2011, the statements of operations, changes in net financial assets, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 an 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 audit opinion.



Page 2

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Centre in the Square Inc. as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 30, 2012
Waterloo, Canada

THE CENTRE IN THE SQUARE INC.

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Net Assets		
Financial assets:		
Cash	\$ 3,135,487	\$ 3,046,047
Due from The City of Kitchener	94,717	187,728
Funds held with The City of Kitchener (note 2)	279,886	279,886
Accounts receivable	97,363	75,238
Interest receivable	3,392	4,607
Cost to be recovered	257,185	271,211
Investments (note 4)	1,412,439	1,665,916
Total financial assets	5,280,469	5,530,633
Financial liabilities:		
Accounts payable and accrued liabilities	1,164,079	936,672
Deferred revenue (note 5)	1,724,480	2,006,560
	2,888,559	2,943,232
Net financial assets	2,391,910	2,587,401
Non-financial assets:		
Tangible capital assets (note 11)	8,794,075	8,366,876
Inventories (note 3)	39,705	52,219
Prepaid expenses	90,720	40,485
	8,924,500	8,459,580
Net assets	\$ 11,316,410	\$ 11,046,981

Accumulated Surplus

Operating fund activities (note 12)	\$ -	\$ -
Reserves - Capital (note 6)	576,384	478,161
Reserves - Performance Development (note 7)	514,359	497,933
Reserves - Sustainability (note 8)	-	322,777
Reserves - Restricted (note 9)	1,431,592	1,381,234
Invested in tangible capital assets	8,794,075	8,366,876
Accumulated surplus	\$ 11,316,410	\$ 11,046,981

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Operations

Year ended December 31, 2011, with comparative figures for 2010

	Budget 2011 (unaudited)	Actual 2011	Actual 2010
Revenues:			
Performances	\$ 5,000,000	\$ 5,214,435	\$ 4,534,493
Ticket surcharge (notes 6 and 8)	250,000	284,748	266,319
Grants from The City of Kitchener - Operating	1,420,079	1,420,089	1,336,227
Grants from other governments - Capital	400,000	415,958	329,940
Grants from other governments - Operating	40,000	40,000	40,000
Grants from The City of Kitchener – Capital	237,000	237,000	245,520
Capital donations	75,000	75,000	-
Donations	2,500	19,270	27,410
Investment income	1,000	91,231	78,081
Other	2,151,435	1,842,621	1,744,370
Gain on investments	35,000	27,429	92,489
Total revenue	9,612,014	9,667,781	8,694,849
Expenses:			
Direct:			
Performances	4,696,100	5,217,044	4,509,000
Bar operations	175,000	176,413	161,244
Programme	20,000	22,017	23,777
Star memberships	-	20	3,956
Financial services	2,500	2,615	2,674
Ticket services	145,000	140,590	126,342
Operating:			
Administration	764,864	790,239	622,952
Box office	8,200	9,558	11,579
Promotion	460,675	462,274	402,913
Occupancy	740,258	675,629	621,265
Salaries and wages	2,934,317	2,735,583	2,765,060
Recoveries - performances	(1,633,341)	(1,696,952)	(1,644,517)
Amortization	600,000	607,608	595,484
Write down of tangible capital assets	100,000	112,436	12,769
Reserves expenditures	597,000	134,168	228,223
Refund to The City of Kitchener	721	9,100	801
Total expenses	9,611,294	9,398,342	8,443,522
Excess of revenues over expenses	720	269,429	251,327
Accumulated surplus, beginning of year	11,046,981	11,046,981	10,795,654
Accumulated surplus, end of year	\$ 11,047,701	\$ 11,316,410	\$ 11,046,981

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Change in Net Financial Assets

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Excess of revenues over expenses	\$ 269,429	\$ 251,327
Acquisition of tangible capital assets	(1,147,243)	(564,728)
Amortization of tangible capital assets	607,608	595,484
Write-downs of tangible capital assets	112,436	12,769
	(157,770)	294,852
Net (acquisition) use of supplies inventory	12,514	(12,492)
Net (acquisition) use of prepaid expenses	(50,235)	(4,763)
	(37,721)	(17,255)
Increase (decrease) in net financial assets	(195,491)	277,597
Net financial assets, beginning of year	2,587,401	2,309,804
Net financial assets, end of year	\$ 2,391,910	\$ 2,587,401

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Cash Flow

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Operating activities:		
Excess of revenues over expenses	\$ 269,429	\$ 251,327
Items not involving cash:		
Amortization	607,608	595,484
Write down of tangible capital assets	112,436	12,769
Change in non-cash operating working capital	(6,267)	679,965
Cash provided by operating activities	983,206	1,539,545
Capital activities:		
Cash used to acquire tangible capital assets	(1,147,243)	(564,728)
Investing activities:		
Decrease (increase) in investments	253,447	(55,963)
Increase in cash	89,440	918,854
Cash, beginning of year	3,046,047	2,127,193
Cash, end of year	\$ 3,135,487	\$ 3,046,047

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements

Year ended December 31, 2011

The mission of The Centre in the Square Inc. ("The Centre"), is to create memorable experiences. It is incorporated as a municipal, not-for-profit corporation without share capital, is exempt from income taxes under the Income Tax Act, and is a registered charity. The Centre is a Board of The City of Kitchener ("the City") and receives a portion of its operating and capital funding from the City.

1. Significant accounting policies:

The financial statements of The Centre are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement.

(a) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Rate
Building	9 - 100 years
Equipment	4 - 50 years
Computers	5 - 14 years
Software	3 years
Site	10 - 50 years

(b) Accrual basis of accounting:

The accrual basis of accounting, recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

1. Significant accounting policies (continued):

(c) Inventories:

Bar stock inventories are valued at the most recent replacement cost. Supplies inventories are valued at the lower of cost and net realizable value on a first-in, first-out basis. Net realizable value is defined as replacement cost.

(d) Investments:

Investments are recorded at the lower of cost or market value on a fund portfolio basis. Interest income and all expenses are fully accrued.

(e) Deferred revenue:

Performance revenue is recognized when the show occurs. Deferred gift certificate revenue is an estimate based upon gift certificate sales during the period from July 1 to December 31 of the current year.

2. Funds held with The City of Kitchener:

Funds held with the City represent cash held in a pooled fund by the City on behalf of the Centre.

3. Inventories:

Inventories consist of the following:

	2011	2010
Bar stock	\$ 35,034	\$ 37,545
Supplies	4,671	14,674
	\$ 39,705	\$ 52,219

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

4. Investments:

Investments consist of:

	Carrying value 2011	Market 2011	Carrying value 2010	Market 2010
Shares	\$ 994,108	\$ 1,123,668	\$ 1,135,586	\$ 1,351,315
Bonds	412,022	425,697	484,186	492,836
Cash	6,309	6,309	46,144	46,144
	\$ 1,412,439	\$ 1,555,674	\$ 1,665,916	\$ 1,890,295

5. Deferred revenue:

Deferred revenue consists of the following:

	2011	2010
Sponsorships	\$ 142,654	\$ 118,029
Performances	1,421,393	1,764,866
Gift certificates	52,195	58,876
Donations	33,179	46,081
Membership	2,839	2,987
Other	72,220	29,828
	\$ 1,724,480	\$ 2,020,667

6. Capital Reserve Fund:

The Capital Reserve Fund represents the collection of a surcharge from sale of tickets, accumulation of grant revenues and fundraising, plus interest earned.

At the direction of the Board of Directors, expenditures from the Capital Reserve Fund are made to finance, in whole or in part, major capital items or replacements and major maintenance projects.

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

7. Performance Development Reserve Fund:

The Centre has an agreement with the City, whereby The Centre's annual operating net revenue is shared equally between The Centre and the City.

