KITCHENER

FINANCIAL REPORT

Year Ended December 31, 2012

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

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100 years of

Vibrant. Prosperous. Liveable. For over a century, Kitchener has been a community that embraces new opportunities while respecting its heritage and embracing its past. Kitchener has always believed in making sound investments – both financially and socially. Kitchener's track record has positioned the city as a leader in fiscal management and a trend-setter in economic development.

A leader in fiscal management and a trend-setter in economic development

Strategic and forward thinking, resilient and daring, Kitchener is a community that embraces innovation and technology while remaining loyal to long-term investments and forward-looking planning. In 2013, the City's 10-year, $110 million Economic Development Investment Fund winds down. This investment program resulted in approximately $750 million of commercial, residential and institutional investment in downtown Kitchener alone. Following on that renowned and daring initiative,

the City of Kitchener has already launched another ground-breaking economic development initiative: the Kitchener Economic Development Strategy (KEDS). There are five key development areas in KEDS - Start-up City, Leading-Edge Cluster Building, Becoming a Talent Magnet, Dynamic Downtown and Innovation District – and through focusing on these pillars, the City is poised to create a diverse, robust and revolutionary future.

Together with its solid economy, Kitchener offers an enviable quality of life. From festivals, year-round special events, diverse culture and expansive green spaces, Kitchener provides residents, visitors and neighbours opportunities to explore, discover and celebrate community. Willkommen!

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

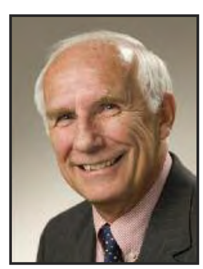

Councillor
John Gazzola
Ward 3


Councillor
Yvonne Fernandes
Ward 4


Councillor
Kelly Galloway-Sealock
Ward 5


Councillor
Paul Singh
Ward 6


Councillor
Bil Ioannidis
Ward 7


Councillor
Zyg Janecki
Ward 8


Councillor
Frank Etherington
Ward 9

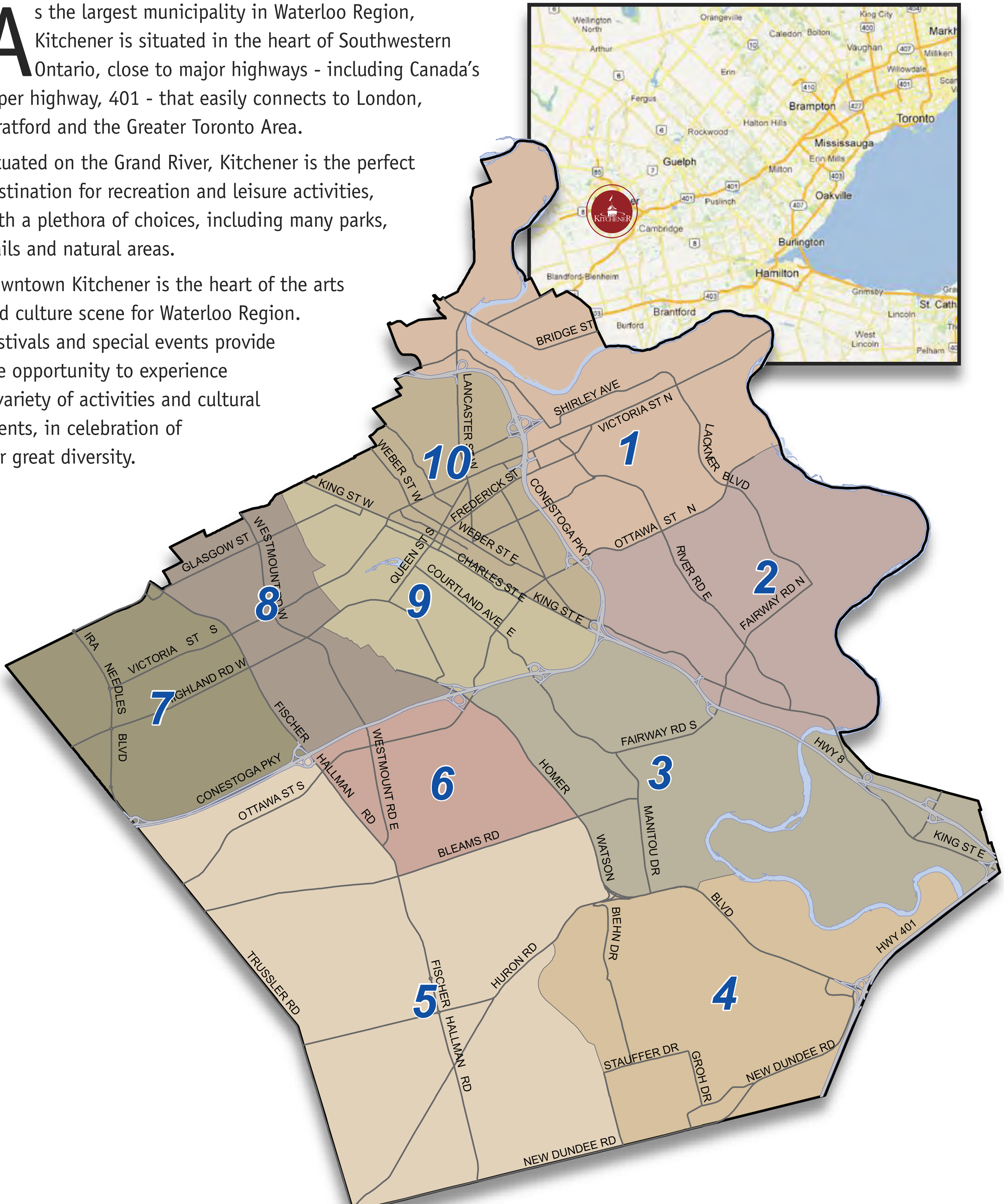

Councillor
Dan Glenn-Graham
Ward 10

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 connects 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

On behalf of Council, I am proud to introduce the City of Kitchener's 2012 Annual Financial Report. In addition to the detailed overview of the city's financial position, this report captures the progress and achievements throughout last year, Kitchener's centennial year as a city.

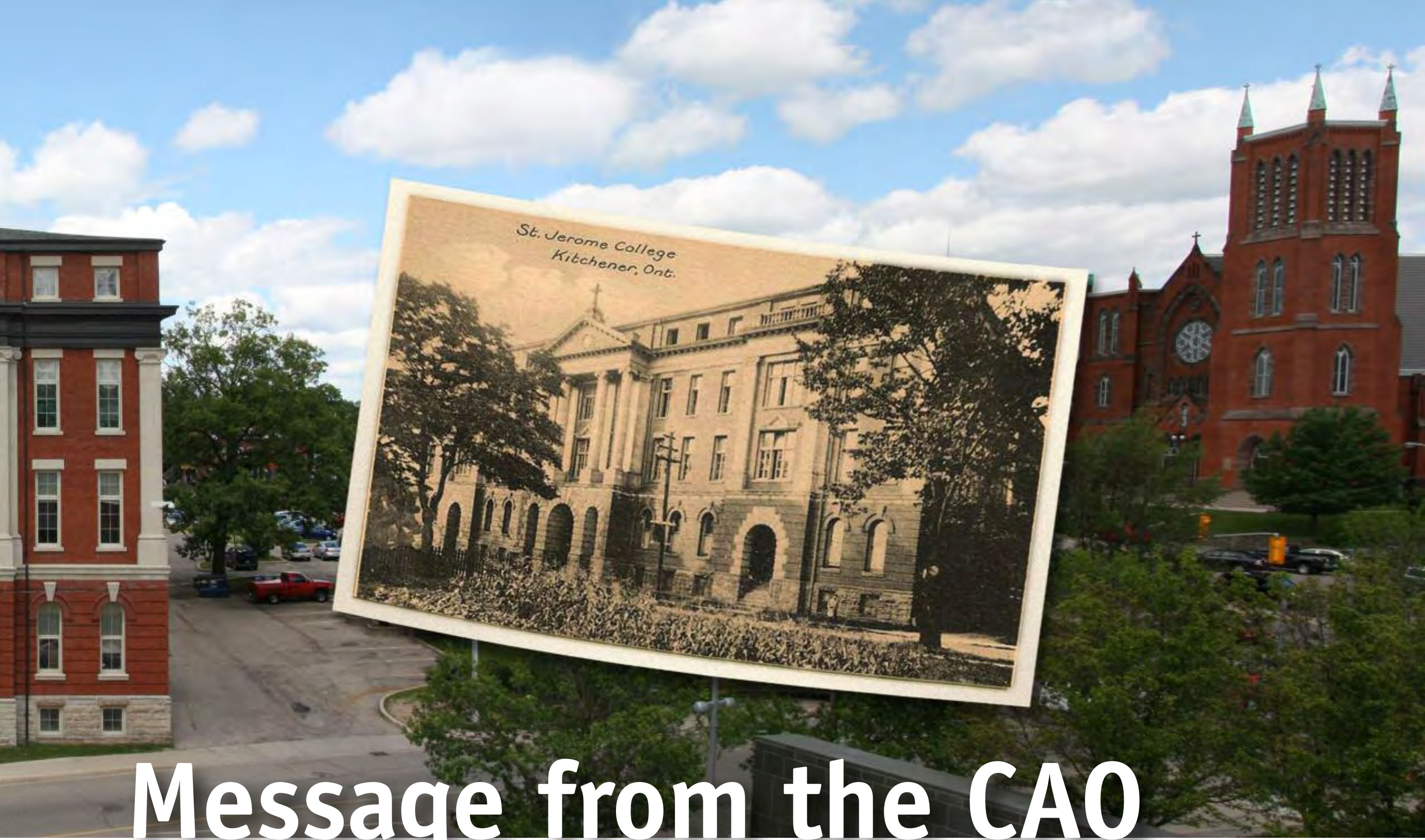
Once again, the city's annual report fulfills the corporation's commitment to full disclosure and transparent communication – the very qualities that captured a national award for last year's financial report.

Kitchener continues to be a municipal leader in innovative initiatives and responsible governance. As we see the conclusion of the city's daring, yet game-changing Economic Development Investment Fund (EDIF), we know this $110 million investment was a catalyst for the transformation this city has seen during the 10-year EDIF program. Kitchener has become a regional leader in repurposing former factories and historic buildings into chic lofts, cool urban workspaces, trendy shops and vibrant, collaborative hubs for innovation and technology. Equally exciting is the investment and commercial attraction that reaches beyond technology into sectors such as advanced manufacturing, hospitality, arts, culture and music.

Kitchener is daring, yet calculating. We dare to dream; we dare to take planned risks. And, when our community participates, dreams really take shape. Looking ahead, 2013 will certainly be another exciting year for the City of Kitchener. The City's 2013 budget charts not only our fiscal direction, but also represents the citizen's priorities in action. Meeting those priorities is what makes Kitchener a truly livable city.

Carl Zehr

Carl Zehr, Mayor, City of Kitchener
June 24, 2013



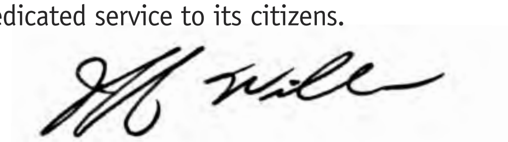
Message from the CAO

I am pleased to present the 2012 Annual Financial Report for the City of Kitchener. Recognition must be extended to staff for their ongoing commitment to transparency in financial reporting and responsible accounting practices. This corporation takes a balanced approach to fiscal management and I am proud of staff's dedication to creating a stable financial condition for the City of Kitchener.

Cities that continue to grow must also strive to be dynamic and innovative. For Kitchener, growth and development is exciting and has positioned the city as a leader on several fronts: technology, advanced manufacturing, education, retail and creative sectors. Of course, growth also brings challenges in areas such as urban and built environment, infrastructure, safety, transportation and community services. Kitchener's history of proactive, responsible planning will position us well to meet both the demands – and the opportunities - of growth.

As I reflect on 2012, a year of celebration of the city's 100th anniversary, I see a common thread. Kitchener has never hesitated to rise to challenges, explore new opportunities, reshape processes and follow new directions. This spirit of innovation, and this community's zeal, will continue shaping a future that is vibrant, daring and thriving.

Corporately, we are committed to accountability, transparency and efficiency in governance. I have great confidence in the city's business planning model - a coordinated community-based model that supports a wide range of interests and priorities. As we close the books on 2012, and look ahead to the opportunities in 2013, I am certain that the City of Kitchener will continue on its path of leadership, innovation and dedicated service to its citizens.



Jeff Willmer, City of Kitchener
June 24, 2013

Organizational Structure

City Council

Office of the Chief Administrative Officer
Jeff Willmer: Chief Administrative Officer

- Corporate Communications and Marketing
- Economic Development
- Office of the Mayor and Council
- Integrated Planning Centre of Excellence

Community Services
Michael May: Deputy CAO

- Building
- Bylaw Enforcement
- Community Programs and Services
- Enterprise
- Fire
- Planning

Infrastructure Services
Pauline Houston: Deputy CAO

- Engineering
- Facilities Management
- Fleet
- Operations
- Transportation Services
- Utilities

Finance & Corporate Services
Dan Chapman: Deputy CAO

- Accounting
- Financial Planning
- Human Resources
- Information Technology
- Legal Services
- Legislated Services
- Revenue
- Supply Services

2012 in Review

HIGHLIGHTS AND MILESTONES

In 2012, The City of Kitchener reached a significant milestone, celebrating 100 years as a city. As a community, Kitchener is more than 200 years old, but it was the royal proclamation on June 10, 1912 that officially made Berlin a city (the name of the city was changed from Berlin to Kitchener in 1916).

Kitchener has a long-standing reputation as a leader in manufacturing and still excels in that sector. Today, our entrepreneurs and innovative leaders have transformed the community into a leading edge technology sector. These innovators are taking this region beyond traditional commerce and building a new economy that is exciting, sustainable and growing. Growth in this sector in 2012 continued with the hottest start-up communities in North America anchored in the Downtown.

New and Innovative Projects

- 2012 saw by far the most investment activity that our business community has witnessed for some time, with new stores and restaurants, new proposed housing projects and enhanced storefronts demonstrating strong confidence and excitement in the Downtown.
- Establishment of the solar panel roof at the Kitchener Operations Facility, the largest solar roof in Canada, was the result of a partnership between the federal, provincial and municipal governments as part of the infrastructure stimulus program. In 2012, its first full year of operation, the solar roof generated $415,000 in revenue and created 580 mW of energy - the equivalent of powering 51 homes while eliminating 137 tonnes of CO_2 going into the atmosphere.

- The Kitchener Memorial Auditorium underwent an expansion project, which saw the addition of nearly 1,000 seats to the arena's capacity, as well as a third level concourse, Legends - a fourth level, new concessions, washrooms, renovated Rangers facilities including dressing rooms, medical, training and administrative office space. The Kitchener Rangers Hockey Club will fund the cost of the expansion, which sits at $9.6 million. The club obtained financing from the City in the form of a repayable loan, with a 15-year repayment schedule.

The Victoria Park Lake project was made possible through Kitchener's award winning stormwater utility

- Another initiative was the work to prevent further damage from the emerald ash borer. There are about 6,000 ash trees along residential streets and in City parks, accounting for 10 percent of the City street trees, and about 13 percent of the trees in parks. The full impact of emerald ash borer is still not known. The City's plan to deal with emerald ash borer is focused on five areas: monitoring and adaptive management; communication; removing infested, dying and dead ash trees; protecting large, healthy ash trees; and stumping and replanting trees. During the 2013 capital budget process, Council approved $4.3 million over the next 10 years for removing and chemically injecting ash trees.
- Nestled at the heart of downtown Kitchener is the city'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. The lake required improvements in function, water quality, and managing the sediment that accumulates in the lake. The lake is now

deeper, with a new sediment forebay (a shallow area that helps to remove sediment from water entering the lake). Many shoreline modifications were made to upgrade the water's edge and to discourage waterfowl use. A dock/patio was replaced at the Boathouse. The Victoria Park Lake project - an innovative approach to stormwater management - was made possible through Kitchener's award winning stormwater utility, in partnership with the Region of Waterloo and supported by the Ministry of the Environment.

- The Central Library Expansion Project saw the opening of Phase I of the Underground Parking Garage in July 2012. The project, which will include 412 parking spaces in a three-level underground parking garage, will better accommodate parking needs for the library and our Civic District partners. The $40 million library project started in 2010, with expected completion in 2014. It will see the complete renovation of all three floors of the existing library located on Queen Street North, along with the construction of a 25,000 square foot addition to the rear of the building.

The library project will see the complete renovation of all three floors of the existing main branch of the Kitchener Public Library

City Treasurer's Message

I am pleased to present the Annual Financial Report for the City of Kitchener for the year ended December 31, 2012. The purpose of this report is to communicate to Council, residents and other interested parties the 2012 financial results for the City of Kitchener. These results demonstrate Kitchener's continued excellence in sound financial management and fiscal prudence.

