

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

And Independent Auditors' Report thereon

Year ended December 31, 2018

(Expressed in thousands of dollars)



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INDEPENDENT AUDITORS' REPORT

To the Members of Council and Ratepayers of The City of Waterloo

Opinion

We have audited the consolidated financial statements of The City of Waterloo (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

July 4, 2019

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017
(Expressed in thousands of dollars)

	2018	2017
Financial Assets		
Cash and short-term investments	\$ 49,783	\$ 70,348
Taxes receivable (note 2)	14,079	13,661
Accounts receivable (note 2)	21,654	20,597
Investments (note 3)	175,723	149,020
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 4)	101,196	98,634
	<u>362,435</u>	<u>352,260</u>
Liabilities		
Accounts payable and accrued liabilities	41,796	50,305
Deferred revenue (note 5)	84,688	78,641
Employee future benefits (note 6)	17,003	15,817
Long-term liabilities (note 7)	14,584	15,945
Capital lease obligation (note 8)	46,253	48,036
	<u>204,324</u>	<u>208,744</u>
Total net financial assets	158,111	143,516
Non-Financial Assets		
Tangible capital assets (note 9)	707,795	707,634
Inventory	2,342	1,819
Accumulated surplus (note 10)	<u>\$ 868,248</u>	<u>\$ 852,969</u>

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Operations

Year ended December 31, 2018, with comparative information for 2017
(Expressed in thousands of dollars)

	Budget 2018 (note 16)	Actual 2018	Actual 2017
Revenue:			
Taxation (note 11)	\$ 75,593	\$ 76,458	\$ 72,240
User charges	71,520	74,635	71,287
Grants:			
Province of Ontario	685	4,496	3,083
Government of Canada	3,146	5,567	5,235
Other municipalities	1,428	3,177	2,696
Other:			
Lot levies and development charges	13,469	7,295	21,271
Investment income	2,738	6,909	6,544
Other	17,995	3,634	5,378
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	1,709	5,618	6,602
Total revenue	188,283	187,789	194,336
Expenses:			
General government	11,046	9,207	9,208
Protection to persons and property	26,749	26,196	25,401
Transportation services	15,884	23,779	23,429
Environmental services	45,682	55,132	48,774
Health services	1,771	1,900	1,657
Social and family services	1,908	1,867	1,811
Recreation and cultural services	40,267	44,582	42,739
Planning and development	7,654	8,658	6,830
Other	1,274	1,189	1,975
Total expenses	152,235	172,510	161,824
Annual surplus	36,048	15,279	32,512
Accumulated surplus, beginning of year	852,969	852,969	820,457
Accumulated surplus, end of year	\$ 889,017	\$ 868,248	\$ 852,969

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2018, with comparative information for 2017
(Expressed in thousands of dollars)

	Budget 2018 (note 16)	Actual 2018	Actual 2017
Annual surplus	\$ 36,048	\$ 15,279	\$ 32,512
Acquisition of tangible capital assets	(109,218)	(25,409)	(44,103)
Amortization of tangible capital assets	-	23,587	22,911
Loss (gain) on disposal of tangible capital assets	-	1,552	(249)
Proceeds from disposal of tangible capital assets	-	109	899
	(73,170)	15,118	11,970
Change in inventory	-	(523)	(586)
Change in net financial assets	(73,170)	14,595	11,384
Net financial assets, beginning of year	143,516	143,516	132,132
Net financial assets, end of year	\$ 70,346	\$ 158,111	\$ 143,516

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017
(Expressed in thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 15,279	\$ 32,512
Items not involving cash:		
Amortization	23,587	22,911
Change in employee future benefits	1,186	1,048
Equity basis net income in Waterloo North Hydro Holding Corporation	(5,618)	(6,602)
Loss (gain) on disposal of tangible capital assets	1,552	(249)
Changes in non-cash working capital:		
Taxes receivable	(418)	(4,022)
Accounts receivable	(1,057)	(4,001)
Accounts payable and accrued liabilities	(8,509)	6,161
Deferred revenue	6,047	(8,624)
Inventory	(523)	(586)
Net change in cash from operating activities	31,526	38,548
Capital activities:		
Cash used to acquire tangible capital assets	(25,409)	(44,103)
Proceeds from disposal of tangible capital assets	109	899
Net change in cash from capital activities	(25,300)	(43,204)
Investing activities:		
Net decrease (increase) in investments	(26,703)	407
Dividends received from Waterloo North Hydro Holding Corporation	3,056	3,056
	(23,647)	3,463
Financing activities:		
Long-term debt issued	987	4,128
Long-term debt repaid	(2,348)	(2,062)
Interest on capital lease obligation repaid, including accrued interest	(1,783)	(1,615)
Net change in cash from financing activities	(3,144)	451
Net change in cash and short-term investments	(20,565)	(742)
Cash and short-term investments, beginning of year	70,348	71,090
Cash and short-term investments, end of year	\$ 49,783	\$ 70,348