At the direction of the Board of Directors, transfers are made to and from the Performance Development Reserve Fund, equal to one-half of the annual operating net revenue.

In 2011, The Centre's Board of Directors approved the transfer of half of the 2011 net operating surplus to the Performance Development Reserve Fund.

8. Sustainability Reserve Fund:

Revenues for this Fund come from fundraising contributions. At the direction of the Board of Directors, funds are allocated for specific capital projects and programming initiatives to ensure the long-term sustainability of The Centre.

During 2011, the Board of Directors directed that the remainder of this fund be used to match grants from provincial and federal governments to fund the Infrastructure Stimulus Funding capital improvements.

9. Restricted Fund:

The Restricted Fund was set up by the Board of Directors of The Centre in 2000 by a transfer of investments from the Sustainability Reserve Fund in accordance with the Restricted Fund Policy. Income from this fund is to be used for capital requirements, special projects and/or new programming initiatives that help further The Centre's mandate.

10. 2011 budget:

The original budgeted figures were approved by the Board of Directors at their meeting in September 2010 and included certain expenses and offsetting recoveries on a net basis. For purposes of presentation in these financial statements, these items have been shown as gross amounts.

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

11. Tangible capital assets:

	Opening balance	Additions	Disposals/ Transfers	Write- downs	Balance, end of year	Accumulated amortization, beginning of year	Net book value, beginning of year	Deletions	Amortization	Accumulated amortization, end of year	Net book value, end of year
Land	\$ 975,300	\$ -	\$ -	\$ -	\$ 975,300	\$ -	\$ 975,300	\$ -	\$ -	\$ -	\$ 975,300
Building	7,674,877	269,515	376,823	-	8,321,215	3,415,767	4,259,110	-	236,573	3,652,340	4,668,875
Equipment	4,027,260	741,023	37,810	(49,208)	4,756,885	2,315,429	1,711,831	(20,503)	284,438	2,579,364	2,177,521
Computers	323,351	120,179	3,457	(167,462)	279,575	185,804	137,547	(83,731)	35,425	137,498	142,027
Software	120,824	-	-	-	120,824	120,291	533	-	533	120,824	-
Site	1,346,558	11,690	-	-	1,358,248	500,093	846,465	-	50,639	550,732	807,516
WIP	436,090	4,836	(418,090)	-	22,836	-	436,090	-	-	-	22,836
	\$ 14,904,260	\$ 1,147,243	\$ -	\$ (216,670)	\$ 15,834,883	\$ 6,537,384	\$ 8,366,876	\$ (104,234)	\$ 607,608	\$ 7,040,758	\$ 8,794,075

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

12. Operating fund activities:

	Budget 2011	Actual 2011	Actual 2010
Revenues:			
Performances	\$ 5,000,000	\$ 5,214,435	\$ 4,534,493
Grants from City of Kitchener	1,420,079	1,420,079	1,336,227
Grants, other Governments and Foundations	40,000	40,000	40,000
Donations	2,500	14,625	16,880
Investment income	1,000	22,126	12,187
Other	1,851,435	1,841,965	1,668,060
Total revenue	8,315,014	8,553,230	7,607,847
Current fund expenditures:			
Direct:			
Performances	4,696,100	5,217,044	4,509,000
Bar operations	175,000	176,413	161,244
Programme	20,000	22,017	23,777
Star memberships	-	20	3,956
Ticket services	2,500	2,615	2,674
Financial services	145,000	140,590	126,342
Operating:			
Administration	764,864	790,239	622,952
Box office	8,200	9,558	11,579
Promotion	460,675	462,274	402,913
Occupancy	740,258	675,629	621,265
Salaries and wages	2,934,317	2,735,583	2,765,060
Recoveries - performances	(1,633,341)	(1,696,952)	(1,644,517)
Total current fund expenditures	8,313,573	8,535,030	7,606,245
Operating fund net revenues (expenditures) before amortization	1,441	18,200	1,602
Transfer from reserve funds	(721)	(9,100)	(801)
Transfer to City of Kitchener	(720)	(9,100)	(801)
Fund balances, end of year	\$ -	\$ -	\$ -

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2011

13. Schedule of reserve funds:

	Performance Development	Capital	Sustainability	Restricted	Total Funds
Revenue:					
Donations and sundry	\$ 43	\$ 1,055	\$ 605	\$ 3,584	\$ 5,287
Grants from The City of Kitchener	-	237,000	-	-	237,000
Grants from other governments	-	415,958	-	-	415,958
Capital donations	-	75,000	-	-	75,000
Ticket surcharge	-	284,748	-	-	284,748
Investment income	7,283	7,883	4,401	49,538	69,105
Gain on investments	-	-	14,417	13,012	27,429
	7,326	1,021,644	19,423	66,134	1,114,527
Expenditures:					
Cost of fundraising	-	116,635	-	-	116,635
Professional fees	-	-	1,757	15,776	17,533
Programming grant	-	-	-	-	-
	-	116,635	1,757	15,776	134,168
Excess of revenue over expenditures	7,326	905,009	17,666	50,358	980,359
Transfer to accumulated surplus - tangible capital assets	-	(1,147,229)	-	-	(1,147,229)
Other transfers	9,100	340,443	(340,443)	-	9,100
Balance, beginning of year	497,933	478,161	322,777	1,381,234	2,680,105
Balance, end of year	\$ 514,359	\$ 576,384	\$ -	\$ 1,431,592	\$ 2,522,335



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Kitchener

We have audited the accompanying statement of operations of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2011 ("the financial statement").

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

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Opinion

In our opinion, the financial statement presents fairly, in all material respects the results of operations of The Corporation of the City of Kitchener Gasworks Enterprise for the year ended December 31, 2011 in accordance with Canadian public sector accounting standards relevant to preparing such a financial statement.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 25, 2012
Waterloo, Canada

THE CORPORATION OF THE CITY OF KITCHENER GASWORKS ENTERPRISE

Statement of Operations and Accumulated Surplus

Year ended December 31, 2011

	2011 BUDGET (Unaudited)	2011 ACTUAL	2010 ACTUAL
DELIVERY OPERATIONS			
Gas delivery			
Revenues	36,937,016	42,988,230	39,650,017
Expenses	19,334,370	22,821,885	23,065,776
	17,602,646	20,166,345	16,584,241
Other programs			
(Customer Service, Rental Water Heaters & Financing)			
Revenues	8,145,066	8,734,562	8,597,448
Expenses	5,623,242	6,154,160	4,934,228
	2,521,824	2,580,402	3,663,220
Dispatch			
Revenues	680,500	681,503	1,149,113
Expenses	680,500	681,503	1,149,113
	-	-	-
Excess of revenue over expenses	20,124,470	22,746,747	20,247,461
Accumulated Surplus			
Balance, beginning of year	84,182,105	84,182,105	77,250,191
Transfer to Tax Stabilization Reserve	-	(2,000,000)	-
Transfer to Gas Capital Investment Fund	(6,417,993)	(6,977,331)	(7,133,780)
Dividend Transfer to City	(6,802,311)	(6,802,311)	(6,181,767)
	70,961,801	68,402,463	63,934,644
Add excess of revenue over expenses	20,124,470	22,746,747	20,247,461
Balance, end of year	91,086,271	91,149,210	84,182,105
SUPPLY OPERATIONS			
Gas supply			
Revenues	47,732,847	46,150,650	55,069,195
Expenses	51,844,457	46,701,556	49,937,325
Excess of revenue over expenses	(4,111,610)	(550,906)	5,131,870
Accumulated Net Revenue (Deficit) - Supply			
Balance, beginning of year	2,966,666	2,966,666	(2,165,204)
Add excess of revenue over expenses	(4,111,610)	(550,906)	5,131,870
Balance, end of year	(1,144,944)	2,415,760	2,966,666



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INDEPENDENT AUDITORS' REPORT

To the shareholders of Kitchener Power Corp.