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

FINANCIAL MANAGEMENT

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.

The City has the following foundations in place to ensure appropriate financial controls and accountability are maintained and to take a proactive approach to identify and address financial challenges.

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 exploring 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 to citizens. 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 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 2012. 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 work plans.

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 translate 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 plan process, City Council approves the operating and capital budgets for the property tax supported operations as well as all City enterprises. To provide transparency in the budget process, budget information is posted on the City's website and budget meetings are held in a public forum. Citizens are able to provide their input through a number of channels including social media, the City's interactive budget website, or in person at a public delegation night.

Management staff review their budgets regularly. Detailed 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.

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

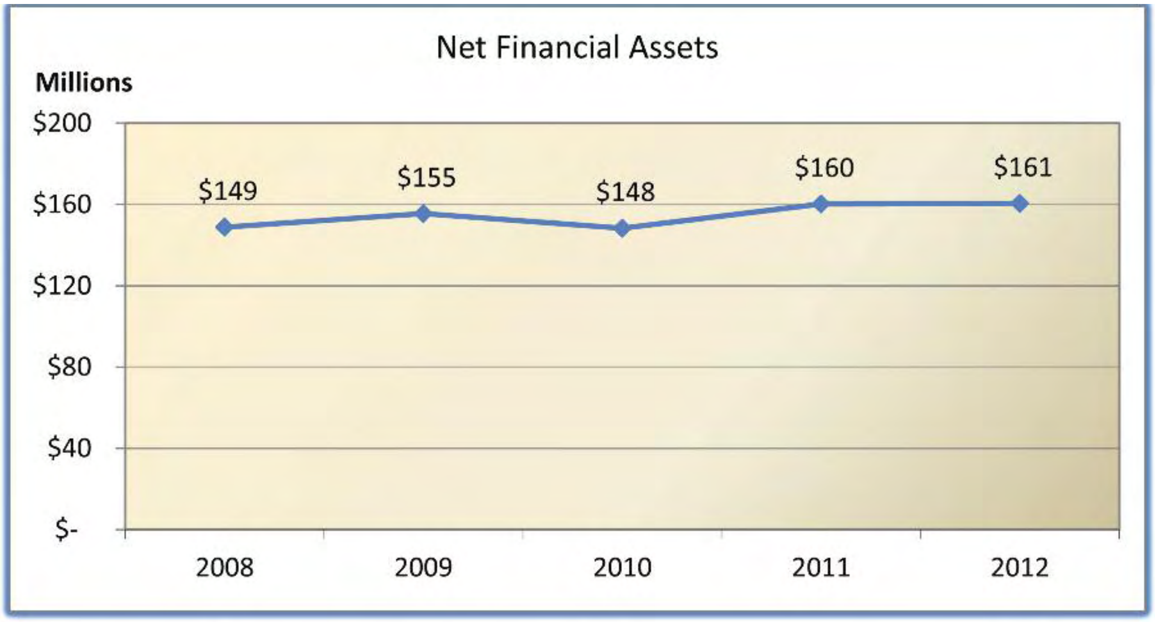
The City of Kitchener's Consolidated Financial Statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. KPMG LLP have audited the financial statements and provided the accompanying Auditors' 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 & Statistical Review.

There are four required financial statements:

- statement of financial position
- statement of operations
- statement of change in net financial assets, and
- statement of cash flow.

The Consolidated Financial Statements reflect the assets, liabilities, reserve funds, 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 $161 million (2011 $160 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 decreased to $56 million from $62 million in 2011 as a result of changes in various operating activities and because of a significant increase in investments. The Consolidated Statement of Cash Flows summarizes the sources and uses of cash in 2012.

Loans Receivable

Loans receivable increased to $17 million from $8 million in 2011. The increase is largely the result of the seating expansion project at the Kitchener Memorial Auditorium, for which the City has loaned funds to the Kitchener Rangers Junior A Hockey Club. Details of loans receivable are included in Note 4 of the Consolidated Financial Statements.

Investments

It is the policy of the City of Kitchener to invest public funds in a manner that provides the highest investment return while protecting and preserving capital, maintaining liquidity to meet the daily cash flow demands, and to conform to all legislation governing the investment of public funds.

The balance in investments grew in 2012 to $74 million from $56 million in 2011. At the end of 2011, the City held more funds in cash and cash equivalents rather than investments, anticipating that investments with higher yields would become available in 2012.

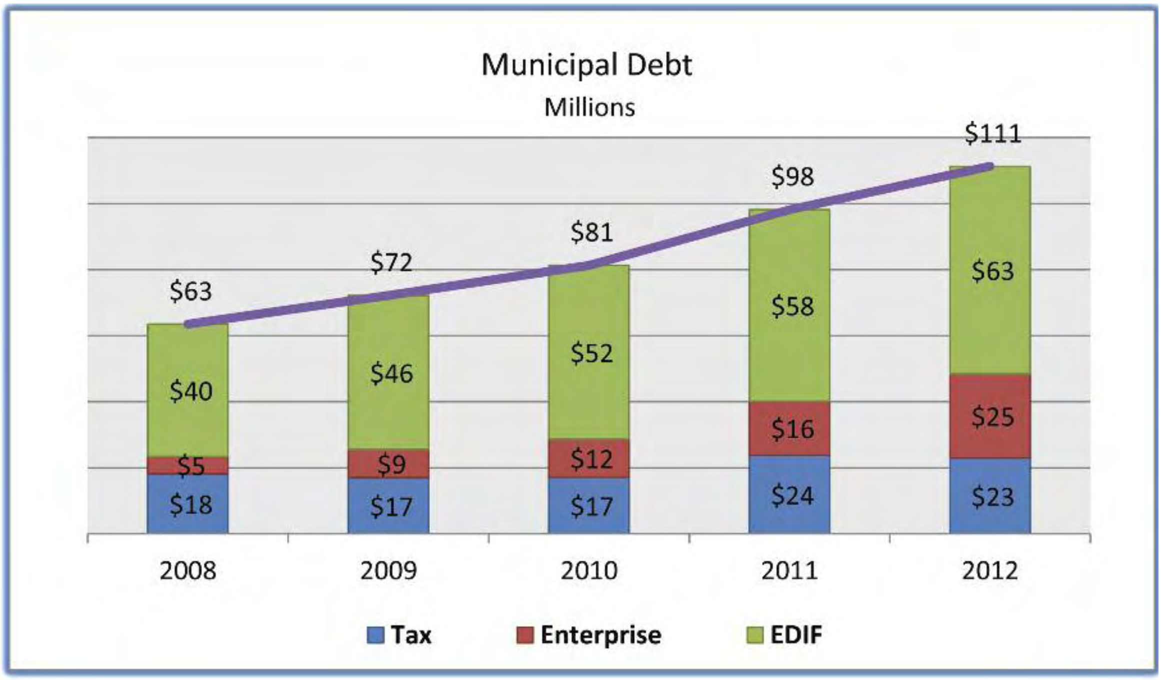
Investment in Kitchener Power Corp. & Kitchener Generation Corporation

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 6 to the Consolidated Financial Statements for further details.

New to the Statement of Financial Position for 2012 is the addition of the Investment in Kitchener Generation Corporation. The City installed a 500-kW solar roof on the top of the Kitchener Operations Facility in 2011 and this asset has been fully transferred to Kitchener Generation Corporation in exchange for 100% of the common shares and interest-bearing debt. Details of the new corporation are included in Note 7 of the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of all vendor related payable balances, accrued liabilities, payroll related liabilities, intercompany payables and sales tax payables. The combined balance increased $12 million to $86 million in 2012 from $74 million in 2011, and is largely due to timing of the last payroll of 2012 and various increases in intercompany payables, contingent liabilities, and an increase in site inspection deposits.



Municipal Debt

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

- a portion of the tax-supported capital program
- capital improvements to Enterprises, where the debt charges will be funded through user fees and external sources, such as the Parking Enterprise
- the 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 (excluding the impact of the debt associated with EDIF). 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.

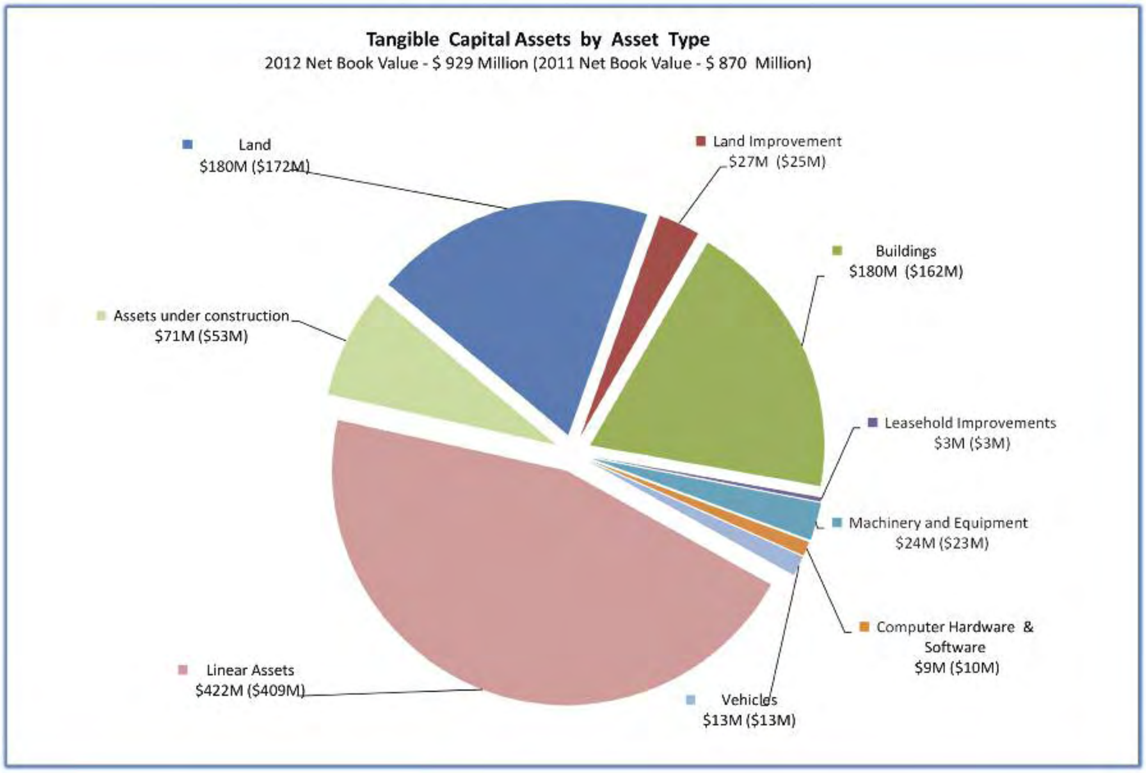
This philosophy has ensured that the impact on the taxpayer does not exceed inflation and that the City must prioritize projects to fit the funding available.

The City created EDIF in 2004 as a $110 million commitment to invest in catalyst projects to strengthen the local economy and stimulate urban development in Downtown Kitchener. The fund has provided dollars for major strategic investment projects including the University of Waterloo School of Pharmacy, the Communitech Hub, and King Street streetscaping. EDIF investments have had a remarkable positive impact on the City, increasing the City's recognition as a location for innovation, entrepreneurship, and a sought-after urban lifestyle. Highlights of the EDIF investment include:

- Downtown properties near EDIF investments are valued over $30 million in excess of expected assessment growth.
- Industrial properties on the Shirley Drive extension and newly-constructed Cedarview Place have grown in value by more than $10 million, up from only $1.3 million in 2004.
- There are 1,569 jobs that can be directly linked to EDIF investments including high tech jobs, as well as jobs in manufacturing and education.
- The Communitech Hub alone accounts for the creation of 620 jobs, including 495 in digital media.
- Major employers have found space in Downtown Kitchener due to EDIF investments including Google (200 employees) and Desire2Learn (540 employees).
- City Centre Condominiums has filed a site plan application for summer 2013 construction of their first phase of 179 units in a self-contained building fronting on to Young Street.
- The Upper Storey Renovation Program has resulted in six projects underway or complete, producing 28 units valued at $2.3 million.
- Since 2004, the population in downtown neighbourhoods increased by 1,718 residents, including 482 urban core residents, mostly in Kaufman Lofts.
- As of 2012, the city spent $97.8 million, and partner investments have reached $232.9 million, representing $2.38 in additional funding by partners per $1 spent by the City.
- Since 2004, the construction value of building permits in downtown neighbourhoods has reached $752 million.
- Communitech alone has seen $333 million in equity investments to date.

Municipal debt has increased to $111 million in 2012 from $98 million in 2011. The change in debt is a result of new debt issuance of $21.5 million offset by repayment of $8.4 million of existing debt. The new debt is mostly attributable to the Kitchener Memorial Auditorium Complex (KMAC) expansion project and the 2012 component of EDIF.

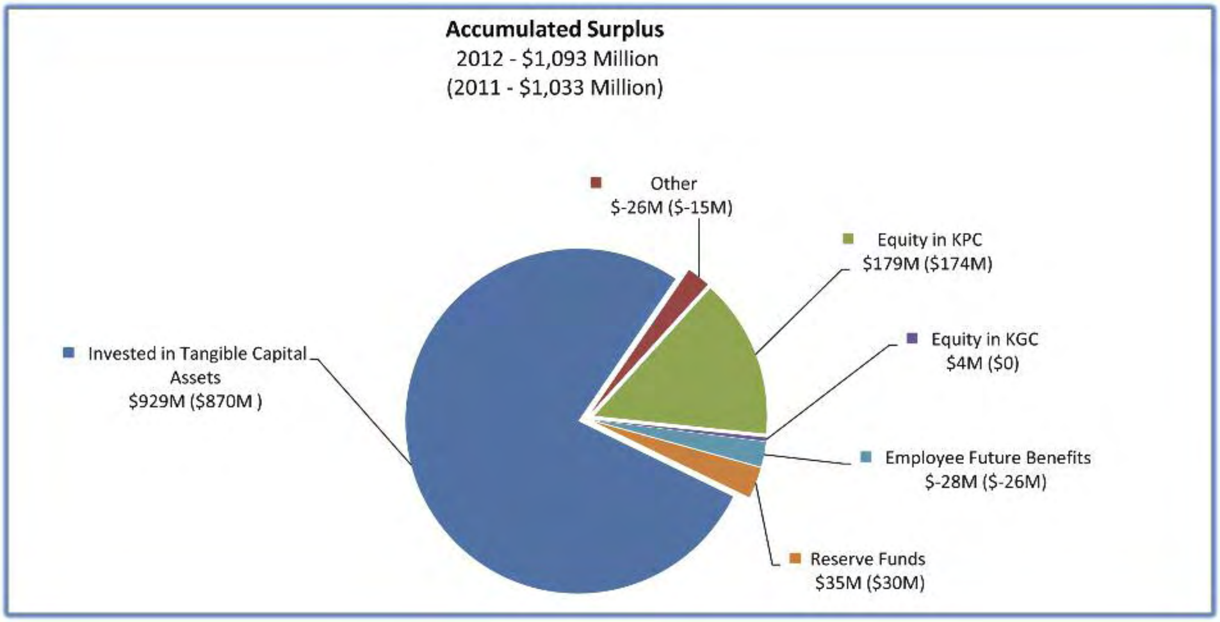
The portion of debt related to the KMAC expansion project will be recovered from the Kitchener Rangers Junior A Hockey Club, and is reflected in Loans Receivable. These amounts are shown both in Loans Receivable and in Municipal Debt and cannot be offset in the Consolidated Statements per GAAP and PSAB standards.