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements

Year ended December 31, 2018
(Expressed in thousands of dollars)

The Corporation of the City of Waterloo is a municipality that was created on January 1, 1948 pursuant to the City of Waterloo Act. The City provides municipal services such as fire, public works, planning, parks and recreation, library and other general government operations.

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the City of Waterloo (the "City") are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

These consolidated statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all committees of Council and the following boards, municipal enterprises and utilities which are under the control of Council:

The Waterloo Public Library Board
The Uptown Waterloo Business Improvement Area Board of Management
The Corporation of the City of Waterloo Waterworks Operations
The Corporation of the City of Waterloo Sewer Operations

Interdepartmental and interorganizational transactions and balances between these entities and organizations have been eliminated.

(ii) Investment in Government Business Enterprises:

Waterloo North Hydro Holding Corporation and its affiliates are not consolidated but are accounted for on the modified equity basis, which reflects the City's investment in the enterprises and its share of undistributed net income since acquisition. Under the modified equity basis, the enterprise's accounting principles are not adjusted to conform with those of the City and interorganizational transactions and balances are not eliminated.

(iii) Accounting for Region and School Board transactions:

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

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in these consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2018
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(b) Basis of accounting:

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers are recognized in the consolidated financial statements as revenues in the period in which 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.

(d) Deferred revenue:

Deferred revenue represents grants, user charges, fees and development charges which have been collected, but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(e) Investment income:

Investment income is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the deferred revenue balance.

(f) Short-term investments:

Short-term investments include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition.

(g) Inventory:

Inventory is valued at the lower of cost or net realizable value.

(h) Investments:

Investments consist of bonds and debentures and are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2018
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(i) Employee future benefits:

The contributions to the Ontario Municipal Employers Retirement System ("OMERS"), 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 cost of pensions and other retirement benefits is 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. Any actuarial gains or losses from changes in assumptions are amortized over the average remaining service period for active employees.

(j) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(k) 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 is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life -Years
Land improvements	15 - 35
Buildings and building improvements	40
Vehicles	8 - 15
Machinery and equipment	3 - 10
Computer hardware and software	3 - 25
Water and wastewater infrastructure	8 - 75
Roads infrastructure	15 - 40

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.

(i) Contributions of tangible capital assets:

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2018
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(k) Tangible capital assets (continued):

(ii) Natural resources:

Natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

(iii) Works of art and cultural and historic assets:

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

(iv) Interest capitalization:

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

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

(l) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook Section 3150, *Tangible Capital Assets* in 2010, had required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2018
(Expressed in thousands of dollars)

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$1,181 (2017 - \$1,181). Accounts receivable are reported net of a valuation allowance of \$1,972 (2017 - \$1,859).

3. Investments:

The investments in the amount of \$175,723 (2017 - \$149,020) have a market value of \$201,366 (2017 - \$167,271) as at December 31, 2018. Investments are comprised of federal and provincial bonds with yields ranging from 1.3% to 5.17%.

4. Investment in Waterloo North Hydro Holding Corporation and affiliates:

Under the provincial government's Electricity Act, 1998, Waterloo North Hydro Holding Corporation, a holding company, along with its affiliate, Waterloo North Hydro Inc., were incorporated on March 1, 2000.

On May 1, 2000, under by-laws passed by the City, the Township of Wellesley and the Township of Woolwich the net assets of the former Hydro-Electric Commission of Waterloo North Hydro were transferred to the new corporations. The City took back a 73.2% share in the common shares of Waterloo North Hydro Holding Corporation and a 73.2% share in the long-term notes payable by the affiliates for the assets transferred.