We have audited the accompanying consolidated financial statements of Kitchener Power Corp., which comprise the consolidated balance sheet as at December 31, 2011, the consolidated statements of operations and comprehensive income, retained earnings 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 generally accepted accounting principles, 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kitchener Power Corp. as at December 31, 2011, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 30, 2012
Waterloo, Canada

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET

As at December 31st

	<u>2011</u>	<u>2010</u>
	\$	\$
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	23,456,329	32,032,880
Accounts receivable (note 4)	37,610,347	35,828,545
Inventories (note 5)	3,421,943	3,668,935
Prepaid expense	696,284	826,486
Payment-in-lieu of corporate income taxes receivable	453,540	371,230
Current portion of regulatory assets (note 18)	<u>2,796,689</u>	<u>2,295,813</u>
Total current assets	<u>68,435,132</u>	<u>75,023,889</u>
Non-current assets		
Capital assets – net of accumulated amortization (note 6)	152,895,083	143,258,355
Regulatory assets (note 18)	21,536,416	20,970,013
Future income tax assets (note 19)	<u>13,287,674</u>	<u>12,860,747</u>
Total non-current assets	<u>187,719,173</u>	<u>177,089,115</u>
Total assets	<u>256,154,305</u>	<u>252,113,004</u>

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET (continued)

As at December 31st

	<u>2011</u>	<u>2010</u>
	\$	\$
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	21,805,253	22,279,170
Current portion of long term debt	874,212	842,385
Current portion of customers and construction deposits (note 8)	7,649,045	6,373,071
Current portion of regulatory liabilities (note 18)	<u>2,779,430</u>	<u>5,182,614</u>
Total current liabilities	<u>33,107,940</u>	<u>34,677,240</u>
Long-term liabilities		
Long-term debt (note 9)	84,844,106	85,713,896
Customer deposits (note 8)	3,797,881	3,887,326
Post-employment benefits (note 11)	5,466,421	5,381,065
Regulatory liabilities (note 18)	<u>17,338,259</u>	<u>16,606,383</u>
Total long-term liabilities	<u>111,446,667</u>	<u>111,588,670</u>
Total liabilities	144,554,607	146,265,910
Shareholders' equity		
Share capital – common shares (note 12)	66,389,385	66,389,385
Retained earnings	<u>45,210,313</u>	<u>39,457,709</u>
Total shareholders' equity	<u>111,599,698</u>	<u>105,847,094</u>
Total liabilities and shareholders' equity	<u>256,154,305</u>	<u>252,113,004</u>

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

As at December 31st

	<u>2011</u>	<u>2010</u>
	\$	\$
Retained earnings, beginning of year	39,457,709	33,203,770
Net Income	9,052,604	8,153,939
Dividends paid out (note 25)	<u>(3,300,000)</u>	<u>(1,900,000)</u>
Retained earnings, end of year	<u>45,210,313</u>	<u>39,457,709</u>

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31st

	<u>2011</u>	<u>2010</u>
	\$	\$
REVENUE		
Sales revenue		
Distribution services revenue	38,326,403	35,568,752
Electric energy services (note 13)	<u>163,154,684</u>	<u>157,002,725</u>
	<u>201,481,087</u>	<u>192,571,477</u>
Other revenue		
Other investment income	444,625	373,372
Late payment penalties	248,288	234,173
Miscellaneous revenue (note 14)	<u>1,005,182</u>	<u>1,080,334</u>
	<u>1,698,095</u>	<u>1,687,879</u>
Non-utility operations revenue		
Energy Conservation - OPA Funding (note 15)	<u>766,832</u>	<u>1,511,287</u>
Total revenue	<u>203,946,014</u>	<u>195,770,643</u>
EXPENSE		
Operation expense		
Electric energy services (note 13)	163,154,684	157,002,725
Distribution operations and maintenance	7,869,812	6,844,507
Customer accounts	2,689,629	2,535,818
General administration	2,931,990	2,668,993
Community relations	533,979	285,937
Property and capital taxes	425,860	582,347
Amortization (note 16)	<u>9,654,186</u>	<u>9,597,026</u>
	<u>187,260,140</u>	<u>179,517,353</u>
Non-utility operation expense		
Energy conservation - OPA programs (note 15)	<u>564,037</u>	<u>1,174,061</u>
Total expense	<u>187,824,177</u>	<u>180,691,414</u>
Income before interest and provision for payments-in-lieu of corporate income taxes	16,121,837	15,079,229
Interest expense	<u>4,764,050</u>	<u>4,884,770</u>
Income before provision for payments-in-lieu of corporate income taxes	11,357,787	10,194,459
Provision for payments-in-lieu of corporate income taxes (note 19)	<u>2,305,183</u>	<u>2,040,520</u>
NET INCOME	<u><u>9,052,604</u></u>	<u><u>8,153,939</u></u>

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31st

	<u>2011</u>	<u>2010</u>
	\$	\$
<u>OPERATING ACTIVITIES</u>		
Net Income	9,052,604	8,153,939
Add (deduct) charges to operations not requiring a current cash payment:		
Gain on disposal of capital assets	(2,998)	(113,244)
Amortization (note 16)	10,392,283	10,276,551
Decrease (increase) in future income tax assets (note 19)	(71,579)	36,818
Increase (decrease) in non-current customer deposits (note 8)	(89,445)	240,585
Increase in post-employment benefits obligation (note 11)	85,357	43,945
Net change in non-cash operating working capital (note 17)	<u>(3,588,921)</u>	<u>1,198,756</u>
Cash provided by operating activities	<u>15,777,301</u>	<u>19,837,350</u>
<u>INVESTING ACTIVITIES</u>		
Additions to capital assets	(22,909,722)	(20,832,224)
(Increase) in long-term regulatory assets / liabilities (note 18)	(131,598)	(7,172,173)
Proceeds on disposals of capital assets	<u>12,382</u>	<u>119,927</u>
Cash applied to investing activities	<u>(23,028,938)</u>	<u>(27,884,470)</u>
<u>FINANCING ACTIVITIES</u>		
Increase in contributed capital	2,813,049	4,105,073
Increase (decrease) in long term debt	(837,963)	9,594,139
Dividends paid out (note 23)	<u>(3,300,000)</u>	<u>(1,900,000)</u>
Cash provided by (applied to) financing activities	<u>(1,324,914)</u>	<u>11,799,212</u>
Net cash provided (applied) during the year	<u>(8,576,551)</u>	<u>3,752,092</u>
Cash and cash equivalents, beginning of year	<u>32,032,880</u>	<u>28,280,788</u>
Cash and cash equivalents, end of year	<u>23,456,329</u>	<u>32,032,880</u>
Cash and cash equivalents represented by:		
Cash	12,438,822	9,032,880
Cash equivalents	<u>11,017,507</u>	<u>23,000,000</u>
	<u>23,456,329</u>	<u>32,032,880</u>
Supplemental cash flow information		
Interest paid	5,112,467	4,968,519
Payments-in-lieu of corporate income taxes and capital taxes	2,523,099	2,568,005

See accompanying notes

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

1. INCORPORATION

On July 1, 2000, Kitchener Power Corp. [the Company] was incorporated under the Business Corporation Act (Ontario) along with its affiliate companies, Kitchener-Wilmot Hydro Inc., Kitchener Energy Services Inc. and FibreTech (Kitchener) Inc. The incorporation was required in accordance with the provincial government's Electricity Competition Act (Bill 35). The City of Kitchener and the Township of Wilmot both passed by-laws, which transferred the net assets of the former Hydro-Electric Commission of Kitchener-Wilmot to the new Company on August 1, 2000. Certain surplus property assets and cash funds were excluded from the transfer and were retained by the City and the Township. The net assets of FibreTech (Kitchener) Inc. were subsequently transferred to Fibretech Telecommunications Inc. on November 1, 2000 as a result of a statutory amalgamation with Fibretech Telecommunications (Cambridge) Inc and Fibretech Waterloo Inc. On September 1, 2005, Fibretech Telecommunications Inc. merged with Guelph FibreWired to create a new telecommunications company, Atria Networks Inc. ("Atria"). Atria was subsequently sold to a third party on November 7, 2006 and was dissolved on October 15, 2009 pursuant to Section 237(b) of the Business Corporation Act (Ontario).