Tangible Capital Assets

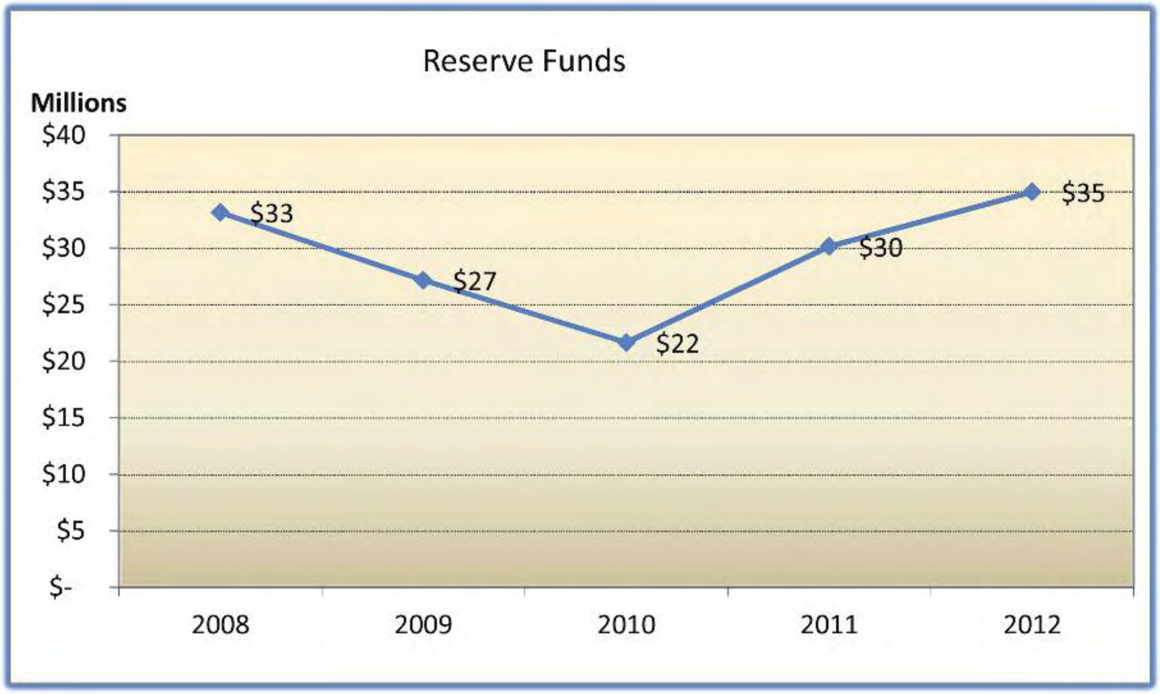
Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost less residual value of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives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

During 2012, the City acquired $101 million in tangible capital assets (2011 $94 million). Amortization of assets was $34 million (2011 $30 million). Refer to Note 13 and Schedule A in the financial statements for a detailed breakdown of tangible capital asset activity for 2012. The net book value of tangible capital assets at December 31, 2012 is $929 million, up from $870 million in 2011.



Accumulated Surplus

The City's accumulated surplus for fiscal 2012 is $1.09 billion (2011 $1.03 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 Kitchener Generation Corporation and various reserve funds.



Reserve Funds

Reserve funds are included as part of accumulated surplus and these balances are disclosed in Note 14 to the financial statements. Reserve fund balances have increased during 2012 to $35 million ($30 million in 2011).

Under the authority of the Municipal Act, the City has established reserve funds to set aside funds to be used for future purposes.

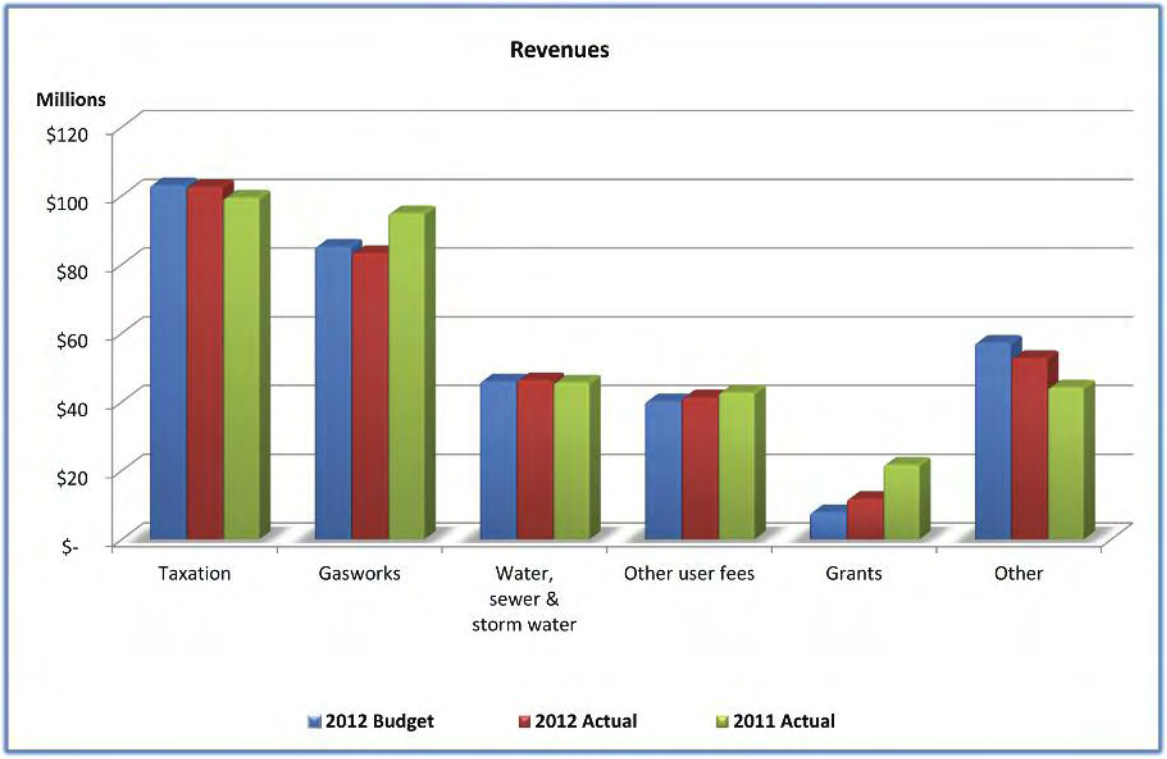
Reserve funds are established to ensure future liabilities can be met, capital assets are properly maintained and sufficient financial flexibility exists to respond to economic cycles or unanticipated financial requirements. Council is responsible for exercising discretion with respect to the use of reserve funds, subject to the terms of Council policy, as well as statutory and legal requirements.

A comprehensive review of the reserve fund policy was undertaken in 2012 with new guiding principles for reserves developed 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.

This year, overall assessment growth was 1.81%. 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. The tax rate increase for 2012 operations was 1.41%. A special capital levy increase of 0.98% was also added to fund the City's Economic Development Investment Fund. This marks the ninth year of the ten-year fund.

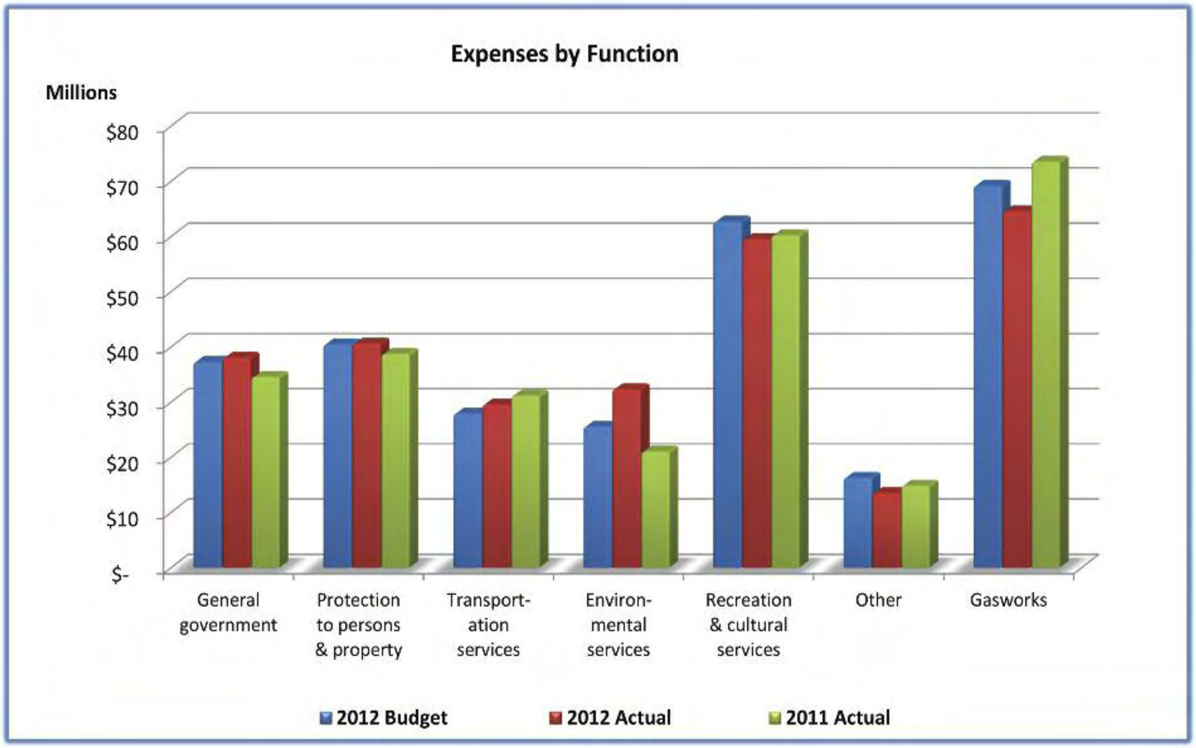


Revenues

Revenues are received from the following sources: taxation, users fees, grants and other. Kitchener is one of only two municipalities in Ontario that own and operate a natural gas utility. Gasworks revenues are down from 2011 and budget due to lower customer consumption related to a mild winter in 2012.

Grants revenue has decreased from 2011 due to the infrastructure stimulus program, which saw funding received in 2011 from federal and provincial governments for several projects that were completed in that year.

The 'Other' category in the chart above includes 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. and Kitchener Generation Corporation. Revenues are notably higher in this category for 2012 due to donated assets of $10.4 million from the Kitchener Rangers Junior A Hockey Club for the Kitchener Memorial Auditorium expansion project.

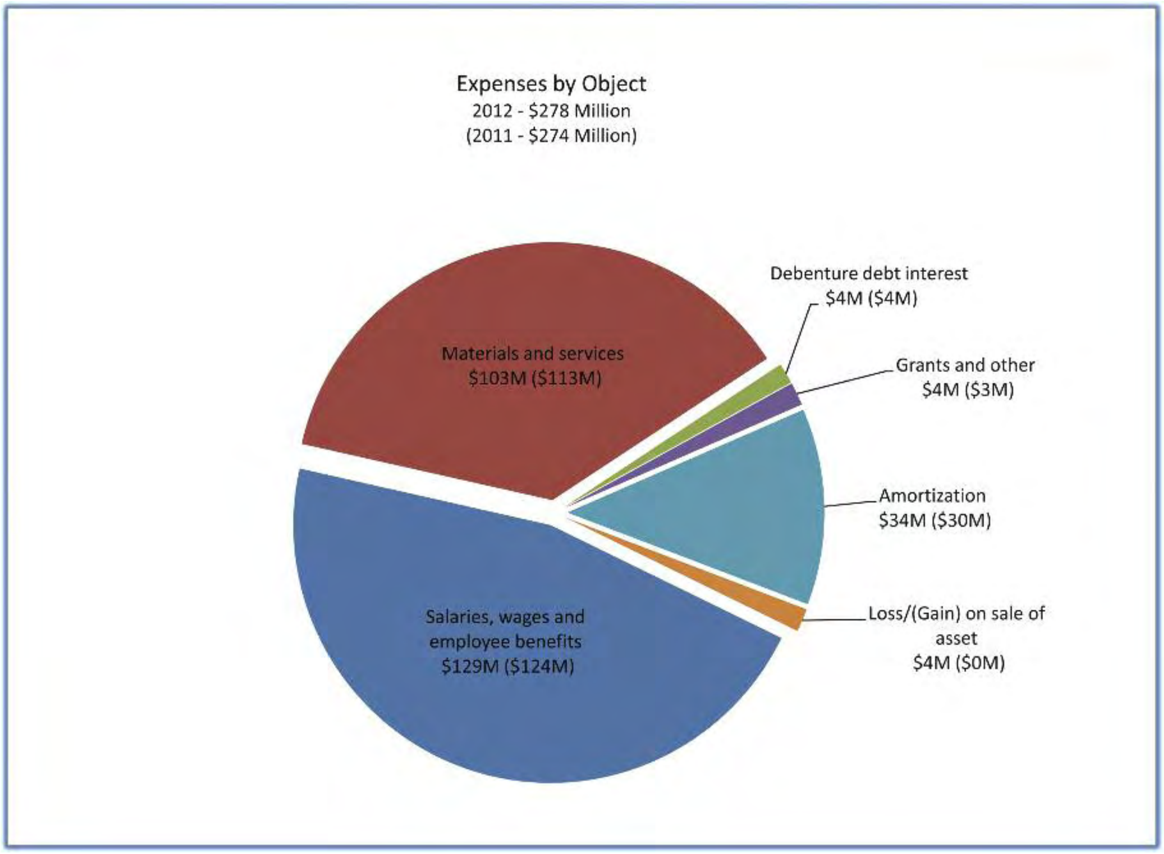


Expenses

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

As is common with most Ontario municipalities, the City of Kitchener does not budget for amortization of tangible capital assets or gains and losses on disposal of assets. However, in order that the actual results may be compared to budget in a meaningful way, the Council-approved budgets have been adjusted to include amortization expense and other accounting adjustments mandated by the Public Sector Accounting Board to express the financial statements on an accrual basis. This is the first year in which this adjustment has been made and it provides greater clarity for all readers in assessing budget to actual variances.

General government expenses are $3.5 million higher in 2012 than 2011 as this was the first year of debt charges on the Kitchener Operations Facility. In addition, the 2011 expense was offset with proceeds of sale of lands that became surplus with the creation of the consolidated Kitchener Operations Facility.



Environmental Services expenses have increased $11 million from 2011 with several contributing factors such as: loss on sale of assets, the Victoria Park rehabilitation project and increased amortization.

Gasworks expenses are down from prior year, consistent with the decrease in gasworks revenue due to a mild winter.

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

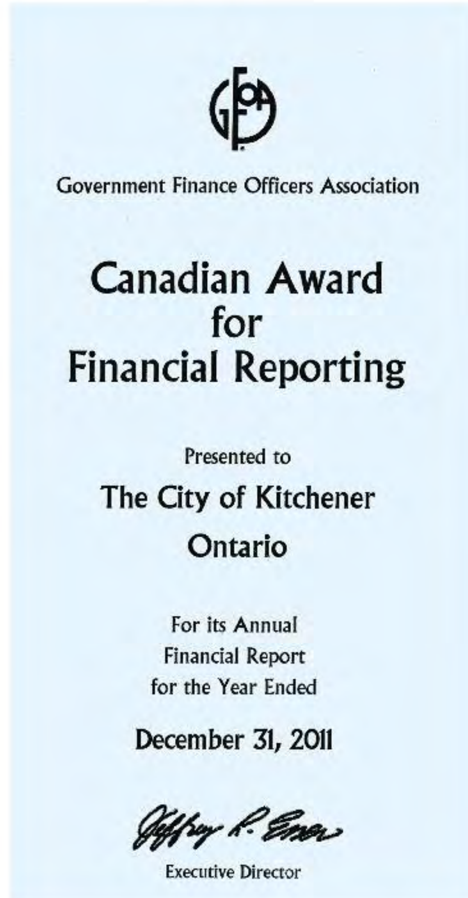
The statement of cash flows reports changes in cash and cash equivalents resulting from operations, capital, investing and financing activities and shows how the City financed its activities during the year and met its cash requirements.

CANADIAN AWARD FOR FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to The City of Kitchener for its annual financial report for the fiscal year ended December 31, 2011. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government must publish an easily readable and efficiently organized annual financial report, whose content conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments, and address user needs.

The award is valid for a period of one year only. We believe our current report continues to conform to the Canadian Award for Financial Reporting program requirements.


Government Finance Officers Association

Canadian Award for Financial Reporting

Presented to

The City of Kitchener Ontario

For its Annual Financial Report for the Year Ended

December 31, 2011

Executive Director

LOOKING AHEAD

The City's incredibly successful 10-year $110 million Economic Development Investment Fund enters it's final year in 2013. As the returns on this major investment continue to be realized through increased property tax assessment, new employment and business activity, it will be important for the City to take deliberate actions to sustain these gains. The recently-adopted Kitchener Economic Development Strategy provides a road map for the corporation into the future.

Looking ahead to 2013, the City will face pressure from the community to maintain or improve service levels while keeping property tax and user fee increases to an affordable level. A rigorous budget process and the continued development of the City's long-term financial plan will help the City achieve an optimal balance of taxes levied and services provided, not just in 2013 but for the years to come.