The investment is comprised of the following:

	2018	2017
Waterloo North Hydro Holding Corporation common shares	\$ 18,423	\$ 18,423
Waterloo North Hydro Holding Corporation Class A special shares	1,597	1,597
Waterloo North Hydro Holding Corporation senior long-term notes receivable	15,244	15,244
Waterloo North Hydro Holding Corporation junior long-term notes receivable	12,160	12,160
Share of net income since acquisition	53,772	51,210
	<u>\$ 101,196</u>	<u>\$ 98,634</u>

Both notes receivable are unsecured. Waterloo North Hydro Holding Corporation's senior and junior long-term notes bear interest at a rate per annum equal to the interest rate on debt which the Ontario Energy Board or its successor determines is appropriate to pay for rate making purposes in the establishment of distribution rates. These rates may change from time to time with changes in the debt rate approved by the Ontario Energy Board. The interest rates are currently set at 6.0% and 4.54% (2017 - 6.00% and 4.54%) for the senior and junior long-term notes respectively.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2018
(Expressed in thousands of dollars)

4. Investment in Waterloo North Hydro Holding Corporation and affiliates (continued):

The following table provides condensed financial information in respect of Waterloo North Hydro Holding Corporation for its 2018 and 2017 fiscal years:

	2018	2017
Current assets	\$ 233	\$ 1,210
Long-term assets	134,020	129,439
Total assets	134,253	130,649
Current liabilities	151	48
Long-term notes payable	33,292	33,292
Total liabilities	33,443	33,340
Total shareholders equity	\$ 100,810	\$ 97,309

Results of operations:

	2018	2017
Revenues	\$ 9,649	\$ 11,111
Operating expenses	1,973	2,092
Net income	7,676	9,019
City share of net income - 73.2%	\$ 5,618	\$ 6,602

The investment in Waterloo North Hydro Holding Corporation and affiliates is comprised of the following:

	2018	2017
Balance, beginning of year	\$ 98,634	\$ 95,088
City's share of net income	5,618	6,602
Dividends received during the year	(3,056)	(3,056)
Balance, end of year	\$ 101,196	\$ 98,634

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2018
(Expressed in thousands of dollars)

5. Deferred revenue:

A requirement of the Public Sector Accounting Board, of CPA Canada, is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and under certain circumstances these funds may be refunded. The deferred revenues, reported on the consolidated statement of financial position, are made up of the following:

	2018	2017
Building permits	\$ 10,856	\$ 10,594
Development charges	36,158	33,298
For park purposes	24,222	22,407
For subdivider deposits	10,751	8,712
Federal gas tax	2,701	3,630
	\$ 84,688	\$ 78,641

Continuity of deferred revenue is as follows:

	2018	2017
Balance, beginning of year	\$ 78,641	\$ 87,265
Contributions from Federal gas tax	3,146	3,056
Contributions from Development Charges Act	7,942	9,379
Contributions from developers	4,773	3,593
Interest earned	1,832	1,661
Total contributions and interest	17,693	17,689
Development charges and grants earned	11,646	26,313
Balance, end of year	\$ 84,688	\$ 78,641

6. Employee future benefits:

The City provides certain employee benefits, which may require funding in future periods. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The Workplace Safety and Insurance Board ("WSIB") liability was estimated by an actuarial valuation as at December 31, 2018. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2018. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2018.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2018
(Expressed in thousands of dollars)

6. Employee future benefits (continued):

		2018		2017
Accumulated sick leave benefit plan entitlements	\$	5,508	\$	5,148
Vacation pay		1,849		1,739
Other post-employment benefits		9,646		8,930
	\$	17,003	\$	15,817

The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations for the accumulated sick leave benefit plan entitlements and other liabilities at December 31, 2018, are as follows:

	%	%
Discount rate	3.50	3.60
Expected long-term rate of return	6.00	6.00
Dental cost	3.00	3.00
Health care:		
2018	6.50	6.50
Declining by 2020	4.50	5.00

Information about the City's benefit plans is as follows:

		2018		2017
Accrued benefit obligation:				
Balance, beginning of year	\$	(18,875)	\$	(18,082)
Current benefit cost		(1,248)		(959)
Actuarial loss		(3,889)		-
Interest		(627)		(596)
Benefits paid		977		762
Balance, end of year		(23,662)		(18,875)
Unamortized actuarial loss		6,659		3,058
Liability for benefits	\$	(17,003)	\$	(15,817)
Amortization of actuarial loss	\$	(288)	\$	(255)

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2018
(Expressed in thousands of dollars)

6. Employee future benefits (continued):

(a) Workplace Safety and Insurance Board:

The WSIB administers injured worker benefit payments on behalf of the City as a Schedule 2 employer. The expense for the year was \$209 (2017 - \$308).

A reserve has been established to provide for this liability and is included in the accumulated surplus balance on the statement of financial position. The balance at the end of the year is \$nil (2017 - \$585) (note 10).