Kitchener Power Corp., the holding company for the affiliate companies, oversees the operations of Kitchener-Wilmot Hydro Inc., a regulated distribution company, and Kitchener Energy Services Inc., an unregulated retail services company.

Outstanding share capital includes 18,450 common shares held by the City of Kitchener and 1,550 common shares held by the Township of Wilmot. These municipalities are the sole shareholders of Kitchener Power Corp.

2. SIGNIFICANT ACCOUNTING POLICIES

[I] Adoption of new accounting standards

Publicly accountable enterprises in Canada were required to adopt International Financial Reporting Standards ["IFRS"] in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2011. On September 10, 2010, the Accounting Standards Board granted an optional one-year deferral for IFRS adoption for entities subject to rate regulation. The Company elected to take the optional one-year deferral of its adoption of IFRS; therefore, it continues to prepare its consolidated financial statements in accordance with Canadian GAAP accounting standards in Part V of the CICA Handbook in 2011.

[II] Basis of accounting

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ["GAAP"] including accounting principles prescribed by the Ontario Energy Board [the "OEB"] in the Accounting Procedures Handbook [the "AP Handbook"] for Electric Distribution Utilities, and reflect the significant accounting policies as summarized below.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[III] Regulation

Kitchener-Wilmot Hydro Inc. ["KW Hydro"] is regulated by the OEB under the authority of the *Ontario Energy Board Act, 1998*. The OEB is charged with the responsibility of approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote electricity customers, and for ensuring that the distribution companies fulfill obligations to connect and service customers.

The OEB has the general power to include or exclude costs and revenues in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. The economic impact of rate regulation is reported in these financial statements.

The following regulatory treatments have resulted in accounting treatments that differ from GAAP for enterprises operating in a non-regulated environment:

Regulatory assets represent future increase in revenues associated with costs that have been deferred because it is probable that they will be recovered from customers in future periods through the rate-making process.

Regulatory liabilities represent future reduction in revenues associated with amounts that are expected to be refunded to customers through the rate-making process.

[IV] Other accounting policies

[a] Financial instruments

Financial instruments – recognition and measurement – Section 3855

This Section establishes the standards for the recognition and measurement of financial assets and financial liabilities. At inception, all financial instruments which meet the definition of a financial asset or financial liability are to be recorded at fair value, unless fair value cannot be reliably determined. Depending on the nature of the financial instrument, revenues, expenses, gains and losses would be reported in either net income or other comprehensive income. Subsequent measurement of each financial instrument will depend on the balance sheet classification elected by the Company. The Company has elected the following balance sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "Assets Held-for-Trading" and is measured at fair value.
- Cash equivalents, comprising short-term investments, are classified as "Held-to-Maturity Investments" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value.
- Accounts receivable are classified as "Loans and Receivables" and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and the long-term debt are classified as "Other Financial Liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income – Section 1530

This Section describes the recognition and disclosure requirements with respect to comprehensive income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income represents the changes in the fair value of a financial instrument which have not been included in net income.

The Company had no adjustments to other comprehensive income during the period ending December 31, 2011.

Hedges – Section 3865

This Section establishes standards regarding the use of hedge accounting, in particular, the criteria to be met for the application of hedge accounting and the methods of executing various hedging strategies. The Company has not entered into any hedging transactions as at December 31, 2011.

[b] Inventories

Inventories consist of parts, supplies and materials held for future capital expansion. The Company valued its inventories according to the provisions of CICA Handbook Section 3031. Under this standard, inventories are valued at the lower of cost and net realizable value, and items considered major spare parts are recorded as capital assets. The standard also contains provisions requiring the reversal of inventory write-downs if the circumstances resulting in the original write-down have reversed.

[c] Spare transformers and meters

Spare transformers and meters are classified as capital assets in accordance with guidance in the CICA Handbook

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[d] Capital assets and amortization

Capital assets are recorded at cost. Costs for assets installed or erected by the Company include material, labour and overhead.

Amortization is provided on a straight-line basis for capital assets available for use over their estimated service lives, at the following annual rates:

Buildings	2.00%
Transformer station equipment	2.50%
Distribution station equipment	3.33%
Distribution system	4.00%
Meters	4.00%
SCADA equipment	6.67%
Other capital assets	10 – 25%

Amortization on general equipment directly used in the installation of other capital assets, is capitalized to the new assets based on a pro-ration of the time during the year they are used for such purposes.

Full amortization is recorded in the year of acquisition and none in the year of disposal, except for readily identified assets, which are amortized on a monthly basis.

For readily identifiable assets retired or disposed of, the asset and related accumulated amortization are removed from the records. Differences between the proceeds, if any and the unamortized asset amount plus removal costs are recorded as a gain or loss in the year of disposal.

For grouped assets, the assets and accumulated amortization are removed from the records at the end of their estimated average service life, regardless of actual service life.

[e] Construction in progress

Capital assets under construction at year-end are referred to as construction in progress and disclosed as a component of capital assets. Construction in progress is recognized as a capital asset and amortized when the asset is either put into service or construction is substantially completed.

[f] Contributed capital

Contributed capital contributions are required contributions received from outside sources, used to finance additions to capital assets. Contributed capital contributions received are treated as a "credit" contra account included in the determination of capital assets. The amount is subsequently amortized by a charge to accumulated amortization and a credit to amortization expense, at an equivalent rate to that used for the amortization of the related capital assets.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[g] Customer deposits

Customer deposits are cash collections from customers to guarantee the payment of energy bills. Deposits expected to be refunded to customers within the next fiscal year are classified as a current liability.

[h] Payments-in-lieu of corporate income taxes and capital taxes

The current tax-exempt status of the Company under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) reflects the fact that the Company is wholly owned by municipalities. This tax-exempt status might be lost in a number of circumstances, including if the municipality ceases to own 90% or more of the shares or capital of the Company or if a non-government entity has rights immediately or in the future, either absolutely or contingently, to acquire more than 10% of the shares of the Company.

Commencing October 1, 2001, the Company is required, under the Electricity Act 1998, to make payments-in-lieu of corporate income taxes ["PILs"] to the Ontario Electricity Financial Corporation, which will be used to repay the stranded debt incurred by the former Ontario Hydro. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act 1998 and related regulations.

As a result of becoming subject to payments-in-lieu of corporate income taxes ["PILs"], the Company's taxation year was deemed to have ended immediately beforehand and a new taxation year was deemed to have commenced immediately thereafter. The Company was therefore deemed to have disposed of each of its assets at their then fair market value and to have reacquired such assets at that same amount for purposes of computing its future income subject to PILs. For purposes of certain provisions, the Company was deemed to be a new company and, as a result, tax credits or tax losses not previously utilized by the Company would not be available to it after the change in tax status. Essentially, the Company was taxed as though it had a "fresh start" at the time of its change in tax status.