Dan Chapman, CPA, CA, MPA
Deputy CAO, Finance and Corporate Services & City Treasurer
June 24, 2013

KPMG LLP
Chartered Accountants
115 King Street South
2nd Floor
Waterloo ON N2J 5A3

Telephone (519) 747-8800
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, 2012, 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

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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, 2012, 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 24, 2013
Waterloo, Canada

THE CORPORATION OF THE CITY OF KITCHENER

Consolidated Statement of Financial Position

As at December 31, 2012

	2012	2011
Financial assets		
Cash and cash equivalents	**$ 55,812,011**	$ 62,394,615
Taxes receivable	**21,586,298**	22,275,777
Trade and other accounts receivable	**35,538,807**	32,019,992
Loans receivable (Note 4)	**16,677,789**	7,820,988
Inventory for resale	**11,033,560**	13,871,309
Investments (Note 5)	**74,284,454**	56,379,944
Investment in Kitchener Power Corp. and its affiliates (Note 6)	**179,037,991**	173,948,297
Investment in Kitchener Generation Corporation (Note 7)	**4,180,532**	-
	398,151,442	368,710,922
Liabilities		
Accounts payable and accrued liabilities	**86,753,513**	74,263,690
Deferred revenue - obligatory reserve funds (Note 9)	**2,859,353**	1,665,764
Deferred revenue - other	**8,781,715**	8,672,152
Municipal debt (Note 10)	**111,262,798**	98,187,960
Employee future benefits (Note 12)	**27,928,057**	25,643,189
	237,585,436	208,432,755
Net financial assets	**160,566,006**	160,278,167
Non-financial assets		
Tangible capital assets - net (Note 13)	**929,404,766**	869,949,742
Inventory of supplies	**2,062,088**	2,049,446
Prepaid expenses	**1,403,769**	1,111,167
	932,870,623	873,110,355
Accumulated surplus	**$1,093,436,629**	$1,033,388,522

See accompanying notes

THE CORPORATION OF THE CITY OF KITCHENER

Consolidated Statement of Operations

Year Ended December 31, 2012

	2012 Budget (unaudited)	2012	2011
Revenues			
Taxation	**$ 103,083,787**	**$ 102,546,937**	$ 99,419,306
User fees and charges			
Gasworks	**85,227,956**	**83,262,445**	94,871,570
Water, sewer and stormwater	**46,028,844**	**46,366,094**	45,687,174
Other	**40,180,411**	**41,270,672**	42,703,477
Grants	**7,949,855**	**11,772,687**	21,766,293
Contributions of tangible capital assets	**22,152,162**	**22,152,162**	8,672,341
Investment income	**6,811,075**	**7,519,550**	7,281,219
Penalty and interest on taxes	**3,290,000**	**3,318,267**	3,155,724
Obligatory reserve funds revenue recognized	**11,294,000**	**6,876,831**	9,928,202
Share of net income of Kitchener Power Corp. and its affiliates (Note 6)	**8,447,594**	**8,447,594**	8,351,027
Share of net loss of Kitchener Generation Corporation (Note 7)	**-**	**(33,204)**	-
Other	**5,197,242**	**4,466,893**	6,838,439
Total revenues	**339,662,926**	**337,966,928**	348,674,772
Expenses			
General government	**37,229,155**	**38,009,987**	34,509,466
Protection to persons and property	**40,441,351**	**40,571,694**	38,691,182
Transportation services	**27,849,069**	**29,507,603**	31,101,409
Environmental services	**25,482,003**	**32,290,967**	20,999,387
Health services	**1,795,767**	**1,947,206**	1,866,803
Social and family services	**2,209,605**	**2,307,043**	1,858,795
Recreation and cultural services	**62,635,919**	**59,490,303**	60,168,971
Planning and development	**12,193,822**	**9,243,370**	11,064,848
Gasworks	**69,151,452**	**64,550,648**	73,508,362
Total expenses	**278,988,143**	**277,918,821**	273,769,223
Annual surplus	**60,674,783**	**60,048,107**	74,905,549
Accumulated surplus, beginning of year	**1,033,388,522**	**1,033,388,522**	958,482,973
Accumulated surplus, end of year (Note 14)	**$1,094,063,305**	**$1,093,436,629**	$1,033,388,522

See accompanying notes

THE CORPORATION OF THE CITY OF KITCHENER

Consolidated Statement of Change in Net Financial Assets

Year Ended December 31, 2012

	2012 Budget (unaudited)	**2012**	2011
Annual surplus	**$ 60,674,783**	**$ 60,048,107**	$ 74,905,549
Amortization of tangible capital assets	**34,299,301**	**34,299,301**	29,898,245
Acquisition of tangible capital assets	**(91,019,224)**	**(101,281,115)**	(93,591,507)
Loss on disposal of tangible capital assets	**1,140,297**	**1,140,297**	990,947
Proceeds on disposal of tangible capital assets	**2,172,757**	**2,172,757**	314,894
Transfer of tangible capital asset to Kitchener Generation Corporation	**4,213,736**	**4,213,736**	-
Acquisition of supplies of inventories	**-**	**(4,176,824)**	(5,590,870)
Acquisition of prepaid expenses	**-**	**(835,053)**	(1,004,169)
Consumption of supplies inventory	**-**	**4,164,182**	5,232,519
Use of prepaid expenses	**-**	**542,451**	803,334
Change in net financial assets	**11,481,650**	**287,839**	11,958,942
Net financial assets, beginning of the year	**160,278,167**	**160,278,167**	148,319,225
Net financial assets, end of the year	**$ 171,759,817**	**$ 160,566,006**	$ 160,278,167

See accompanying notes

THE CORPORATION OF THE CITY OF KITCHENER

Consolidated Statement of Cash Flow

Year Ended December 31, 2012

		2012		2011
Operating				
Annual surplus	**$**	**60,048,107**	$	74,905,549
Items not involving cash				
Amortization		**34,299,301**		29,898,245
Loss on disposal of tangible capital assets		**1,140,297**		990,947
Share of net income of Kitchener Power Corp. and its affiliates		**(8,447,594)**		(8,351,027)
Share of net income of Kitchener Generation Corporation		**33,204**		-
Change in employee future benefits		**2,284,868**		2,156,335
Contributions of tangible capital assets		**(22,152,162)**		(8,672,341)
Change in non-cash assets and liabilities				
Taxes receivable		**689,479**		(1,297,899)
Trade and other accounts receivable		**(3,518,815)**		20,813,260
Long term receivables		**(8,856,801)**		(7,820,988)
Inventory of supplies		**(12,642)**		(358,351)
Inventory for resale		**2,837,749**		1,176,910
Prepaid expenses		**(292,602)**		(200,835)
Deferred revenue - obligatory reserve funds		**1,193,589**		1,332,975
Deferred revenue - other		**109,563**		282,570
Accounts payable and accrued liabilities		**12,489,823**		(6,709,916)
Net change in cash from operating activities		**71,845,364**		98,145,434
Capital				
Acquisition of tangible capital assets		**(79,128,953)**		(84,919,166)
Proceeds on disposal of tangible capital assets		**2,172,757**		314,894
Net change in cash from capital activities		**(76,956,196)**		(84,604,272)
Investing				
Dividends received from Kitchener Power Corp.		**3,357,900**		3,044,250
Net acquisition of investments		**(17,904,510)**		4,150,361
Net change in cash from investing activities		**(14,546,610)**		7,194,611
Financing				
Municipal debt issued		**21,555,000**		24,117,000
Municipal debt repaid		**(8,480,162)**		(7,256,453)
Net change in cash from financing activities		**13,074,838**		16,860,547
Net change in cash and cash equivalents		**(6,582,604)**		37,596,320
Cash and cash equivalents, beginning of year		**62,394,615**		24,798,295
Cash and cash equivalents, end of year	**$**	**55,812,011**	$	62,394,615

See accompanying notes

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 Generation Corporation and 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).

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. Expenses 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. Loans receivable

Loans receivable are reported net of any allowance for doubtful accounts. Interest income is recorded as it accrues. When the value of any loan receivable is identified as impaired, an allowance is set up to offset the carrying amount and any adjustments are included in materials and services expense in the period the impairment is recognized.

v. Inventory for resale

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

vi. 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.

vii. 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.

1. Summary of significant accounting policies (continued)

viii. 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.
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.

ix. 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 100 years
Building & building improvements	15 to 50 years
Leasehold improvements	Over the useful life of the improvement or the lease term, whichever is shorter
Machinery & equipment	1 to 20 years
Computer hardware	3 to 10 years
Computer software	1 to 10 years
Linear assets	2 to 100 years
Vehicles	1 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.

1. Summary of significant accounting policies (continued)

d. Inventory of supplies

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

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.

x. 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.

xi. 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	$ **81,933,350**	$ **193,367,927**	$ **275,301,277**
Share of payments in lieu of taxes	**4,433**	**1,254,227**	**1,258,660**
Share of linear properties	**63,469**	**125,750**	**189,219**
Amounts requisitioned	$ **82,001,252**	$ **194,747,904**	$ **276,749,156**

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 internment funds totaling $11,405,651 *(2011 - $10,788,779)*.

4. Loans receivable

Loans receivable are made up of the following:

	2012	2011
Major capital improvement loans receivable	**$ 10,400,000**	$ -
Loans receivable with forgiveness provisions	**239,242**	338,652
Minor capital improvement and other loans receivable	**6,038,547**	7,482,336
	$ 16,677,789	$ 7,820,988

Major capital improvement loans are individual loans in excess of $500,000 when issued with no forgiveness provision built into the loan. These loans have repayment terms ranging from 12 to 15 years. All major capital improvement loans are unsecured and bear interest at rates ranging from 1.40% to 2.55%. Loans issued in 2012 were to allow The Kitchener Rangers Junior A Hockey Club to make improvements to the Kitchener Memorial Auditorium Complex (an asset owned by the City).

Forgivable loans are those initially offered with forgiveness provisions built into the agreement. All loans in this category are unsecured and have repayment terms of five to ten years. The forgiveness provisions range from 15% to 100% (10% for each year of the ten year term). The balances recorded are net of the allowance for forgiveness. Interest rates on these loans range from 0% to 8%.

Minor capital improvement and other loans receivable comprise any loan receivable not fitting into the first two categories. There is a variety of terms related to these loans with payment terms ranging from six months to 30 years. The majority of these loans are secured by the asset the loan was granted to finance, but others are unsecured. The interest rates on these loans range from 0% to 12.9%.

5. Investments

Investments are made up of the following:

	2012 Cost	2012 Market Value	2011 Cost	2011 Market Value
Guaranteed investment certificates	**$ 61,655,641**	**$ 62,374,715**	$ 46,500,000	$ 47,026,397
Bonds and debentures	**11,680,942**	**11,528,841**	8,885,836	8,823,002
Common stock	**947,871**	**1,157,228**	994,108	1,123,668
	$ 74,284,454	**$ 75,060,784**	$ 56,379,944	$ 56,973,067

6. 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.

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

The investment is comprised of the following:

	2012	2011
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	**46,796,207**	41,706,513
	$ 179,037,991	$ 173,948,297

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.

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

	2012	2011
Current assets	**$ 65,083,948**	$ 68,435,132
Capital assets	**172,564,699**	152,895,083
Regulatory assets	**13,865,077**	21,536,416
Future income taxes	**6,737,762**	13,287,674
Total assets	**258,251,486**	256,154,305
Current liabilities	**33,528,260**	33,107,940
Long-term debt	**83,932,076**	84,844,106
Regulatory liabilities	**14,195,249**	17,338,259
Other liabilities	**9,478,918**	9,264,302
Total liabilities	**141,134,503**	144,554,607
Net assets	**117,116,983**	111,599,698
Results of operations		
Revenues	**213,732,054**	203,946,014
Expenses	**(204,574,770)**	(194,893,410)
Net income	**9,157,284**	9,052,604
City's share of net income - 92.25%	**$ 8,447,594**	$ 8,351,027

7. Investment in Kitchener Generation Corporation

Under the Business Corporation Act (Ontario), Kitchener Generation Corporation was incorporated on December 9, 2011.

Effective January 1, 2012, the City transferred the solar roof asset constructed on the surface of the Kitchener Operations Facility to Kitchener Generation Corporation in exchange for 100% of its common shares and interest bearing debt.

7. Investment in Kitchener Generation Corporation (continued)

The investment in Kitchener Generation Corporation is comprised of the following:

		2012
Kitchener Generation Corporation common shares	$	**421,374**
Kitchener Generation Corporation long-term notes receivable		**3,792,362**
Share of net income and prior period adjustments due to changes in accounting policies since acquisition, net of dividends		**(33,204)**
	$	**4,180,532**

The notes receivable are unsecured and bear interest at the rate of 5.01%. To the extent that Kitchener Generation Corporation has positive annual cash flows after any dividend payment, the cash will be returned to the City as repayment of the outstanding debt and return of capital. The proportion to which they contribute is 90% debt, 10% equity.

The following table provides condensed financial information with respect to Kitchener Generation Corporation:

		2012
Current assets	$	**14,396**
Capital assets		**4,180,532**
Total assets		**4,194,928**
Current liabilities		**14,396**
Long-term debt		**3,792,362**
Total liabilities		**3,806,758**
Net assets		**388,170**
Results of operation		
Revenues		**415,394**
Expenses		**(448,598)**
Net loss		**(33,204)**
City's share of net loss - 100%	$	**(33,204)**

8. Insurance pool

Liabilities include an amount of $6,053,290 *(2011 - $3,721,040)* 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 24.34% *(2011 - 24.88%*) and its share of the Pool surplus as at May 31, 2012 was $1,341,433 *(2011 - $1,086,203).* The City’s share of the Pool surplus has not been included in the Consolidated Statement of Financial Position.

9. Obligatory deferred revenue

	2012	2011
Recreational land	**2,859,353**	1,665,764

The continuity of deferred revenue is as follows:

	2012	2011
Balance, beginning of year	**$ 1,665,764**	$ 332,789
Collections	**-**	10,410,211
Interest earned	**80,177**	7,858
Other revenue	**1,285,632**	843,108
Contributions used	**(172,220)**	(9,928,202)
Balance, end of year	**$ 2,859,353**	$ 1,665,764

10. 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 $111,262,798 *(2011 - $ 98,187,961).*

The annual principal repayments are:

2013	**9,738,514**
2014	**10,075,243**
2015	**9,821,385**
2016	**10,118,352**
2017	**10,222,256**
2018 and thereafter	**61,287,048**
	$ 111,262,798

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 5.45%. Interest charges for 2012 relating to municipal debt totaled $3,888,957 *(2011 - $3,542,626)*.

11. 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 2012 amounting to $8,152,534 *(2011 - $7,290,301).*

12. Employee future benefits

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

	2012	2011
Sick leave benefit plan	**$ 13,044,324**	$ 12,698,320
Post-employment benefits	**10,557,733**	9,505,669
Future payments required to WSIB	**4,326,000**	3,439,200
	$ 27,928,057	$ 25,643,189

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 $2,475,094 *(2011 - $2,235,282)* and is comprised of the following items:

	2012	2011
Current period benefit cost	**$ 917,398**	$ 963,198
Amortization of actuarial losses	**757,612**	441,237
Sick leave benefit expense	**1,675,010**	1,404,435
Sick leave benefit interest expense	**800,084**	830,847
Total expenses related to sick leave benefits	**$ 2,475,094**	$ 2,235,282

The actuarial valuation of the future liability for sick leave assumes a discount rate of 3.75% *(2011 – 3.75*%). The last actuarial valuation for this liability was completed at December 31, 2011, with an actuarial update provided to the end of the current year.

As at December 31, 2012, the unamortized actuarial losses were $8,026,802 *(2011 – $8,784,414)* and are amortized over 10.5 to 13.0 years *(2011 – 13 to 14 years)*. The amount of benefits paid during the year were $2,129,090 *(2011- $1,364,382).*

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of $4,486,300 *(2011 - $4,530,942)*.

Anticipated payments to employees who are eligible to retire are:

2013	**$ 1,943,683**
2014	**653,844**
2015	**764,101**
2016	**889,264**
2017	**940,371**
2018 and thereafter	**12,627,007**
	$ 17,818,270

12. Employee future benefits (continued)

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 of service with the City. The expense for the year was $2,041,995 *(2011 - $1,288,498)* and is comprised of the following items:

		2012		2011
Current period benefit cost	**$**	**746,901**	$	491,928
Amortization of actuarial losses		**691,831**		266,668
Post-employment benefit expense		**1,438,732**		758,596
Post-employment benefit interest expense		**603,263**		529,902
Total expenses related to post-employment benefits	**$**	**2,041,995**	$	1,288,498

The actuarial valuation of the future liability for post-retirement benefits assumes a discount rate of 3.75% *(2011 – 3.75%)* and inflation rates for benefit premiums of 4% to 8 % *(2011 – 4% to 8%)*.

As at December 31, 2012, the unamortized actuarial losses were $5,637,570 *(2011 – $6,329,401)* and are amortized over 10 to 13 years *(2011 – 10 to 12 years)*. The amount of benefits paid during the year were $989,931 *(2011 - $900,563).* The last actuarial valuation for this liability was completed at December 31, 2011, 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 $1,669,500 *(2011 - $1,668,800)* and is comprised of the following items:

		2012		2011
Current period benefit cost	**$**	**1,161,300**	$	1,148,600
Amortization of actuarial losses		**261,500**		246,300
WSIB benefit expense		**1,422,800**		1,394,900
WSIB benefit interest expense		**246,700**		273,900
Total expenses related to WSIB benefits	**$**	**1,669,500**	$	1,668,800

The actuarial valuation of the future liability for WSIB assumes a discount rate of 3.75% *(2011 – 3.75%)*. 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, 2012, the unamortized actuarial losses were $2,107,100 *(2011 – $2,368,600)* and are amortized over 10 years *(2011 – 10 years)*. The amount of benefits paid during the year were $782,700 *(2011 - $771,300).*

A reserve fund to provide for this liability is included in accumulated surplus, in the amount of $908,428 *(2011 - $836,218)*.