(b) Sick leave:

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to a cash payment when they leave the City's employment. The expense for the current year was \$368 (2017 - \$337).

A reserve fund has been established to provide for this past service liability and is included in the accumulated surplus balance on the statement of financial position. The balance at the end of the year is \$4,569 (2017 - \$4,444) (note 10).

(c) Pension plan:

The City makes contributions to OMERS, which is a multi-employer plan, on behalf of all permanent, full-time members 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.

Contribution rates for employees earning below the year's maximum pensionable earnings is 9.0% and 14.6% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2018 was \$5,353 (2017 - \$5,319) for current service and is included as an expenditure on the consolidated statement of operations.

The OMERS pension plan has a deficit. The last available report for the OMERS plan was on December 31, 2018. At that time the plan reported \$4.2 billion actuarial deficit (2017 - \$5.4 billion), based on actuarial liabilities of \$99 billion (2017 - \$94 billion) and actuarial assets of \$95 billion (2017 - \$89 billion). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

(d) Other liabilities:

The City pays certain health, dental and life insurance benefits on behalf of its retired employees up to the age of 65, if they have at least ten years service with the City. The expense for the year was \$334 (2017 - \$290).

No reserve fund has been established to provide for this liability.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2018
(Expressed in thousands of dollars)

7. Long-term liabilities:

- (a) The balance of long-term liabilities reported on the consolidated statement of financial position is made up of the following:

	2018	2017
Loan payable at 1.25%-3.75% repayable in semi-annual payments of principal and interest due 2023	\$ 3,952	\$ 4,673
Loan payable at 1.15%-3.00% repayable in semi-annual payments of principal and interest due 2024	5,903	6,816
Loan payable at 1.15%-2.35% repayable in annual payments of principal and interest due 2027	3,742	4,128
Loan payable at 2.0%-3.1% repayable in annual payments of principal and interest due 2028	987	-
Loan payable at 6.5% repayable in annual payments of principal and interest due 2018	-	328
Long-term liabilities, end of year	\$ 14,584	\$ 15,945

- (b) For the long-term liabilities in (a) of this note, the annual principal payments over the next five years and thereafter are as follows:

2019	\$ 2,152
2020	2,202
2021	2,255
2022	2,308
2023	2,363
Thereafter	3,304
	\$ 14,584

- (c) The long-term liabilities in (a) of this note issued in the name of the City, have received approval of the Ontario Municipal Board for those approved on or before December 31, 2000. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2018
(Expressed in thousands of dollars)

8. Capital lease obligation:

In fiscal 2000, the City entered into a 31-year financing agreement to fund the construction of RIM Park. On July 23, 2001, a statement of claim was issued by the Superior Court in Kitchener, by lawyers acting for the City, against the parties that provided the financing. The litigation was settled in February 2002.

As a result of the settlement, the "Original Agreement", which carried an effective annual interest rate of 9.26% compounded semi-annually, was replaced by a "New Agreement" bearing an effective semi-annual rate of 7.35% compounded semi-annually. The revised rate is applicable with effect from February 2002.

The City has accounted for the obligation as a capital lease. The amount of the obligation is calculated as the present value of the payments required under the terms of the New Agreement. The discount rate used by the City in determining the present value of the lease payments is 9.26% up to the date of settlement and 7.35% thereafter.

The payments under the sublease began in 2002 and the last payment is due September 1, 2031.

The annual lease payments over the next five years and thereafter are as follows:

2019	\$	5,160
2020		5,210
2021		5,261
2022		5,312
2023		5,365
Thereafter		44,952
		<hr/> 71,260
Less amount representing interest at 7.35%		25,007
Present value of net minimum capital lease payments	\$	<hr/> 46,253 <hr/>

Interest of \$3,328 (2017 - \$3,449) relating to the capital lease obligation has been included in expenses in the consolidated statement of operations.

The cost of leased tangible capital assets at December 31, 2018 is \$44,542 (2017 - \$44,542) and accumulated amortization of leased tangible capital assets at December 31, 2018 is \$19,856 (2017 - \$18,742).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12
(Expressed in thousands of dollars)