[i] Post-employment benefits

Employee future benefits provided by KW Hydro include medical and life insurance benefits. These plans provide benefits to certain employees when they are no longer providing active service. Employee future benefit expense is recognized in the period in which the employees render the services.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefits method pro-rated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

An actuarial valuation of the plan obligation was completed as at January 1, 2011 resulting in an unamortized net actuarial loss of \$570,483. The Company has adopted the corridor method of accounting for the actuarially determined experience gains (losses). The excess of the net accumulated actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense over the average remaining service period of active employees.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[IV] Other accounting policies (continued)

[j] Pension plan

KW Hydro provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ["OMERS"]. OMERS is a multi-employer pension plan, which operates as the Ontario Municipal Employees Retirement Fund [the "Fund"] and provides pensions for employees of Ontario municipalities, local boards, public utilities, and school boards. The Fund is a contributory defined benefit pension plan, which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Company recognizes the expense related to this plan as contributions are made.

[k] Revenue recognition and cost of electrical energy

KW Hydro records revenue from the sale of energy on the basis of regular meter readings and estimates of customer usage since the last meter reading to the end of the year. The cost of power is recognized when the energy is consumed.

[l] Use of estimates

The preparation of the consolidated financial statements, in conformance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense for the year. Actual results could differ from those estimates including changes as a result of future decisions made by the OEB, Minister of Energy, or the Minister of Finance.

3. CREDIT RISK AND FINANCIAL INSTRUMENTS

[i] Credit risk

For distribution retail customers, credit losses are generally low across the sector. The Company provides for an allowance for doubtful accounts to absorb credit losses.

At December 31, 2011, there are no significant concentrations of credit risk with respect to any class of financial assets.

[ii] Interest rate risk

Cash balances not required to meet day-to-day obligations of the Company are invested in Canadian money market instruments, with terms of one day to 364 days, exposing the Company to fluctuations in short-term interest rates. These fluctuations could impact the level of interest income earned by the Company.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

4. ACCOUNTS RECEIVABLE

	<u>2011</u>	<u>2010</u>
	\$	\$
Electric energy	11,501,599	14,594,450
Miscellaneous	2,543,908	1,653,488
	<u>14,045,507</u>	<u>16,247,938</u>
Less: Allowance for doubtful accounts	(250,000)	(300,000)
	<u>13,795,507</u>	<u>15,947,938</u>
Unbilled revenue receivable	<u>23,380,400</u>	<u>19,649,500</u>
Interest receivable	<u>81,353</u>	<u>141,267</u>
Related parties receivable:		
City of Kitchener	315,287	81,326
Township of Wilmot	37,800	8,514
	<u>353,087</u>	<u>89,840</u>
	<u>37,610,347</u>	<u>35,828,545</u>

Related Party Transactions

The Company conducted the following transactions with related parties during the year ended December 31, 2011. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	<u>2011</u>	<u>2010</u>
	\$	\$
City of Kitchener – capital and maintenance of street lights	1,172,593	744,667
Township of Wilmot – capital and maintenance of street lights	83,743	121,664
	<u>1,256,336</u>	<u>866,331</u>

5. INVENTORIES

Inventories consist of:

	<u>2011</u>	<u>2010</u>
	\$	\$
Stores	2,896,577	3,029,844
Transformers	468,021	530,751
Thermostats for conservation programs	57,346	108,340
	<u>3,421,943</u>	<u>3,668,935</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION

<u>2011</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
	\$	\$	\$
Land	3,735,257	-	3,735,257
Land Rights	265,449	252,568	12,881
Buildings	19,513,618	5,439,167	14,074,451
Transformer Station Equipment	59,878,130	17,378,248	42,499,882
Distribution Station Equipment	2,853,105	1,965,929	887,176
Distribution System - Conductors and devices	162,690,428	74,124,121	88,566,307
Distribution System - Line and network transformers	49,922,477	24,998,388	24,924,089
Meters	1,924,725	488,701	1,436,024
SCADA - System Supervisory Equipment	1,566,480	1,451,404	115,076
Other Capital Assets	17,714,313	12,397,806	5,316,507
Construction in Progress	4,545,881	-	4,545,881
	<u>324,609,863</u>	<u>138,496,332</u>	<u>186,113,531</u>
Less: Contributed Capital	<u>(44,537,160)</u>	<u>(11,318,712)</u>	<u>(33,218,448)</u>
Total	<u>280,072,703</u>	<u>127,177,620</u>	<u>152,895,083</u>
<u>2010</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
	\$	\$	\$
Land	3,730,479	-	3,730,479
Land Rights	265,449	249,915	15,534
Buildings	17,834,427	5,075,870	12,758,557
Transformer Station Equipment	51,454,525	15,920,916	35,533,609
Distribution Station Equipment	2,853,105	1,888,472	964,633
Distribution System - Conductors and devices	158,942,439	72,105,303	86,837,136
Distribution System - Line and network transformers	50,109,118	25,528,138	24,580,980
Meters	3,623,917	2,197,301	1,426,616
SCADA - System Supervisory Equipment	1,566,480	1,387,014	179,466
Other Capital Assets	16,889,346	11,266,257	5,623,089
Construction in Progress	3,794,140	-	3,794,140
	<u>311,063,425</u>	<u>135,619,186</u>	<u>175,444,239</u>
Less: Contributed Capital	<u>(41,724,111)</u>	<u>(9,538,227)</u>	<u>(32,185,884)</u>
Total	<u>269,339,314</u>	<u>126,080,959</u>	<u>143,258,355</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2011</u>	<u>2010</u>
	\$	\$
Independent Electricity System Operator	15,967,796	15,294,269
Ontario Electricity Financial Corporation (DRC)	915,933	889,221
Energy rebates payable (OCEB)	94,019	-
CDM/OPA programs payable	554,624	13,049
Others	<u>4,272,881</u>	<u>6,082,631</u>
	<u>21,805,253</u>	<u>22,279,170</u>

8. CUSTOMER AND CONSTRUCTION DEPOSITS

	<u>2011</u>	<u>2010</u>
	\$	\$
Construction deposits	4,830,945	3,574,171
Customer deposits – current portion	<u>2,818,100</u>	<u>2,798,900</u>
	<u>7,649,045</u>	<u>6,373,071</u>
Customer deposits – non current portion	<u>3,797,881</u>	<u>3,887,326</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT

- [i] Effective August 1, 2000, KW Hydro incurred unsecured promissory notes payable to the City of Kitchener and to the Township of Wilmot.

During 2010, KW Hydro incurred a ten year senior unsecured debenture payable to Ontario Infrastructure Projects Corporation. The initial payable of \$7,000,000 was received by the Corporation on February 1, 2010 followed by a second payment of \$3,000,000 on May 17, 2010. The amounts due at the end of the year are:

	<u>2011</u>	<u>2010</u>
	\$	\$
City of Kitchener	70,997,576	70,997,576
Township of Wilmot	5,964,566	5,964,566
Ontario Infrastructure Projects Corporation	<u>8,756,176</u>	<u>9,594,139</u>
	<u>85,718,318</u>	<u>86,556,281</u>
Less: Ontario Infrastructure Projects Corporation - Current Portion	<u>874,212</u>	<u>842,385</u>
	<u>84,844,106</u>	<u>85,713,896</u>

- [ii] For Shareholder Debt, interest is paid quarterly at an annual effective rate established by the OEB. The annual effective rate for January 1, 2011 to December 31, 2011 was 5.87%. Repayment of all or part of the outstanding principal may be made upon eighteen months written notice.

For Ontario Infrastructure Project Corporation debt, the annual effective interest rate is 4.28%. Payments, which include both principal and interest, are made semi-annually in May and November.

The Company paid the following interest:

	<u>2011</u>	<u>2010</u>
	\$	\$
City of Kitchener	4,167,558	4,197,902
Township of Wilmot	350,120	352,669
Ontario Infrastructure Projects Corporation	<u>397,336</u>	<u>284,231</u>
	<u>4,915,014</u>	<u>4,834,802</u>

10. PENSION PLAN

As directed by the OEB the cash pension costs paid by KW Hydro for 2005 totalling \$678,442 and for January 1, 2006 to April 30, 2006 totalling \$247,542 were deferred and recognized as regulatory assets. These amounts are currently being recovered through distribution rates as a rate rider, which became effective when KW Hydro rebased for rate setting purposes in 2010.