13. Tangible capital assets

See Schedule A

Assets under construction having a value of $70,869,342 *(2010 - $52,737,523)* have not been amortized. Amortization of these assets will commence when the asset is put into service.

Contributed tangible capital assets of $25,310,682 *(2010 - $8,672,341)* have been recognized at fair market value at the date of contribution.

The write-down of tangible capital assets during the year was $nil *(2011 – $nil)*.

14. Accumulated surplus

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

	2012	2011
Surplus:		
Invested in tangible capital assets	**$ 929,404,766**	$ 869,949,742
Other	**(26,231,630)**	(15,013,967)
Equity in Kitchener Power Corp. and its affiliates	**179,037,991**	173,948,297
Equity in Kitchener Generation Corporation	**4,180,532**	-
Unfunded		
Employee future benefits	**(27,928,057)**	(25,643,189)
Total surplus	**1,058,463,602**	1,003,240,883
Reserve funds set aside for specific purpose by Council for:		
Capital	**11,319,648**	9,609,594
Stabilization	**16,823,278**	11,630,051
Program specific	**5,371,276**	4,472,302
Corporate	**5,860,683**	6,228,140
Development charges	**(6,714,147)**	(4,344,261)
Kitchener Public Library	**37,000**	-
Kitchener Downtown Business Improvement Area	**29,478**	29,478
The Centre in the Square Inc.	**2,245,811**	2,522,335
Total reserve funds	**34,973,027**	30,147,639
	$1,093,436,629	$1,033,388,522

15. 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, 2012 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.

16. 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

17. Budget figures

The budget figures reflected in these consolidated statements are those approved by Council at a meeting on January 19, 2012. Budget figures have been translated to reflect Public Sector Accounting Board standards.

18. Comparative figures

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

Schedule A – Tangible Capital Assets

	General								Infrastructure				
	Land	Land improvements	Buildings	Leasehold improvements	Machinery & equipment	Computer software	Computer hardware	Vehicles	Land	Buildings	Linear assets	Assets under construction	Total
Cost													
Balance, beginning 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
Additions	2,065,890	2,667,194	19,169,117	-	4,190,484	393,073	1,069,663	1,884,823	6,423,213	176,475	24,098,061	39,143,122	101,281,115
Transfers	(81,644)	263,936	10,803,694	-	885,640	122,519	6,090	493,340	81,644	-	8,413,247	(20,988,466)	-
Disposals	(243,931)	(102,091)	(136,820)	-	(1,990,740)	(41,350)	(605,848)	(642,315)	(67,306)	(4,412,784)	(4,006,824)	(22,837)	(12,272,846)
Balance, end of year	42,201,772	47,393,872	200,795,752	3,054,251	54,194,040	20,336,754	5,907,625	30,644,484	137,848,804	66,468,269	685,152,012	70,869,342	1,364,866,977
Accumulated Amortization													
Balance, beginning 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)
Disposals	-	102,091	118,148	-	1,704,710	46,895	605,848	602,275	-	-	1,566,089	-	4,746,056
Amortization expense	-	(1,673,346)	(5,047,246)	(71,196)	(3,541,726)	(1,106,677)	(979,294)	(1,989,608)	-	(2,123,551)	(17,766,657)	-	(34,299,301)
Balance, end of year	-	(20,719,978)	(80,594,242)	(452,272)	(29,978,808)	(14,617,150)	(2,376,437)	(16,988,968)	-	(6,334,056)	(263,400,300)	-	(435,462,211)
Net book value, end of year	42,201,772	26,673,894	120,201,510	2,601,979	24,215,232	5,719,604	3,531,188	13,655,516	137,848,804	60,134,213	421,751,712	70,869,342	929,404,766
Net book value, beginning 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

THE CORPORATION OF THE CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

Schedule B – Segmented Information

Year ended December 31, 2012	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	$ 31,334,692	$ 13,398,912	$ 569,611	$ 133,150	$ 1,283,831	$ 34,847,421	$ 4,632,160	$ -	$ 16,347,160	$ 102,546,937
User fees and charges	7,091,511	6,709,319	46,366,094	1,503,573	301,620	20,821,646	2,406,644	83,262,445	2,436,359	170,899,211
Grants	-	9,039,329	1,319,942	-	655,996	682,976	-	-	74,444	11,772,687
Investment income	224,701	(20,441)	542,722	306,053	3,915	127,572	(40,049)	134,553	6,240,524	7,519,550
Penalty and interest on taxes	-	-	-	-	-	-	-	-	3,318,267	3,318,267
Obligatory reserve funds revenue recognized	-	2,378,193	3,533,957	-	-	575,068	41,886	51,426	296,301	6,876,831
Share of net income in Kitchener Power Corp.	-	-	-	-	-	-	-	-	8,447,594	8,447,594
Share of net income in Kitchener Generation Corporation	-	-	-	-	-	-	-	-	(33,204)	(33,204)
Asset donations	-	9,408,016	679,209	-	-	12,054,999	-	9,938	-	22,152,162
Other	396,546	55,615	1,067,725	55,443	7,854	875,587	36,256	1,352,124	619,743	4,466,893
Total revenue	39,047,450	40,968,943	54,079,260	1,998,219	2,253,216	69,985,269	7,076,897	84,810,486	37,747,188	337,966,928
Expenses										
Salaries, wages and benefits	34,150,924	9,870,486	7,869,192	1,185,432	1,732,924	33,547,796	4,942,440	5,367,517	29,776,977	128,443,688
Materials and services	3,121,995	6,514,485	9,944,009	381,159	380,546	15,700,821	1,629,003	50,710,602	14,877,696	103,260,316
Debenture debt interest	223,118	1,029,731	99,977	870	55,308	756,276	962,992	-	760,686	3,888,958
Internal charges and recoveries	1,641,367	994,390	5,074,954	165,262	53,770	1,780,406	943,307	2,676,796	(13,330,252)	-
Grants and other	63	6,828	837,302	7	8,650	2,285,571	665,753	-	63,077	3,867,251
Amortization	1,221,616	9,603,467	5,932,172	106,175	75,845	5,784,032	641,615	5,696,755	5,237,624	34,299,301
Loss / (gain) on sale of assets	212,611	1,488,216	2,533,361	108,301	-	(364,599)	(541,740)	98,978	624,179	4,159,307
Total expenses	40,571,694	29,507,603	32,290,967	1,947,206	2,307,043	59,490,303	9,243,370	64,550,648	38,009,987	277,918,821
Net surplus / (deficit)	$ (1,524,244)	$ 11,461,340	$ 21,788,293	$ 51,013	$ (53,827)	$ 10,494,966	$ (2,166,473)	$ 20,259,838	$ (262,799)	$ 60,048,107

THE CORPORATION OF THE CITY OF KITCHENER

Notes to Consolidated Financial Statements

Year Ended December 31, 2012

Schedule B - Segmented Information (continued)

Year ended December 31, 2011	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

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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, 2012, 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, 2012, 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 24, 2013
Waterloo, Canada

TRUST FUNDS

Balance Sheet

Year Ended December 31, 2012

		2012		2011
Assets				
Accounts receivable	**$**	**174,292**	$	146,983
Interest receivable		**59,151**		49,121
Investments (Note 2)				
Short-term		**2,303,011**		1,920,306
Long-term		**8,871,297**		8,674,469
		11,407,751		10,790,879
Liabilities				
Accounts payable		**2,100**		2,100
Fund Balance		**11,405,651**		10,788,779
	$	**11,407,751**	$	10,790,879

See accompanying notes

TRUST FUNDS

Statement of Continuity

Year Ended December 31, 2012

		2012		2011
Capital Receipts				
Perpetual care	**$**	**340,897**	$	274,368
Interest earned		**442,211**		428,965
Other		**137,128**		58,484
		920,236		761,817
Expenditures				
Transfer to cemeteries operations		**303,364**		296,605
		303,364		296,605
Net change in fund		**616,872**		465,212
Balance, beginning of year		**10,788,779**		10,323,567
Balance, end of the year	**$**	**11,405,651**	$	10,788,779

See accompanying notes

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 $8,871,297 *(2011 - $8,674,469)* reported on the Balance Sheet at cost, have a market value of $9,003,835 *(2011 - $8,782,669)*.

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, 2012

	Balance 12/31/11	Perpetual Care Funds	Interest Earned	Other Receipts	Transfer Interest to Cemeteries	Disbursements	Balance 12/31/12
Perpetual Care							
Mount Hope Cemetery	$ 583,251	$ 337	$ 23,260	$ 950	$ 23,260	$ -	$ 584,538
Woodland Cemetery	4,294,060	144,071	173,752	10,400	173,752	-	4,448,531
Bridgeport Cemetery	138,325	3,888	5,634	300	5,634	-	142,513
Williamsburg Cemetery	1,814,769	192,601	76,120	14,700	76,120	-	2,022,070
St. Peter's Cemetery	488,545	-	19,483	900	19,483	-	489,445
Cemetery Trusts							
F.E. Teremain	15,550	-	620	-	620	-	15,550
Florence V. Cober	8,783	-	350	-	350	-	8,783
L.F. Glick	20,664	-	823	-	823	-	20,664
Edna Atherton	1,331	-	53	-	53	-	1,331
George Wright Estate	42,614	-	1,698	-	1,698	-	42,614
E. L. Goetz	1,357	-	54	-	54	-	1,357
E. Weiderhold	38,065	-	1,517	-	1,517	-	38,065
Prepaid Interments	3,341,465	-	138,847	109,878	-	-	3,590,190
	$ 10,788,779	$ 340,897	$ 442,211	$ 137,128	$ 303,364	$ -	$ 11,405,651

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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, 2012, 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.

KPMG

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, 2012, 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 24, 2013
Waterloo, Canada

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Statement of Financial Position

As at December 31, 2012

		2012		2011
Financial assets				
Cash	$	11,823	$	13,756
Accounts receivable		-		175
		11,823		13,931
Financial liabilities				
Accounts payable		5,009		7,408
Net financial assets		6,814		6,523
Non-financial assets				
Tangible capital assets		4,393		5,492
Net assets		11,207		12,015
Accumulated surplus				
Accumulated net revenue		6,814		6,523
Invested in tangible capital assets		4,393		5,492
Total accumulated surplus	$	11,207	$	12,015

See accompanying notes

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Statement of Revenue and Expenses and Accumulated Surplus

Year Ended December 31, 2012

		2012		2011
Revenue				
Assessments	**$**	**25,171**	$	25,000
Interest revenue		**-**		94
Other revenue		**1,695**		2,488
		26,866		27,582
Expenses				
Streetscaping		**2,811**		1,564
Audit		**1,752**		1,695
Summer maintenance		**4,817**		8,245
Insurance		**1,239**		1,192
Winter maintenance		**10,784**		13,656
Advertising		**2,335**		7,646
Miscellaneous		**2,837**		1,607
Amortization		**1,099**		610
		27,674		36,215
Net deficit for year		**(808)**		(8,633)
Accumulated surplus, beginning of year		**12,015**		20,648
Accumulated surplus, end of year	**$**	**11,207**	$	12,015

See accompanying notes

BELMONT IMPROVEMENT AREA
BOARD OF MANAGEMENT

Statement of Change in Net Financial Assets

As at December 31, 2012

		2012		2011
Net deficit for year	**$**	**(808)**	$	(8,633)
Acquisition of tangible capital assets		**-**		(6,102)
Amortization of tangible capital assets		**1,099**		610
Change in net financial assets		**291**		(14,125)
Net financial assets, beginning of year		**6,523**		20,648
Net financial assets, end of year	**$**	**6,814**	$	6,523

See accompanying notes

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 statement of financial position as at December 31, 2012, 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 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 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.

KPMG

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, 2012, 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

March 19, 2013
Waterloo, Canada

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Financial Position

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Financial Assets		
Cash	$ 14,635	$ 7,255
Term deposits (note 2)	65,321	64,086
Accounts receivable	36,230	50,418
Prepaid expenses	5,279	1,488
	121,465	123,247
Financial Liabilities		
Accounts payable and accrued charges	48,210	51,268
Due to the City of Kitchener (note 4)	11,174	12,712
	59,384	63,980
Net financial assets	62,081	59,267
Non-Financial Assets		
Tangible capital assets (note 6)	23,347	21,727
Net assets	$ 85,428	$ 80,994
Accumulated Surplus		
Reserve for future assessment write-offs	$ 29,478	$ 29,478
Accumulated net revenue	32,603	29,789
Invested in tangible capital assets	23,347	21,727
Total accumulated surplus	$ 85,428	$ 80,994

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, 2012, with comparative information for 2011

	Budget 2012	Actual 2012	Actual 2011
Revenue:			
Assessments	$ 650,000	$ 650,000	$ 600,000
Interest	1,500	1,235	1,505
Graffiti removal co-op	-	-	5,000
Special events income	28,000	43,408	-
Other income	22,000	23,648	32,942
	701,500	718,291	639,447
Expenses:			
Promotions and advertising	244,000	276,729	206,294
Salaries and wages	275,100	247,996	246,620
Administration	54,921	61,228	68,945
Meetings and seminars	13,000	13,517	14,256
Safety and beautification	52,500	36,549	17,626
Member relations	62,000	61,144	48,464
Amortization	-	5,520	5,282
	701,521	702,683	607,487
Net revenue before other items	$ (21)	15,608	31,960
Net assessment write-offs (note 4)		11,174	12,712
Net revenue (expenses)		4,434	19,248
Accumulated surplus, beginning of year		80,994	61,746
Accumulated surplus, end of year		$ 85,428	$ 80,994

See accompanying notes to financial statements.

KITCHENER DOWNTOWN IMPROVEMENT AREA BOARD OF MANAGEMENT

Statement of Changes in Net Financial Assets

Year ended December 31, 2012, with comparative information for 2011

		2012		2011
Net revenue	$	4,434	$	19,248
Acquisition of tangible capital assets		(7,140)		(24,689)
Amortization of tangible capital assets		5,520		5,282
Change in net financial assets		2,814		(159)
Net financial assets, beginning of year		59,267		59,426
Net financial assets, end of year	$	62,081	$	59,267

See accompanying notes to financial statements.

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.

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 (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.

2. Term deposits:

The term deposits consist of the following:

Principal	Maturity	Rate
$55,046	September 13, 2013	0.70%
$10,275	January 3, 2014	0.80%

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:

2013	$ 33,089
2014	33,906
2015	34,723
2016	17,567

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 $11,174. This amount was paid to the City of Kitchener in 2013.

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.

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	$ 886	$ -	$ -	$ 7,096	$ 4,788	$ 1,422	$ -	$ 1,117	$ 5,905	$ 1,191
Furniture	21,191	6,254	-	-	27,445	3,884	17,307	-	3,903	7,787	19,658
Leasehold improvements	3,498	-	-	-	3,498	500	2,998	-	500	1,000	2,498
	$ 30,899	$ 7,140	$ -	$ -	$ 38,039	$ 9,172	$ 21,727	$ -	$ 5,520	$ 14,692	$ 23,347

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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, 2012 and the statements of revenues, 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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

In common with many 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, 2012, 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

April 17, 2013
Waterloo, Canada

KITCHENER PUBLIC LIBRARY

Statement of Financial Position

December 31, 2012, with comparative information for 2011

	2012	2011
Financial Assets		
Cash	$ 1,293,830	$ 1,099,422
Accounts receivable	54,285	86,094
Due from City of Kitchener	93,546	66,507
	1,441,661	1,252,023
Financial Liabilities		
Accounts payable and accrued liabilities	628,189	534,798
Deferred revenue (note 2)	776,239	717,421
	1,404,428	1,252,219
Net financial assets (debt)	37,233	(196)
Non-Financial Assets		
Tangible capital assets (note 3)	5,233,569	5,538,308
	$ 5,270,802	$ 5,538,112
Accumulated Surplus		
General	$ 233	$ (196)
Invested in tangible capital assets	5,233,569	5,538,308
Reserves	37,000	-
Net assets	$ 5,270,802	$ 5,538,112

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Revenues, Expenses and Accumulated Net Revenue

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Revenue:		
Grants:		
Province of Ontario	$ 286,755	$ 286,755
City of Kitchener:		
Operating	9,055,142	8,927,661
Capital and special (note 4)	319,771	560,887
Special grants (note 5)	20,807	67,165
Fines	237,670	256,405
Interest and miscellaneous	33,862	28,337
Partnerships	22,802	38,977
Room rental	6,661	7,212
Photocopy	20,413	22,282
	10,003,883	10,195,681
Expenses:		
Personnel costs (Schedule)	7,516,684	7,357,235
Resource materials	1,497,885	1,578,672
Equipment (Schedule)	408,376	411,017
Administrative (Schedule)	150,073	212,715
Facilities costs (Schedule)	423,692	435,880
Processing/bindery	110,116	86,691
Programs and publicity (Schedule)	42,634	63,572
General library equipment	17,383	9,070
Expenditures related to capital and special (note 4)	83,543	156,699
Required expenditures related to special grants (note 5)	20,807	67,165
	10,271,193	10,378,716
Net deficit	(267,310)	(183,035)
Accumulated net revenue, beginning of year	5,538,112	5,721,147
Accumulated net revenue, end of year	$ 5,270,802	$ 5,538,112

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY

Statement of Changes in Net Financial Assets

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Deficiency of revenue over expenditures	$ (267,310)	$ (183,035)
Acquisition of tangible capital assets	(1,122,815)	(1,266,294)
Amortization of tangible capital assets	1,427,554	1,448,780
Change in net financial assets	37,429	(549)
Net financial assets (debt), beginning of year	(196)	353
Net financial assets (debt), end of year	$ 37,233	$ (196)

See accompanying notes to financial statements.

KITCHENER PUBLIC LIBRARY
Notes to Financial Statements

Year ended December 31, 2012

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 judgments. 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, 2012

3. Tangible capital assets:

	Opening balance	Reclassification	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	$ 13,384,347	$ -	$ 931,300	$ 14,315,647	$ 8,927,708	$ 4,456,639	$ 1,212,577	$ 10,140,285	$ 4,175,362
Computer	1,279,410	6,090	161,412	1,446,912	650,683	628,727	159,794	818,834	628,078
Furniture fixtures and equipment	702,647	-	30,103	732,750	283,127	419,520	49,232	332,359	400,391
Other equipment and vehicle	101,396	(6,090)	-	95,306	67,974	33,422	5,951	65,568	29,738
	$ 15,467,800	$ -	$ 1,122,815	$ 16,590,615	$ 9,929,492	$ 5,538,308	$ 1,427,554	$ 11,357,046	$ 5,233,569

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

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 2012 included $84,600 for general renovations, maintenance and upgrading of existing facilities, $179,925 for communication infrastructure and technology upgrades, and $140,000 for Forest Heights branch roof repair.

The portion of these grants and previous year grants that are included in revenue in 2012, is $319,771 (2011 - $560,887).

5. Special grants:

In 2012, the Board received various special non-recurring grants and donations totaling $137,040 (2011 - $226,313). The portion of these grants and previous year special grants that are included in revenue in 2012, is $20,807 (2011 - $67,165). 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 $517,867 (2011 - $436,805) 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 $11,609 (2011 - $7,833) 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, 2012, with comparative information for 2011

	2012	2011
Personnel:		
Salaries	$ 6,208,582	$ 6,151,533
Health benefits	345,520	312,392
Pension benefits	760,451	670,924
Employment insurance	126,507	119,918
WSIB	23,686	19,803
Sick leave reserve	25,000	25,000
Staff training	26,938	57,665
	$ 7,516,684	$ 7,357,235
Equipment:		
Technology	$ 168,742	$ 162,136
Equipment maintenance	24,657	33,902
Amortization	214,977	214,979
	$ 408,376	$ 411,017
Administrative:		
Postage and delivery	$ 11,970	$ 17,549
Insurance	17,160	16,555
Professional services	36,760	74,153
General business	32,810	50,411
Telephone	23,806	20,222
Stationery	27,567	33,825
	$ 150,073	$ 212,715
Facilities:		
Facilities expenses	$ 189,616	$ 209,183
Country Hills building	37,380	41,982
Main utilities	151,360	143,843
Forest Heights utilities	21,338	18,137
Pioneer Park building	18,581	19,309
Grand River Stanley Park building	5,417	3,426
	$ 423,692	$ 435,880
Programs and publicity:		
Promotional	$ 26,872	$ 29,960
Public programs	15,762	33,612
	$ 42,634	$ 63,572

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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, 2012, 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 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 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.

KPMG

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, 2012, 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

April 16, 2013
Waterloo, Canada

THE CENTRE IN THE SQUARE INC.

Statement of Financial Position

December 31, 2012, with comparative information for 2011

	2012	2011
Net Assets		
Financial assets:		
Cash	$ 3,353,370	$ 3,135,487
Due from The City of Kitchener	89,496	94,717
Funds held with The City of Kitchener (note 2)	278,725	279,886
Accounts receivable	117,354	97,363
Interest receivable	3,630	3,392
Costs to be recovered	347,483	257,185
Investments (note 4)	1,432,046	1,412,439
Total financial assets	5,622,104	5,280,469
Financial liabilities:		
Accounts payable and accrued liabilities	1,373,288	1,164,079
Deferred revenue (note 5)	2,246,350	1,724,480
	3,619,638	2,888,559
Net financial assets	2,002,466	2,391,910
Non-financial assets:		
Tangible capital assets (note 11)	8,774,535	8,794,075
Inventories (note 3)	52,905	39,705
Prepaid expenses	190,440	90,720
	9,017,880	8,924,500
Net assets	$ 11,020,346	$ 11,316,410
Accumulated Surplus		
Operating fund activities (note 12)	$ -	$ -
Reserves - Capital (note 6)	327,913	576,384
Reserves - Performance Development (note 7)	461,180	514,359
Reserves - Sustainability (note 8)	-	-
Reserves - Restricted (note 9)	1,456,718	1,431,592
Invested in tangible capital assets	8,774,535	8,794,075
Accumulated surplus	$ 11,020,346	$ 11,316,410

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Operations

Year ended December 31, 2012, with comparative information for 2011

	Budget 2012 (unaudited)	Actual 2012	Actual 2011
Revenues:			
Performances	$ 5,686,504	$ 5,595,703	$ 5,214,435
Ticket surcharge (notes 6 and 8)	266,319	226,068	284,748
Grants from The City of Kitchener - Operating	1,371,449	1,371,449	1,420,089
Grants from The City of Kitchener - Capital	242,000	242,335	237,000
Grants from other governments - Capital	-	-	415,958
Grants from other governments - Operating	40,000	40,000	40,000
Capital donations	-	10,000	75,000
Donations	2,500	10,881	19,270
Investment income	76,000	101,508	91,231
Other	2,311,175	2,105,459	1,842,611
Gain (loss) on investments	80,000	(16,436)	27,429
Sale of assets	-	8,000	-
Total revenue	10,075,947	9,694,967	9,667,771
Expenses:			
Direct:			
Performances	5,500,000	5,508,542	5,217,044
Bar operations	200,000	208,768	176,413
Programme	38,500	15,110	22,017
Memberships	10,000	6,105	20
Ticket services	150,000	111,558	140,590
Financial services	5,000	2,323	2,615
Operating:			
Administration	810,732	829,646	790,239
Box office	10,200	9,180	9,558
Promotion	496,511	449,969	462,274
Occupancy	743,058	689,225	675,629
Salaries and wages	3,062,554	2,956,723	2,735,583
Recoveries - performances	(1,748,875)	(1,637,104)	(1,696,952)
Amortization	600,000	621,628	607,608
Write down of tangible capital assets	25,000	28,032	112,436
Reserves expenditures	173,243	190,165	134,168
Refund to The City of Kitchener	12	1,161	9,100
Total expenses	$ 10,075,935	9,991,031	9,398,342
Excess of revenues over expenses (expenses over revenue)		(296,064)	269,429
Accumulated surplus, beginning of year		11,316,410	11,046,981
Accumulated surplus, end of year		$ 11,020,346	$ 11,316,410

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Change in Net Financial Assets

Year ended December 31, 2012, with comparative information for 2011

		2012		2011
Excess of revenues over expenses (expenses over revenue)	$	(296,064)	$	269,429
Acquisition of tangible capital assets		(630,120)		(1,147,243)
Amortization of tangible capital assets		621,628		607,608
Write-downs of tangible capital assets		28,032		112,436
		(276,524)		(157,770)
Net (acquisition) use of supplies inventory		(13,200)		12,514
Acquisition use of prepaid expenses		(99,720)		(50,235)
		(112,920)		(37,721)
Decrease in net financial assets		(389,444)		(195,491)
Net financial assets, beginning of year		2,391,910		2,587,401
Net financial assets, end of year	$	2,002,466	$	2,391,910

See accompanying notes to financial statements.

THE CENTRE IN THE SQUARE INC.

Statement of Cash Flow

Year ended December 31, 2012, with comparative information for 2011

		2012		2011
Operating activities:				
Excess of revenues over expenses	$	(296,064)	$	269,429
Items not involving cash:				
Amortization		621,628		607,608
Write down of tangible capital assets		28,032		112,436
Change in non-cash operating working capital		514,014		(6,267)
Cash provided by operating activities		867,610		983,206
Capital activities:				
Cash used to acquire tangible capital assets		(630,120)		(1,147,243)
Investing activities:				
Decrease (increase) in investments		(19,607)		253,477
Increase in cash		217,883		89,440
Cash, beginning of year		3,135,487		3,046,047
Cash, end of year	$	3,353,370	$	3,135,487

See accompanying notes to financial statements.

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 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, 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.

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:

	2012	2011
Bar stock	$ 51,769	$ 35,034
Supplies	1,136	4,671
	$ 52,905	$ 39,705

4. Investments:

Investments consist of:

	Carrying value 2012	Market 2012	Carrying value 2011	Market 2011
Shares	$ 947,871	$ 1,157,228	$ 994,108	$ 1,123,668
Bonds	478,811	484,489	412,022	425,697
Cash	5,364	5,364	6,309	6,309
	$ 1,432,046	$ 1,647,081	$ 1,412,439	$ 1,555,674

5. Deferred revenue:

Deferred revenue consists of the following:

	2012	2011
Sponsorships	$ 75,960	$ 142,654
Performances	1,970,898	1,421,393
Gift certificates	56,264	52,195
Donations	33,179	33,179
Membership	18,228	2,839
Other	91,821	72,220
	$ 2,246,350	$ 1,724,480

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.

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. 2012 budget:

The original budgeted figures were approved by the Board of Directors at their meeting in September 2011 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.

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	8,321,215	435,859	(126,097)	-	8,630,977	3,652,340	4,668,875	(107,425)	243,467	3,788,382	4,842,595
Equipment	4,756,885	93,758	(67,934)	-	4,782,709	2,579,364	2,177,521	(75,865)	288,409	2,791,908	1,990,801
Computers	279,525	69,470	-	-	348,995	137,498	142,027	-	35,246	172,744	176,251
Software	120,824	-	5,545	-	126,369	120,824	-	-	1,848	122,672	3,697
Site	1,358,248	31,033	(19,630)	-	1,369,651	550,732	807,516	(19,630)	52,658	583,760	785,891
WIP	22,836	-	(22,836)	-	-	-	22,836	-	-	-	-
	$ 15,834,833	$ 630,120	$ (230,952)	$ -	$ 16,234,001	$ 7,040,758	$ 8,794,075	$ (202,920)	$ 621,628	$ 7,459,466	$ 8,774,535

THE CENTRE IN THE SQUARE INC.

Notes to Financial Statements, continued

Year ended December 31, 2012

12. Operating fund activities:

		Budget 2012		Actual 2012		Actual 2011
Revenues:						
Performances	$	5,686,504	$	5,595,703	$	5,214,435
Grants from City of Kitchener		1,371,449		1,371,449		1,420,079
Grants, other Governments and Foundations		40,000		40,000		40,000
Donations		2,500		7,020		14,625
Investment income		1,000		33,033		22,126
Other		2,176,251		2,105,160		1,841,965
Total revenue		9,277,704		9,152,365		8,553,230
Current fund expenditures:						
Direct:						
Performances		5,500,000		5,508,540		5,217,044
Bar operations		200,000		208,768		176,413
Programme		38,500		15,110		22,017
Memberships		10,000		6,105		20
Ticket services		5,000		2,323		2,615
Financial services		150,000		111,558		140,590
Operating:						
Administration		810,732		829,646		790,239
Box office		10,200		9,180		9,558
Promotion		496,511		449,969		462,274
Occupancy		743,058		689,225		675,629
Salaries and wages		3,062,554		2,956,723		2,735,583
Recoveries - performances		(1,748,875)		(1,637,104)		(1,696,952)
Total current fund expenditures		9,277,680		9,150,043		8,535,030
Operating fund net revenues before amortization		24		2,322		18,200
Transfer from reserve funds		(12)		(1,161)		(9,100)
Transfer to City of Kitchener		(12)		(1,161)		(9,100)
Fund balances, end of year	$	-	$	-	$	-

13. Schedule of reserve funds:

	Performance Development	Capital	Sustainability	Restricted	Total Funds
Revenue:					
Donations and sundry	$ -	10,300	$ -	3,861	$ 14,161
Grants from The City of Kitchener	-	242,335	-	-	242,335
Ticket surcharge	-	226,068	-	-	226,068
Investment income	8,024	6,376	-	54,074	68,474
Gain (loss) on investments	-	-	-	(16,436)	(16,436)
Sale of assets	-	8,000	-	-	8,000
	8,024	493,079	-	41,499	542,602
Expenditures:					
Cost of fundraising	-	111,430	-	-	111,430
Professional fees	-	-	-	16,373	16,373
Programming grant	62,364	-	-	-	62,364
	62,364	111,430	-	16,373	190,167
Excess of revenue over expenditures (expenditures over revenue)	(54,340)	381,649	-	25,126	352,435
Transfer to accumulated surplus - tangible capital assets	-	(630,120)	-	-	(630,120)
Other transfers	1,161	-	-	-	1,161
Balance, beginning of year	514,359	576,384	-	1,431,592	2,522,335
Balance, end of year	$ 461,180	$ 327,913	$ -	$ 1,456,718	$ 2,245,811

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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, 2012 ("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, 2012 in accordance with Canadian public sector accounting standards relevant to preparing such a financial statement.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 24, 2013
Waterloo, Canada

GASWORKS ENTERPRISE

Statement of Operations and Accumulated Surplus

Year ended December 31, 2012

	2012 Budget (Unaudited)	2012 Actual	2011 Actual
DELIVERY OPERATIONS			
Gas delivery			
Revenues	**34,962,242**	**44,177,248**	42,988,230
Expenses	**18,800,667**	**22,961,027**	22,821,885
	16,161,575	**21,216,221**	20,166,345
Other programs			
Revenues	**8,296,011**	**9,342,126**	8,734,562
Expenses	**6,191,991**	**6,643,757**	6,154,160
	2,104,020	**2,698,369**	2,580,402
Contact Centre			
Revenues	**715,043**	**696,768**	681,503
Expenses	**715,043**	**696,768**	681,503
	-	**-**	-
Excess of revenue over expenses	**18,265,595**	**23,914,590**	22,746,747
Accumulated Surplus - Delivery			
Balance at the beginning of the year	**91,149,210**	**91,149,210**	84,182,105
Interest Revenue	**-**	**120,710**	-
Transfer to Tax StabilizationReserve	**-**	**-**	(2,000,000)
Transfer to Gas Capital Investment Fund	**(3,278,501)**	**(6,306,063)**	(6,977,331)
Transfers to City of Kitchener	**(7,245,460)**	**(7,245,460)**	(6,802,311)
	80,625,249	**77,718,397**	68,402,463
Add excess of revenue over expenses	**18,265,595**	**23,914,590**	22,746,747
Balance at end of period	**98,890,844**	**101,632,987**	91,149,210
SUPPLY OPERATIONS			
Gas supply			
Revenues	**43,556,017**	**35,132,756**	46,150,650
Expenses	**41,378,216**	**34,726,828**	46,701,556
Excess of revenue over expenses	**2,177,801**	**405,928**	(550,906)
Accumulated Surplus (Deficit) - Supply			
Balance at beginning of the year	**2,415,760**	**2,415,760**	2,966,666
Add excess of revenue over expenses	**2,177,801**	**405,928**	(550,906)
Balance at end of period	**4,593,561**	**2,821,688**	2,415,760

KITCHENER GENERATION CORPORATION

Statement of Financial Position

As at December 31, 2012

		2012
Financial assets		
Due from The Corporation of the City of Kitchener	$	**5,646**
Accounts receivable		**8,750**
		14,396
Liabilities		
Accounts payable and accrued liabilities		**14,396**
Long-term debt (Note 3)		**3,792,362**
		3,806,758
Net financial debt		**(3,792,362)**
Non-financial assets		
Tangible capital assets - net (Note 4)		**4,180,532**
Total non-current assets		**4,180,532**
Accumulated Surplus (Note 5)	**$**	**388,170**

KITCHENER GENERATION CORPORATION

Statement of Operations

Year Ended December 31, 2012

		2012 Budget		2012
Revenues				
Sale of Electricity	$	393,000	$	415,394
Total revenues		393,000		415,394
Expenses				
Maintenance		20,500		14,133
Professional services		-		3,241
Amortization		232,252		232,252
Total expenses		252,752		249,626
Surplus before interest and provision for payments-in-lieu of corporate income taxes		140,248		165,768
Interest expense		199,253		198,972
Deficit before provision for payments-in-lieu of corporate income taxes		(59,005)		(33,204)
Provision for payments-in-lieu of corporate income taxes		-		-
Annual deficit	$	(59,005)	$	(33,204)

KITCHENER GENERATION CORPORATION

Statement of Change in Net Financial Debt

Year ended December 31, 2012

		2012
Annual deficit	**$**	**(33,204)**
Amortization of tangible capital assets		**232,252**
Acquisition of tangible capital assets		**(4,412,784)**
Change in net financial debt		**(4,213,736)**
Net financial debt, beginning of year		**-**
Net financial debt, end of year	**$**	**(4,213,736)**

KITCHENER GENERATION CORPORATION

Statement of Cash Flow

Year Ended December 31, 2012

		2012
Operating		
Annual deficit	**$**	**(33,204)**
Items not involving cash		
Amortization		**232,252**
Net change in non-cash operating working capital		**-**
Net change in cash from operating activities		**199,048**
Investing		
Acquisition of tangible capital assets		**(4,412,784)**
Net change in cash from investing activities		**(4,412,784)**
Financing		
Increase in contributed capital		**421,374**
Increase in long-term debt		**3,792,362**
Net change in cash from financing activities		**4,213,736**
Net change in cash and cash equivalents		**-**
Cash and cash equivalents, beginning of year		**-**
Cash and cash equivalents, end of year	**$**	**-**

KITCHENER GENERATION CORPORATION

Notes to Financial Statements
Year Ended December 31, 2012

1. Incorporation

On December 9, 2011, Kitchener Generation Corporation (the Company) was incorporated under the Business Corporation Act (Ontario). Effective January 1, 2012, The Corporation of the City of Kitchener transferred the solar roof asset constructed on the surface of the Kitchener Operations Facility to the Company in exchange for 100% of the Company's common shares and interest bearing debt.