The cash pension costs for the year ended December 31, 2011 in the amount \$1,005,894 (2010 – \$868,303) have been expensed during the period in which they were incurred.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

11. POST-EMPLOYMENT BENEFITS

KW Hydro pays certain health, dental and life insurance benefits on behalf of its retired employees.

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	<u>2011</u>	<u>2010</u>
	%	%
Discount Rate - Jan 1	5.00%	5.25%
Discount Rate - Dec 31	4.50%	
Future general salary and wage levels increase	3.30%	3.80%
Future general inflation increase	2.00%	2.30%
Dental costs increase	5.00%	5.00%
Medical costs increase	8.00%	8.00%

Information about KW Hydro's defined benefits plans is as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Accrued Benefit Obligation		
Balance, beginning of year	4,297,864	4,158,585
Current service cost	696,689	116,213
Interest cost	228,489	219,276
Benefits paid	(239,208)	(196,209)
	<u>4,983,834</u>	<u>4,297,865</u>
Unamortized actuarial gains		
Balance, beginning of the year	1,083,200	1,178,535
Actuarial loss for the year	(570,483)	-
Current year amortization	(30,130)	(95,335)
	<u>482,587</u>	<u>1,083,200</u>
Accrued benefit liability at December 31 as determined by actuarial valuation	<u>5,466,421</u>	<u>5,381,065</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

12. SHARE CAPITAL

	<u>2011</u>	<u>2010</u>
	\$	\$
Authorized		
Unlimited common shares		
Issued		
20,000 common shares	<u>66,389,385</u>	<u>66,389,385</u>

13. ELECTRIC ENERGY SERVICES

	<u>2011</u>	<u>2010</u>
	\$	\$
Revenue		
Electricity revenue	139,564,210	132,266,184
Wholesale market services	10,268,968	10,192,522
Transmission services	13,251,712	14,481,775
Retailer services	69,794	62,244
	<u>163,154,684</u>	<u>157,002,725</u>
Costs		
Electricity	139,564,210	132,266,184
Wholesale market services	10,268,968	10,192,522
Transmission services	13,251,712	14,481,775
Retailer services	69,794	62,244
	<u>163,154,684</u>	<u>157,002,725</u>

14. MISCELLANEOUS REVENUE

	<u>2011</u>	<u>2010</u>
	\$	\$
Pole attachment rentals, buildings and other rentals	554,095	541,300
Change of occupancy charges	152,440	162,470
Scrap sales	147,237	101,727
Net gain on disposal of capital assets	2,998	113,244
Unsealing / reconnection charges	37,995	63,960
Accounts payable discounts taken	24,535	29,277
Return cheque charges	23,438	22,505
Sundry	62,444	45,851
	<u>1,005,182</u>	<u>1,080,334</u>

15. NON-UTILITY OPERATIONS

In 2007, KW Hydro entered into an agreement with the Ontario Power Authority ["OPA"] to deliver OPA funded energy conservation and demand management ["CDM"] programs. The OEB classifies the revenue funding and related expense to deliver the OPA CDM programs as non-utility operations.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

18. REGULATORY ASSETS AND LIABILITIES

The "Electricity Pricing, Conservation and Supply Act, 2002" [Bill 210] deems certain costs and variance account balances to be accounted for as regulatory assets [note 2(III)].

[i] Regulatory assets consist of the following:

	<u>2011</u>	<u>2010</u>
	\$	\$
Current portion regulatory assets		
Conservation and demand management	59	135
OEB cost assessments	233,150	108,134
OMERS pension costs	47,427	531,584
Retailer service cost variances	12,396	28,264
Retail settlement variances	2,483,564	1,620,450
Other deferred costs	20,093	7,246
	<u>2,796,689</u>	<u>2,295,813</u>
Long-term portion regulatory assets		
IFRS transition costs	149,240	55,030
OEB cost assessments	-	233,150
OMERS pension costs	-	47,427
Renewable connection	-	25,620
Special purpose charge	-	331,875
Retailer service cost variances	32,067	34,765
Retail settlement variances	6,430,761	5,627,075
Smart meter funding and cost recovery	14,824,502	14,366,011
Other deferred credits	99,846	276,511
	<u>21,536,416</u>	<u>20,997,464</u>
Less: regulatory assets recovered	-	(27,451)
	<u>21,536,416</u>	<u>20,970,013</u>
Total regulatory assets	<u>24,333,105</u>	<u>23,265,826</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

18. REGULATORY ASSETS AND LIABILITIES

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Retail settlement variances	2,483,564	1,620,450
Other deferred costs	20,093	7,246
	<u>2,796,689</u>	<u>2,295,813</u>
Long-term portion regulatory assets		
IFRS transition costs	149,240	55,030
OEB cost assessments	-	233,150
OMERS pension costs	-	47,427
Renewable connection	-	25,620
Special purpose charge	-	331,875
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	<u>21,536,416</u>	<u>20,997,464</u>
Less: regulatory assets recovered	-	(27,451)
	<u>21,536,416</u>	<u>20,970,013</u>
Total regulatory assets	<u>24,333,105</u>	<u>23,265,826</u>

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

19. CORPORATE INCOME AND CAPITAL TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. Reconciliation between the statutory and effective tax rates is provided as follows:

[i] Statement of Operations

	<u>2011</u>	<u>2010</u>
	\$	\$
Rate reconciliation:		
Income from continuing operations before income taxes	11,357,787	10,194,459
Statutory Canadian Federal and Provincial income tax rate	28.25%	31.00%
Expected taxes on income	3,208,575	3,160,282
Other permanent differences	52,038	(50,254)
Increase (decrease) in income taxes resulting from:		
Adjustment of prior years taxes	(169,698)	(481,372)
Other current year timing differences not benefited	(675,232)	(532,254)
Other adjustments	(162,543)	(45,840)
Valuation allowance against current year temporary difference:	-	15,202
Dividend refund	-	(87,805)
Increased tax on investment income	67,045	62,561
Income tax expense	<u>2,320,185</u>	<u>2,040,520</u>
Effective tax rate	20.43%	20.02%
Components of income tax expense:		
Current tax expense	2,376,762	2,003,702
Future tax provision (recovery) arising from temporary differences	(56,577)	36,818
	<u>2,320,185</u>	<u>2,040,520</u>

[ii] Balance Sheet

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets as at December 31, 2011 are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Capital assets - differences in net book value and undepreciated capital cost	8,879,067	8,580,31
Regulatory adjustments	2,958,022	2,869,18
Post-employment benefits	1,361,605	1,345,26
Loss carry-forwards	73,978	65,97
	<u>13,272,672</u>	<u>12,860,74</u>

The Company has capital losses of \$82,340 [2010 – \$82,340] and net loss carry forwards of approximately \$322,186 [2010 – \$281,240] as at December 31, 2011.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

20. PRUDENTIAL SUPPORT OBLIGATION

KW Hydro purchases power from the Independent Electricity System Operator [IESO] on behalf of its customers and retailers. The IESO is responsible for ensuring that prudential support is posted by all market participants to mitigate the impact of an event of default by a market participant on the rest of the market. In this regard, at December 31, 2011, KW Hydro has posted an irrevocable standby letter of credit as security in the amount of \$29,782,438 [2010 - \$29,782,438] underwritten by KW Hydro's principal bank. KW Hydro has entered into a credit facility agreement with its bank in which contains certain financial covenants.

21. GENERAL LIABILITY INSURANCE

The Company is a member of the Municipal Electric Association Reciprocal Insurance Exchange [MEARIE], which is a pooling of general liability insurance risks. Members of MEARIE would be assessed on a pro-rata basis should losses be experienced by MEARIE, for the years in which the Company was a member. To December 31, 2011, the Company has not been made aware of any additional assessments.