2. Significant Accounting Policies

a. Basis of Accounting

The financial statements 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.

b. 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 asset is amortized on a straight-line basis over its estimated useful life of nineteen years.

c. Revenue Recognition

The Company records revenue from the sale of electricity on the basis of regular meter readings and estimates of energy generation since the last meter reading to the end of the year.

d. 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.

3. Long-Term Debt

Effective January 1, 2012 the Company incurred an unsecured promissory note payable to The Corporation of the City of Kitchener. For shareholder debt, payments are made annually including interest and principal. Interest is calculated at the fixed rate of 5.01% per annum. Interest paid in 2012 was $198,972.

4. Tangible Capital Assets

	Cost	Accumulated Amortization	Net Book Value
Opening balance	-	-	-
Additions	**4,412,784**	-	**4,412,784**
Depreciation expense	-	**232,252**	**(232,252)**
Disposals	-	-	-
Ending balance	**4,412,784**	**232,252**	**4,180,532**

5. Accumulated Surplus

The accumulated surplus consists of the following:

		2012
Share capital - common shares (Note 6)		**421,374**
Retained earnings		**(33,204)**
	$	**388,170**

6. Share Capital

Authorized
Unlimited common shares
Issued
1,000 common shares

7. Comparative Figures

No comparative figures are presented as 2012 is the first year of operations.

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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, 2012, 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.

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, 2012, 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

April 5, 2013
Waterloo, Canada

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET

As at December 31st

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	**$ 20,755,014**	$ 23,456,329
Accounts receivable (note 4)	**37,972,485**	37,610,347
Inventories (note 5)	**3,162,744**	3,421,943
Prepaid expense	**818,210**	696,284
Payment-in-lieu of corporate income taxes receivable	**1,468,974**	453,540
Current portion of regulatory assets (note 18)	**906,521**	2,796,689
Total current assets	**65,083,948**	68,435,132
Non-current assets		
Capital assets – net of accumulated amortization (note 6)	**172,564,699**	152,895,083
Regulatory assets (note 18)	**13,865,077**	21,536,416
Future income tax assets (note 19)	**6,737,762**	13,287,674
Total non-current assets	**193,167,538**	187,719,173
Total assets	**$ 258,251,486**	$ 256,154,305

See accompanying notes

Kitchener Power Corp.

CONSOLIDATED BALANCE SHEET (Continued)

As at December 31st

	2012	2011
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**$ 24,771,203**	$ 21,805,253
Current portion of long term debt	**912,029**	874,212
Current portion of customers and construction deposits (note 8)	**7,164,341**	7,649,045
Current portion of regulatory liabilities (note 18)	**680,687**	2,779,430
Total current liabilities	**33,528,260**	33,107,940
Long-term liabilities		
Long-term debt (note 9)	**83,932,076**	84,844,106
Customer deposits (note 8)	**3,873,602**	3,797,881
Post-employment benefits (note 11)	**5,605,316**	5,466,421
Regulatory liabilities (note 18)	**14,195,249**	17,338,259
Total long-term liabilities	**107,606,243**	111,446,667
Total liabilities	**141,134,503**	144,554,607
Shareholders' equity		
Share capital – common shares (note 12)	**66,389,385**	66,389,385
Retained earnings	**50,727,598**	45,210,313
Total shareholders' equity	**117,116,983**	111,599,698
Total liabilities and shareholders' equity	**$ 258,251,486**	$ 256,154,305

See accompanying notes

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

As at December 31st

	2012	2011
Retained earnings, beginning of year	**$ 45,210,313**	$ 39,457,709
Net Income	**9,157,285**	9,052,604
Dividends paid out (note 23)	**(3,640,000)**	(3,300,000)
Retained earnings, end of year	**$ 50,727,598**	$ 45,210,313

See accompanying notes

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31st

	2012	2011
REVENUE		
Sales revenue		
Distribution services revenue	$ 40,852,106	$ 38,326,403
Electric energy services (note 13)	170,345,103	163,154,684
	211,197,209	201,481,087
Other revenue		
Other investment income	447,628	444,625
Late payment penalties	255,787	248,288
Miscellaneous revenue (note 14)	916,999	1,005,182
	1,620,414	1,698,095
Non-utility operations revenue		
Energy Conservation - OPA Funding (note 15)	914,431	766,832
Total revenue	213,732,054	203,946,014
EXPENSE		
Operation expense		
Electric energy services (note 13)	170,345,103	163,154,684
Distribution operations and maintenance	10,048,062	7,869,812
Customer accounts	3,450,896	2,689,629
General administration	2,711,806	2,931,990
Community relations	251,912	533,979
Property and capital taxes	352,736	425,860
Amortization (note 16)	9,159,173	9,654,186
	196,319,688	187,260,140
Non-utility operation expense		
Energy conservation - OPA programs (note 15)	763,301	564,037
Total expense	197,082,989	187,824,177
Income before interest and provision for payments-in-lieu of corporate income taxes	16,649,065	16,121,837
Interest expense	5,834,702	4,764,050
Income before provision for payments-in-lieu of corporate income taxes	10,814,363	11,357,787
Provision for payments-in-lieu of corporate income taxes (note 19)	1,657,079	2,305,183
NET INCOME	$ 9,157,284	$ 9,052,604

See accompanying notes

Kitchener Power Corp.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31st

	2012	2011
OPERATING ACTIVITIES		
Net Income	$ 9,157,284	$ 9,052,604
Add (deduct) charges to operations not requiring a current cash payment:		
Gain on disposal of capital assets	(86,908)	(2,998)
Amortization (note 16)	9,617,194	10,392,283
(Increase) in future income tax assets (note 19)	(132,918)	(71,579)
Increase (decrease) in non-current customer deposits (note 8)	75,721	(89,445)
Increase in post-employment benefits obligation (note 11)	138,895	85,357
Net change in non-cash operating working capital (note 17)	959,558	(3,588,921)
Cash provided by operating activities	19,728,826	15,777,301
INVESTING ACTIVITIES		
Additions to capital assets	(20,502,405)	(22,909,722)
(Increase) in long-term regulatory assets / liabilities (note 18)	(2,172,358)	(131,598)
Proceeds on disposals of capital assets	89,862	12,382
Cash applied to investing activities	(22,584,901)	(23,028,938)
FINANCING ACTIVITIES		
Increase in contributed capital	4,668,973	2,813,049
(Decrease) in long term debt	(874,213)	(837,963)
Dividends paid out (note 23)	(3,640,000)	(3,300,000)
Cash provided by (applied to) financing activities	154,760	(1,324,914)
Net cash applied during the year	(2,701,315)	(8,576,551)
Cash and cash equivalents, beginning of year	23,456,329	32,032,880
Cash and cash equivalents, end of year	20,755,014	23,456,329
Cash and cash equivalents represented by:		
Cash	17,755,014	12,438,822
Cash equivalents	3,000,000	11,017,507
	$ 20,755,014	$ 23,456,329
Supplemental cash flow information		
Interest paid	$ 5,144,320	$ 5,112,467

See accompanying notes

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.['KWHI'], a regulated distribution company, and Kitchener Energy Services Inc.['KESI'], 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. The Accounting Standards Board has granted a series of deferrals for IFRS adoption for entities subject to rate regulation. The Company has elected to take the optional 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.

[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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

[III] Regulation

KWHI 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.

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, 2012.

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, 2012.

[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.

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:

	2012	2011
Buildings	**2% - 5%**	2.00%
Transformer station equipment	**2% - 6.67%**	2.50%
Distribution station equipment	**2% - 6.67%**	3.33%
Distribution system	**1.67% - 4%**	4.00%
Meters	**4% - 6.67%**	4.00%
SCADA equipment	**6.67%**	6.67%
Other capital assets	**10% – 33%**	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.

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 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 KWHI 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.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

[IV] Other accounting policies (continued)

[j] Pension plan

KWHI 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

KWHI 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.

[V] Change in estimates:

Effective January 1, 2012, the Company revised its estimates of useful lives of certain items of property, plant and equipment and as a result changed its amortization rates. A comparative table of amortization rates is provided in Note 2[IV] [d]. The impact of the change in 2012 was a reduction of amortization expense of approximately $2,265,213. Further, in accordance with OEB accounting requirements, an offsetting reduction of $2,265,213 has been recorded against distribution revenue and an increase to regulatory liabilities. As a result, the impact on net income before PILs is nil.

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, 2012, 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.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

4. ACCOUNTS RECEIVABLE

	2012	2011
Electric energy	$ 12,163,221	$ 11,501,599
Miscellaneous	2,811,194	2,543,908
	14,974,415	14,045,507
Less: Allowance for doubtful accounts	(250,000)	(250,000)
	14,724,415	13,795,507
Unbilled revenue receivable	22,473,800	23,380,400
Interest receivable	62,106	81,353
Related parties receivable:		
City of Kitchener	709,885	315,287
Township of Wilmot	2,279	37,800
	712,164	353,087
	$ 37,972,485	$ 37,610,347

Related Party Transactions

The Company conducted the following transactions with related parties during the year ended December 31, 2012. 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.

	2012	2011
City of Kitchener – capital and maintenance of street lights	$ 1,775,765	$ 1,172,593
Township of Wilmot – capital and maintenance of street lights	113,865	83,743
	$ 1,889,630	$ 1,256,336

5. INVENTORIES

Inventories consist of:

	2012	2011
Stores	$ 2,660,732	$ 2,896,577
Transformers	487,762	468,021
Thermostats for conservation programs	14,250	57,346
	$ 3,162,744	$ 3,421,943

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

6. CAPITAL ASSETS – NET OF ACCUMULATED AMORTIZATION

2012	Cost	Accumulated Amortization	Net Book Value
Land	$ 3,735,257	$ -	$ 3,735,257
Land Rights	265,449	255,220	10,228
Buildings	19,537,746	6,066,646	13,471,099
Transformer Station Equipment	59,888,291	18,888,136	41,000,155
Distribution Station Equipment	2,837,259	2,005,924	831,335
Distribution System - Conductors and devices	173,732,394	76,885,457	96,846,937
Distribution System - Line and network transformers	53,089,650	25,854,433	27,235,217
Meters	14,312,474	3,017,595	11,294,879
SCADA - System Supervisory Equipment	1,566,480	1,547,331	19,149
Other Capital Assets	20,341,485	14,304,788	6,036,697
Other Utility Plant	270,820	-	270,820
Construction in Progress	8,679,865	-	8,679,865
	358,257,168	148,825,530	209,431,637
Less: Contributed Capital	(49,206,133)	(12,339,194)	(36,866,938)
Total	$ 309,051,035	$ 136,486,336	$ 172,564,699

2011	Cost	Accumulated Amortization	Net Book Value
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	88,566,308
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	115,075
Other Capital Assets	17,714,313	12,397,806	5,316,507
Construction in Progress	4,545,881	-	4,545,881
	324,609,863	138,496,332	186,113,531
Less: Contributed Capital	(44,537,160)	(11,318,712)	(33,218,448)
Total	280,072,703	127,177,620	152,895,083

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Independent Electricity System Operator	**$ 14,607,622**	$ 15,967,796
Ontario Electricity Financial Corporation (DRC)	**915,425**	915,933
Energy rebates payable (OCEB)	**1,047,878**	94,019
CDM/OPA programs payable	**1,967,544**	554,624
Others	**6,232,734**	4,272,881
	$ 24,771,203	$ 21,805,253

8. CUSTOMER AND CONSTRUCTION DEPOSITS

	2012	2011
Construction deposits	**$ 4,470,541**	$ 4,830,945
Customer deposits – current portion	**2,693,800**	2,818,100
	$ 7,164,341	$ 7,649,045
Customer deposits – non current portion	**$ 3,873,602**	$ 3,797,881

9. LONG-TERM DEBT

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

During 2010, KWHI 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:

	2012	2011
City of Kitchener	**$ 70,997,576**	$ 70,997,576
Township of Wilmot	**5,964,566**	5,964,566
Ontario Infrastructure Projects Corporation	**7,881,963**	8,756,176
	84,844,105	85,718,318
Less: Ontario Infrastructure Projects Corporation - Current Portion	**912,029**	874,212
	$ 83,932,076	$ 84,844,106

[ii] For Shareholder Debt, interest is paid quarterly at an annual effective rate established by the OEB. The annual effective rate for January 1, 2012 to December 31, 2012 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:

	2012	2011
City of Kitchener	**$ 4,167,558**	$ 4,167,558
Township of Wilmot	**350,120**	350,120
Ontario Infrastructure Projects Corporation	**360,896**	397,336
	$ 4,878,574	$ 4,915,014

10. PENSION PLAN

The cash pension costs for the year ended December 31, 2012 in the amount $1,208,406 (2011 – $1,005,894) have been expensed during the period in which they were incurred.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

11. POST-EMPLOYMENT BENEFITS

KWHI 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:

	2012	2011
Discount Rate - Jan 1	**4.50%**	5.00%
Discount Rate - Dec 31	**4.50%**	4.50%
Future general salary and wage levels increase	**3.30%**	3.30%
Future general inflation increase	**2.00%**	2.00%
Dental costs increase	**5.00%**	5.00%
Medical costs increase	**7.63%**	8.00%

Information about KWHI's defined benefits plans is as follows:

	2012	2011
Accrued Benefit Obligation		
Balance, beginning of year	**$ 4,983,834**	$ 4,297,864
Current service cost	**145,802**	696,689
Interest cost	**225,602**	228,489
Benefits paid	**(232,509)**	(239,208)
	5,122,729	4,983,834
Unamortized acturial gains		
Balance, beginning of the year	**482,587**	1,083,200
Actuarial loss for the year	**-**	(570,483)
Current year amortization	**-**	(30,130)
	482,587	482,587
Accrued benefit liability at December 31 as determined by actuarial valuation	**$ 5,605,316**	$ 5,466,421

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

12. SHARE CAPITAL

	2012	2011
Authorized		
Unlimited common shares		
Issued		
20,000 common shares	**$ 66,389,385**	$ 66,389,385

13. ELECTRIC ENERGY SERVICES

	2012	2011
Revenue		
Electricity revenue	**$ 145,488,399**	$ 139,564,210
Wholesale market services	**9,518,031**	10,268,968
Transmission services	**15,275,418**	13,251,712
Retailer services	**63,255**	69,794
	$ 170,345,103	$ 163,154,684
Costs		
Electricity	**$ 145,488,399**	$ 139,564,210
Wholesale market services	**9,518,031**	10,268,968
Transmission services	**15,275,418**	13,251,712
Retailer services	**63,255**	69,794
	$ 170,345,103	$ 163,154,684

14. MISCELLANEOUS REVENUE

	2012	2011
Pole attachment rentals, buildings and other rentals	**531,738**	554,095
Change of occupancy charges	**154,990**	152,440
Scrap sales	**149,409**	147,237
Loss on Disposition of Obsolete Inventory	**(173,158)**	-
Net gain on disposal of capital assets	**86,908**	2,998
Unsealing / reconnection charges	**56,953**	37,995
Accounts payable discounts taken	**32,451**	24,535
Return cheque charges	**20,190**	23,438
Sundry	**57,518**	62,444
	$916,999	$1,005,182

15. NON-UTILITY OPERATIONS

In 2007, KWHI 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.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

16. AMORTIZATION

	2012	2011
Amortization - capital assets	$ 9,159,173	$ 9,654,186
Various expense accounts	458,021	738,097
	$ 9,617,194	$ 10,392,283

17. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	2012	2011
(Increase) in accounts receivable	(362,138)	(1,796,101)
Decrease in inventories	186,385	246,992
(Increase) decrease in prepaid expense	(121,926)	130,202
(Increase) in payment-in-lieu of corporate income taxes	(1,015,434)	(79,508)
Decrease (increase) in current portion of regulatory assets	1,890,168	(500,876)
Increase (decrease) in accounts payable and accrued liabilities	2,965,950	(507,404)
Increase (decease) in current portion of customer and construction deposits	(484,704)	1,275,973
(Decrease) in current portion of regulatory liabilities	(2,098,743)	(2,403,184)
	$ 959,558	(3,633,906)

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:

	2012	2011
Current portion regulatory assets		
OEB cost assessments	$ -	$ 233,150
OMERS pension costs	-	47,427
Retailer service cost variances	-	12,396
Retail settlement variances	894,777	2,483,564
Other deferred costs	11,744	20,152
	906,521	2,796,689
Long-term portion regulatory assets		
IFRS transition costs	194,834	149,240
Retailer service cost variances	39,491	32,067
Retail settlement variances	8,732,137	6,430,761
Smart meter funding and cost recovery	4,148,033	14,824,502
Recovery of Regulatory Assets	577,175	-
Other deferred credits	173,407	99,846
	13,865,077	21,536,416
Total regulatory assets	$ 14,771,598	$ 24,333,105

[ii] Regulatory liabilities consist of the following:

	2012	2011
Current portion of regulatory liabilities:		
Retailer service cost variances	$ -	$ 23,865
Retail settlement variances	420,386	2,698,792
Smart Meter OM&A	89,498	-
Regulatory asset recovery (pre 2010)	-	56,773
Deferred PILS	170,803	-
	680,687	2,779,430
Long-term portion of regulatory liabilities:		
Future tax asset	5,149,259	11,832,089
Retailer service cost variances	70,421	75,740
Retail settlement variances	6,710,356	5,384,674
Regulatory asset recovery (pre 2010)	-	45,756
IFRS PP&E Adjustments	2,265,213	-
	14,195,249	17,338,259
Total regulatory liabilities	$ 14,875,936	$ 20,117,689

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

18. REGULATORY ASSETS AND LIABILITIES (Continued)

[iii] The following table illustrates the pro-forma effect on income before provision for payments-in-lieu of corporate income taxes, of the recognition of regulatory assets and liabilities:

	2012	2011
Income before provision for payments-in-lieu of corporate income tax	**$ 10,853,963**	$ 11,411,282
Energy related variances:		
Retail settlement services	**(1,600,301)**	(631,601)
Interest on energy related variances	**(30,176)**	(16,169)
	(1,630,477)	(647,770)
Non-energy related variances:		
IFRS transistion costs	**2,737**	(93,155)
Special purpose charge	**-**	316,340
Retailer services	**(13,323)**	(1,167)
Renewable Connection OM&A	**(16,321)**	-
Smart meter funding and cost recovery	**(155,235)**	(1,634,319)
Smart grid capital	**(10,000)**	(10,000)
IFRS Transition - PP&E Adjustments	**2,265,213**	-
Other regulatory assets	**-**	273,274
Regulatory asset recovery	**(244,165)**	143,319
Interest on non-energy related variances	**664,825**	(417,382)
	2,493,731	(1,423,090)
Incremental effect on income	**863,254**	(2,070,860)
Income before provision for payments-in-lieu of corporate income taxes without recognition of regulatory assets and liabilities	**$ 11,717,217**	$ 9,340,422

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

	2012	2011
Rate reconciliation:		
Income from continuing operations before income taxes	**$ 10,814,363**	$ 11,357,787
Statutory Canadian Federal and Provincial income tax rate	**26.50%**	28.25%
Expected taxes on income	**2,865,806**	3,208,575
Other permanent differences	**6,603**	52,038
Increase (decrease) in income taxes resulting from:		
Change in tax rates on future tax assets	**(81,996)**	
Adjustment of prior years taxes	**-**	(169,698)
Other current year timing differences not benefited	**(940,200)**	(675,232)
Other adjustments	**(296,300)**	(177,545)
Increased tax on investment income	**103,196**	67,045
Income tax expense	**$ 1,657,109**	$ 2,305,183
Effective tax rate	**15.32%**	20.30%
Components of income tax expense:		
Current tax expense	**$ 1,789,997**	$ 2,376,762
Future tax provision (recovery) arising from temporary differences	**(132,918)**	(71,579)
	$ 1,657,079	$ 2,305,183

[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, 2012 are as follows:

	2012	2011
Capital assets - differences in net book value and undepreciated capital cost	**$ 3,784,725**	$ 8,879,067
Regulatory adjustments	**1,364,534**	2,958,022
Post-employment benefits	**1,485,409**	1,361,605
Loss carry-forwards	**103,094**	73,978
	$ 6,737,762	$ 13,272,672

The Company has capital losses of $82,340 (2011 – $82,340) and net loss carry forwards of approximately $389,034 (2011 – $322,186) as at December 31, 2012.

Kitchener Power Corp.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

20. PRUDENTIAL SUPPORT OBLIGATION

KWHI 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, 2012, KWHI has posted an irrevocable standby letter of credit as security in the amount of $35,000,000 (2011 - $29,782,438) underwritten by KWHI's principal bank. The Company 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, 2012, 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 KWHI did not opt out of the settlement, its share of the total settlement amount is $271,910 which KWHI 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.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

22. CONTINGENT LIABILITY (Continued)

KWHI 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 was expensed in 2011.

23. DIVIDENDS

Dividends in the amount of $3,640,000 were received in 2012 from KWHI, a subsidiary of Kitchener Power Corp (2011 – NIL)

Dividends paid out to shareholders are as follows:

	2012	2011
City of Kitchener	**$ 3,357,900**	$ 3,044,250
Township of Wilmot	**282,100**	255,750
	$ 3,640,000	$ 3,300,000

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, KWHI launched its smart meter initiative in 2008. KWHI 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, 2012, 100% deployment was completed.

In December 2009, KWHI 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 KWHI in 2010. The outstanding amount owing at the end of 2012 is $7,881,963 (2011 - $8,756,176).

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 KWHI'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 was 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.

In 2012, following completion of the Smart Meter Initiative, the Company applied to the OEB for smart meter cost recovery (EB-2012-0228). The OEB's decision allowed the Company to transfer $13.4 million of smart meter assets to its Balance Sheet and to implement rate riders effective November 1, 2012 and May 1, 2013 to recover $1,344,805 in deferred capital and $2,047,366 in OM&A costs respectively from its Residential and GS<50kW Customers over a one-year period.

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 February 2013, the Canadian Accounting Standards Board extended the deferral of mandatory transition to IFRS for rate-regulated entities to January 1, 2013. This is the fourth such deferral granted by the AcSB.

Some of the converged standards will be implemented in Canada during the transition period with the remaining standards adopted at the change over date. KWHI 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.

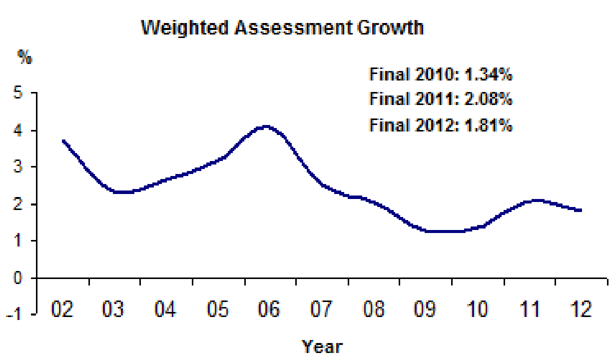
26. COMPARATIVE FIGURES

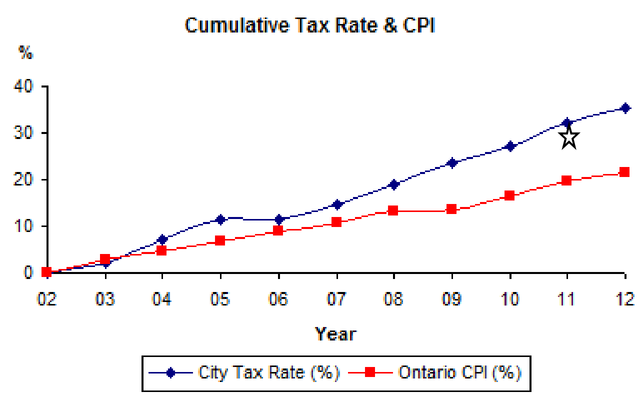
Certain prior year comparative figures may have been restated to conform to the current year's presentation.

FINANCIAL & STATISTICAL REVIEW
As at December 31 (unaudited)

	2012	2011	2010	2009	2008 (restated)
1. DEMOGRAPHIC STATISTICS					
Population[1]	**234,100**	232,300	229,400	224,100	220,600
Households[1]	**88,540**	87,720	86,750	85,120	84,920
Area in acres[2]	**33,802**	33,802	33,826	33,826	33,826
2. TAXABLE ASSESSMENT ($000's)					
Residential and farm	**17,720,136**	16,558,715	15,415,724	14,399,242	13,340,795
Commercial and industrial	**3,040,482**	2,853,553	2,629,617	2,452,923	2,373,613
Total	**20,760,618**	19,412,268	18,045,341	16,852,165	15,714,408
3. TAX RATES					
Residential and Farm Taxable Full					
City	**0.40039**	0.41015	0.44361	0.45077	0.45360
Region	**0.62967**	0.64445	0.66709	0.67958	0.68914
School Boards	**0.22100**	0.23100	0.24100	0.25200	0.26400
Total	**1.25106**	1.28560	1.35170	1.38235	1.40674
Commercial Taxable Full					
City	**0.78076**	0.79980	0.86503	0.87900	0.88451
Region	**1.22785**	1.25668	1.30082	1.32517	1.34382
School Boards	**1.49000**	1.66538	1.77644	1.90192	2.03266
Total	**3.49861**	3.72186	3.94229	4.10609	4.26099
Industrial Taxable Full					
City	**0.78076**	0.7998	0.86503	0.94662	1.03420
Region	**1.22785**	1.25668	1.30082	1.42711	1.57124
School Boards	**1.59000**	1.93	2.27248	2.42866	2.59655
Total	**3.59861**	3.98648	4.43833	4.80239	5.20199

1. Source: Planning, Housing and Community Services Department, Regional Municipality of Waterloo
2. 2011 & 2012 - Source: Statistics Canada, 2011 Census Data, 2008 through 2010 - Source: Statistics Canada, 2006 Census Data





☆The 2011 tax rate increase has been restated to indicate what the tax rate increase would have been prior to the transfer of storm water management costs to a new user rate. Without this restatement, a decrease would be shown for 2011.

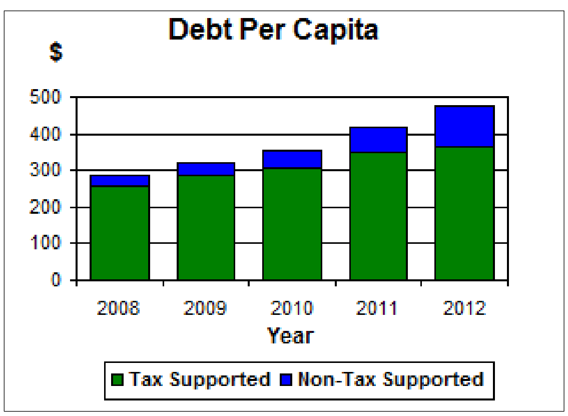
FINANCIAL & STATISTICAL REVIEW
As at December 31 (unaudited)

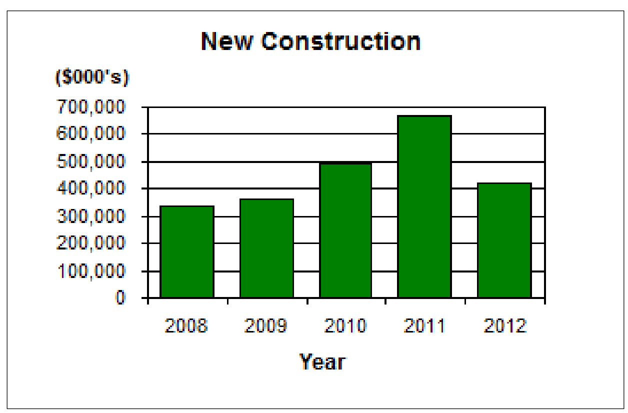
($000's)	**2012**	2011	2010 (restated)	2009	2008 (restated)
4. COLLECTION STATISTICS					
Total taxes billed	**346,514**	338,414	336,801	322,122	308,330
Total collections	**344,955**	337,067	335,952	319,833	306,122
Total collections as a % of current levy	**100%**	100%	100%	99%	99%
Taxes receivable, net of allowance	**21,661**	22,276	20,978	20,286	18,785
Total receivable as a % of current levy	**6%**	7%	6%	6%	6%
5. CONSOLIDATED REVENUES					
Taxation and user charges	**273,446**	282,682	277,140	275,099	265,944
Grants	**11,772**	21,766	23,256	24,228	3,788
Share of net income of Kitchener Power Corp. and its affiliates	**8,448**	8,351	7,522	4,238	4,718
Other	**37,424**	25,948	27,217	27,384	32,298
Obligatory fund revenue recognized	**6,877**	9,928	17,840	11,986	14,709
Total revenues	**337,967**	348,675	352,975	342,935	321,457
6. CONSOLIDATED EXPENSES					
Expenses by Function					
General government	**38,010**	34,509	27,563	35,650	37,458
Protection to persons and property	**40,572**	38,691	40,695	38,367	35,182
Transportation services	**29,508**	31,101	30,117	33,623	29,969
Environmental services	**32,291**	20,999	22,530	17,822	18,162
Health services	**1,947**	1,867	1,775	1,830	1,772
Social and family services	**2,307**	1,859	1,830	1,756	1,649
Recreation and cultural services	**59,490**	60,169	57,206	58,537	54,874
Planning and development	**9,243**	11,065	11,830	8,761	28,402
Gasworks	**64,551**	73,508	79,393	90,880	95,488
Total Expenses	**277,919**	273,768	272,939	287,226	302,956
Expenses by Object					
Salaries, wages and employee benefits	**128,444**	123,722	112,829	114,678	111,624
Materials and services	**103,261**	112,620	121,543	126,000	158,192
Debenture debt interest	**3,889**	3,543	3,275	2,975	2,663
Grants and other	**3,867**	3,514	3,007	2,841	2,178
Amortization	**34,299**	29,898	28,435	28,155	28,125
Loss/(Gain) on sale of assets	**4,159**	471	3,850	12,577	174
Total Expenses	**277,919**	273,768	272,939	287,226	302,956
7. ANNUAL SURPLUS	**60,048**	74,907	80,036	55,709	18,501

FINANCIAL & STATISTICAL REVIEW
As at December 31 (unaudited)

	2012	2011	2010 (restated)	2009	2008 (restated)
8. ANALYSIS OF LONG-TERM DEBT ($000's)					
Gross debt issued by the municipality	**111,263**	98,188	81,327	72,200	63,512
Less debt recoverable from municipal enterprises and consolidated boards	**12,077**	12,538	6,962	3,101	148
Less debt recoverable from other sources	**13,434**	3,857	4,663	5,469	6,279
Net debt to be repaid from property taxes	**85,752**	81,793	69,702	63,630	57,085
Net debt per capita ($'s)	**366**	352	304	284	259
Legal debt limit ($000's)[3]	**294,540**	313,022	315,365	298,048	286,780
Interest on long-term debt as a % of total expenditures	**1.4%**	1.3%	1.2%	1.0%	0.9%
9. ACCUMULATED SURPLUS ($000's)					
Reserves, reserve funds and deferred revenue - obligatory reserve funds	**37,832**	31,813	21,984	32,987	41,254
Unexpended capital financing	**68,323**	65,886	41,733	55,960	54,354
Accumulated surplus	**1,093,437**	1,033,389	958,483	888,358	841,899
10. NEW CONSTRUCTION					
Value of construction ($000's)	**418,227**	666,026	495,345	365,925	339,408
Number of building permits	**2,420**	2,458	2,664	2,580	2,960
Number of single family dwelling starts	**396**	590	580	471	643
11. NET FINANCIAL ASSETS ($000's)	**160,566**	160,278	148,319	155,491	142,456

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





12. PRINCIPAL CORPORATE TAXPAYERS
2012 Assessment ($000's)

CF/Realty Holdings Inc.	**190,014**
Ontrea Inc.	**183,233**
Drewlo Holdings Inc.	**158,299**
Voisin Developments Limited	**78,533**
Morguard NAR (Ontario) Corporation	**73,409**
Loblaws Inc.	**57,446**
Homestead Land Holdings Limited	**56,994**
Kitchener Housing Inc.	**55,604**
Stamm Investments Limited	**47,163**
Steeves & Rozema Enterprises Limited	**41,219**
The INCC Corp.	**39,683**
7550332 Canada Inc.	**38,399**
Hallman Construction Limited	**35,800**
First Capital (Fairway) Corporation	**34,645**
Berkshire Building Corporation	**34,355**