22. CONTINGENT LIABILITY

Griffith et al. v. Toronto Hydro-Electric Commission et al.

This action was brought under the Class Proceedings Act, 1992. The plaintiff class was seeking \$500 million in restitution for amounts paid to Toronto Hydro and to other Ontario municipal electric utilities ("LDCs") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to Section 347 of the Criminal Code. Pleadings have closed in this action. The action was certified as a class action following the outcome of a similar proceedings brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas).

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Consumers Gas, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Superior Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed application to the OEB to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008 the OEB approved recovery of the same amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs.

On July 22, 2010, The Honourable Mr. Justice Cumming of the Ontario Superior Court of Justice approved the settlement in the Late Payment Penalty class action. The approved settlement of \$17,037,500 is to be shared amongst all LDCs in the Province of Ontario that did not opt out of the settlement. As KW Hydro did not opt out of the settlement, its share of the total settlement amount is \$271,910 which the Company paid on June 29, 2011 to Ogilvy Renault in Trust to be disbursed to people in need of financial assistance in Kitchener-Wilmot Hydro's service territory.

In 2010, the Company recorded the settlement as a current liability and a regulatory asset.

In February 2011, the OEB issued a generic decision in EB-2010-0295 allowing affected distributors to recover the LPP amounts paid back from customers as a rate rider.

KITCHENER POWER CORP.

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CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

22. CONTINGENT LIABILITY (Continued)

KW Hydro applied for a class specific rate rider to recover the LPP amount through its 2011 rate application (EB – 2010 – 0094) and received approval from the OEB on March 28, 2011 for a one year rate rider to run from May 1, 2011 to April 30, 2012. In its decision, the OEB did not require a regulatory asset account to be established for the amounts nor did it require final true up. As the amount was accrued as a regulatory asset in 2010 (therefore not affecting net income), the amount of \$271,904 has been expensed in 2011.

23. DIVIDENDS

Dividends in the amount of \$NIL were received in 2011 from KW Hydro, a subsidiary of Kitchener Power Corp [2010 – \$5,750,000]

Dividends paid out to shareholders are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
City of Kitchener	3,044,250	1,752,750
Township of Wilmot	255,750	147,250
	<u>3,300,000</u>	<u>1,900,000</u>

24. COMMITMENTS

In support of the Province of Ontario's decision to install smart meters throughout Ontario by 2010 and pursuant to Ontario Regulation 427/06, KW Hydro launched its smart meter initiative in 2008. KW Hydro has committed to install 86,000 smart meters and supporting infrastructure by the end of 2010 at an estimated capital cost of \$13,500,000. As of December 31, 2011, approximately 86,900 smart meters or 99% deployment was completed.

In December 2009, KW Hydro signed a financing agreement with Ontario Infrastructure Projects Corporation ["OIPC"] to make financing available up to a maximum amount of \$10,000,000 for its investment in smart metering infrastructure assets. This funding was received by KW Hydro in 2010. The outstanding amount owing at the end of 2011 is \$8,756,176 (2010 - \$9,594,139)

The OEB adopted the policy that specific funding for the capital cost of smart meters should be included in distribution rates by all Ontario electric distribution companies. The Board decided that "seed" funding equivalent to \$0.27 per metered customer per month be included in KW Hydro's distribution rates commencing May 1, 2006. This funding was increased to \$1.00 per metered customer per month effective May 1, 2009 pursuant to OEB Decision and Order of March 10, 2009. This rate rider was again increased to \$2.00 per metered customer per month effective May 1, 2011 following an OEB decision in March 2011. Revenue has been reduced by the amount funded in rates, and has been deferred and netted against smart metering capital costs incurred in accordance with the AP Handbook. Unfunded costs including financing expenses, are expected to be recovered through future distribution rates once the project is completed, pursuant to the OEB's guidelines.

KITCHENER POWER CORP.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

25. EMERGING ACCOUNTING CHANGES

International Financial Reporting Standards ["IFRS"]:

On February 13, 2008, the Accounting Standards Board of Canada ["AcSB"] announced that publicly accountable enterprises will be required to change over to IFRS effective January 1, 2011.

In 2010, the cutover date was deferred to January 1, 2012 for regulated entities, at which time, the Company will adopt IFRS standards.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. The Company has launched an internal initiative to govern the conversion process and is currently in the process of evaluating the potential impact of the conversion to IFRS on its financial statements.

26. COMPARATIVE FIGURES

Certain prior year comparative figures may have been restated to conform to the current year's presentation.

FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

	2011	2010	2009	2008 (restated)	2007
1. DEMOGRAPHIC STATISTICS					
Population ¹	234,300	229,400	224,100	220,600	213,990
Households ¹	88,350	86,750	85,120	84,920	82,120
Area in acres ²	33,802	33,826	33,826	33,826	33,826
2. TAXABLE ASSESSMENT (\$000's)					
Residential and farm	16,558,715	15,415,724	14,399,242	13,340,795	13,055,367
Commercial and industrial	2,853,553	2,629,617	2,452,923	2,373,613	2,313,789
Total	19,412,268	18,045,341	16,852,165	15,714,408	15,369,156
3. TAX RATES					
Residential and Farm Taxable Full					
City	0.41015	0.44361	0.45077	0.45360	0.43353
Region	0.64445	0.66709	0.67958	0.68914	0.66405
School Boards	0.23100	0.24100	0.25200	0.26400	0.26400
Total	1.28560	1.35170	1.38235	1.40674	1.36158
Commercial Taxable Full					
City	0.79980	0.86503	0.87900	0.88451	0.84538
Region	1.25668	1.30082	1.32517	1.34382	1.29489
School Boards	1.66538	1.77644	1.90192	2.03266	2.04149
Total	3.72186	3.94229	4.10609	4.26099	4.18176
Industrial Taxable Full					
City	0.79980	0.86503	0.94662	1.03420	1.06214
Region	1.25668	1.30082	1.42711	1.57124	1.62691
School Boards	1.93000	2.27248	2.42866	2.59655	2.61689
Total	3.98648	4.43833	4.80239	5.20199	5.30594

1. Source: Planning, Housing and Community Services Department, Regional Municipality of Waterloo

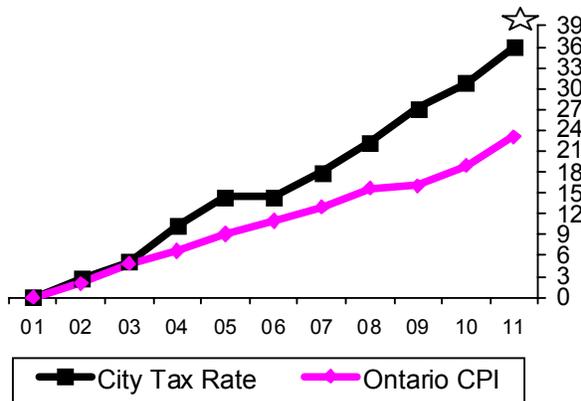
2. 2011 - Source: Statistics Canada, 2011 Census Data, 2007 through 2010 - Source: Statistics Canada, 2006 Census Data

FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

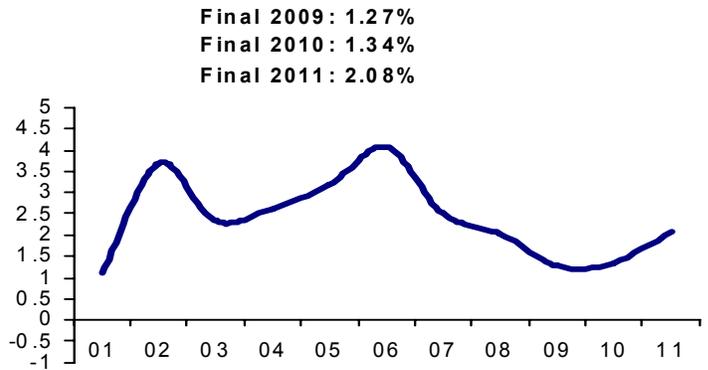
(\$000's)	2011	2010	2009	2008 (restated)	2007
4. COLLECTION STATISTICS					
Total taxes billed	338,414	336,801	322,122	308,330	297,436
Total collections	337,067	335,952	319,833	306,122	297,872
Total collections as a % of current levy	100%	100%	99%	99%	100%
Taxes receivable, net of allowance	22,276	20,978	20,286	18,785	16,335
Total receivable as a % of current levy	7%	6%	6%	6%	5%
5. CONSOLIDATED REVENUES					
Taxation and user charges	282,682	277,140	275,099	265,944	252,433
Grants	21,766	23,256	24,228	3,788	2,468
Share of net income of Kitchener Power Corp. and its affiliates	8,351	7,522	4,238	4,718	5,073
Other	25,948	27,217	27,384	32,298	23,611
Obligatory fund revenue recognized	9,928	17,840	11,986	14,709	9,886
Total revenues	348,675	352,975	342,935	321,457	293,471

Cumulative Tax Rate and CPI



☆ 2011 tax rate has been restated to more accurately reflect the increase due to the removal of the Storm Water costs from the tax base

Weighted Assessment Growth



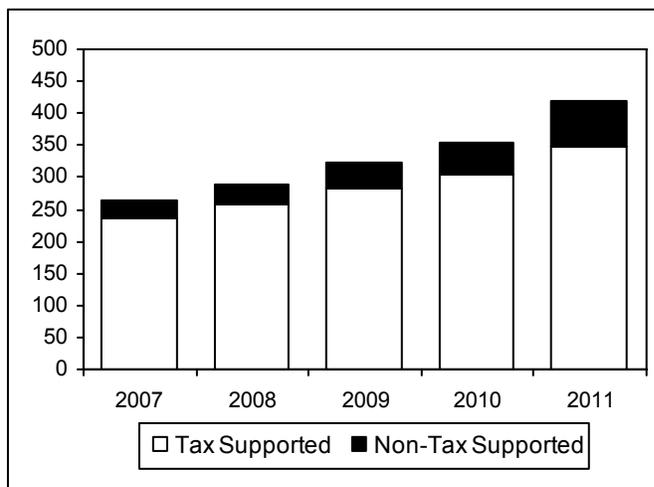
FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

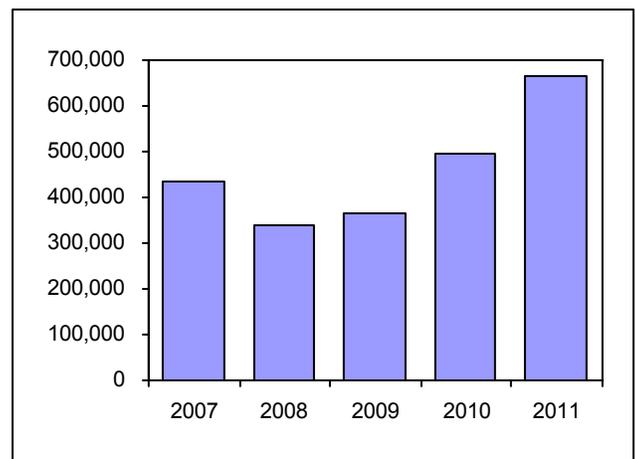
(\$000's)	2011	2010 (restated)	2009	2008 (restated)	2007
6. CONSOLIDATED EXPENDITURES					
Expenditures by Function					
General government	34,509	27,563	35,650	37,458	31,475
Protection to persons and property	38,691	40,695	38,367	35,182	31,132
Transportation services	31,101	30,117	33,623	29,969	28,305
Environmental services	20,999	22,530	17,822	18,162	26,574
Health services	1,867	1,775	1,830	1,772	12,391
Social and family services	1,859	1,830	1,756	1,649	1,575
Recreation and cultural services	60,169	57,206	58,537	54,874	58,395
Planning and development	11,065	11,830	8,761	28,402	7,731
Gasworks	73,508	79,393	90,880	95,488	104,630
Total Expenditures	273,768	272,939	287,226	302,956	302,208
Expenditures by Object					
Salaries, wages and employee benefits	123,722	112,829	114,678	111,624	101,723
Materials and services	112,620	121,543	126,000	158,192	195,778
Debenture debt interest	3,543	3,275	2,975	2,663	2,284
Grants and other	3,514	3,007	2,841	2,178	2,423
Amortization	29,898	28,435	28,155	28,125	n/a ³
Loss/(Gain) on sale of assets	471	3,850	12,577	174	n/a ³
Total	273,768	272,939	287,226	302,956	302,208

3. PSAB 3150 Tangible Capital Assets was effective January 1, 2009 (2008 was restated). No such expenditure was recorded prior to this.

\$ Debt per Capita



\$ Value of Construction (\$000's)



FINANCIAL & STATISTICAL REVIEW

As at December 31 (unaudited)

	2011	2010 (restated)	2009	2008 (restated)	2007
7. ANALYSIS OF LONG-TERM DEBT (\$000's)					
Gross debt issued by the municipality	98,188	81,327	72,200	63,512	56,403
Less debt recoverable from municipal enterprises and consolidated boards	12,538	6,962	3,101	148	287
Less debt recoverable from other sources	3,857	4,663	5,469	6,279	5,652
Net debt to be repaid from property taxes	81,793	69,702	63,630	57,085	50,464
Net debt per capita (\$'s)	349	304	284	259	236
Legal debt limit (\$000's) ⁴	313,022	315,365	298,048	286,780	280,067
Interest on long-term debt as a % of total expenditures (2008 onward)	1.3%	1.2%	1.0%	0.9%	n/a ⁵
General long-term debt charges as a % of total current fund expenditures (pre-2008)	n/a ⁵	n/a ⁵	n/a ⁵	n/a ⁵	3%
8. ACCUMULATED SURPLUS (\$000's)					
Reserves, reserve funds and deferred revenue - obligatory reserve funds	31,784	21,984	32,987	41,254	55,325
Unexpended capital financing	65,886	41,733	55,960	54,354	67,616
Accumulated surplus (Municipal position pre-2008) ⁶	1,033,389	958,483	888,358	841,899	177,563
9. NEW CONSTRUCTION					
Value of construction (\$000's)	666,026	495,345	365,925	339,408	436,273
Number of building permits	2,458	2,664	2,580	2,960	2,963
Number of single family dwelling starts	590	580	471	643	752
10. PRINCIPAL CORPORATE TAXPAYERS					
2011 Assessment (\$000's)					
CF/Realty Holdings Inc.	181,659				
Ontrea Inc.	175,269				
Drewlo Holdings Inc.	157,323				
Regional Municipality Of Waterloo	139,562				
Voisin Developments Limited	72,967				
Morguard Residential Inc.	70,615				
Activa Holdings Inc.	55,855				
Homestead Land Holdings Limited	55,113				
Kitchener Housing Inc.	53,396				
Loblaws Inc.	50,835				
Stamm Investments Limited	44,779				
Hallman Construction Limited	37,856				
7550332 Canada Inc.	37,316				
The Manufacturers Life Insurance Company	35,607				
Redko Equities Inc.	34,824				

4. The debt limit is based on the Financial Information Return from the second immediate preceding year.

5. Prior to 2009 debt charges included both interest and principal repayments. For 2009 and onward (with 2008 restated), only interest on municipal debt is included in the statement of operations.

6. As a result of the changes in PSAB accounting principles, municipal position was replaced by accumulated surplus in 2009 and onward (with 2008 restated).