Year ended December 31, 2018

9. Tangible capital assets:

2018	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost:								
Balance, beginning of year	154,897	23,743	197,560	42,323	361,893	319,332	35,735	1,135,483
Additions	1,450	5,061	1,245	4,543	12,423	16,696	(16,009)	25,409
Disposals	-	36	-	2,368	532	7,082	-	10,018
Balance, end of year	156,347	28,768	198,805	44,498	373,784	328,946	19,726	1,150,874
Accumulated amortization:								
Balance, beginning of year	-	7,334	85,819	26,575	123,376	184,745	-	427,849
Disposals	-	35	-	2,340	424	5,558	-	8,357
Amortization expense	-	1,069	4,946	3,871	5,121	8,580	-	23,587
Balance, end of year	-	8,368	90,765	28,106	128,073	187,767	-	443,079
Net book value, end of year	156,347	20,400	108,040	16,392	245,711	141,179	19,726	707,795

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13
(Expressed in thousands of dollars)

Year ended December 31, 2018

9. Tangible capital assets (continued):

2017	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost:								
Balance, beginning of year	152,365	20,398	182,760	38,992	360,403	313,912	25,861	1,094,691
Additions	2,856	3,379	15,201	5,294	1,764	5,737	9,873	44,104
Disposals	324	34	401	1,963	274	317	-	3,313
Balance, end of year	154,897	23,743	197,560	42,323	361,893	319,332	35,734	1,135,482
Accumulated amortization:								
Balance, beginning of year	-	6,521	81,162	24,743	118,620	176,554	-	407,600
Disposals	-	32	251	1,910	213	257	-	2,663
Amortization expense	-	845	4,908	3,742	4,968	8,448	-	22,911
Balance, end of year	-	7,334	85,819	26,575	123,375	184,745	-	427,848
Net book value, end of year	154,897	16,409	111,741	15,748	238,518	134,587	35,734	707,634

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2018
(Expressed in thousands of dollars)

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction in the amount of \$19,726 (2017 - \$34,545) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets of \$nil (2017 - \$302) have been recognized at fair market value at the date of contribution.

(c) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

10. Accumulated surplus:

(a) Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2018	2017
For general reduction of taxation	\$ 2,170	\$ 2,549
For general reduction of user charges	-	28,349
Equity in tangible capital assets (note 9)	707,795	707,634
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 4)	101,196	98,634
Capital fund balance	64,595	56,364
Amounts to be recovered (note 10(c))	(77,840)	(79,798)
	797,916	813,732
Total reserves	54,154	25,093
Total reserve funds	16,178	14,142
Total accumulated surplus	\$ 868,248	\$ 852,967

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2018
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

	2018		2017	
Reserves set aside for specific purpose by Council:				
For acquisition of capital assets:				
Work equipment	1,742		\$ 1,642	
Computer replacement	-		500	
Heritage	610	2,352	610	\$ 2,752
For water		16,381		-
For sewage		11,360		-
For storm water		2,811		-
For WSIB		-		585
For winter control		803		759
For facilities maintenance		141		488
For elections		14		253
For tax rate stabilization		4,902		4,231
For operating budget contingency		107		168
For environmental fund		-		487
For employee development and capacity		904		1,331
For RIM Park investment		12,520		11,745
For innovation fund		723		721
For economic development		1,136		1,573
Total reserves		54,154	\$	\$ 25,093
Reserve funds set aside for specific purpose by Council:				
For acquisition of capital assets:				
Capital infrastructure	8,827		\$ 1,001	
Fire equipment	-		701	
Grey Silo	80		70	
Parking	1,608	10,515	1,358	\$ 3,130
For sick leave		4,569		4,444
For insurance		-		-
For rental housing		103		375
For senior outing day program		95		66
For storm events		-		516
For operating contingency		1,965		
For other capital expenditures:				
Capital reserve fund	12,359		7,880	
City centre maintenance	-		373	
City centre vacancy	-		38	
Uptown development	-		3,224	
Environmentally sensitive lands	790		709	
Industrial Land purchases	(19,973)		(12,199)	
Library expansion fund	3,549		3,454	
OMB Hearings	948		1,016	
Cemetery	1,258	(1,069)	1,116	5,611
Total reserve funds	\$	16,178	\$	14,142

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2018
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ended December 31, 2018, has been reduced by an amount of \$3,577 (2017 - \$1,956) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$77,840 (2017 - \$79,798) in future years, is comprised of the following:

	2018	2017
Long-term liabilities (note 7)	\$ 14,584	\$ 15,945
Capital lease proceeds (note 8)	46,253	48,036
Employee benefits and other liabilities (note 6)	17,003	15,817
	<u>\$ 77,840</u>	<u>\$ 79,798</u>

11. Taxation:

Taxation revenue, reported on the consolidated statement of operations, is made up of the following:

	2018	2017
Residential and farm taxation	\$ 178,037	\$ 168,128
Commercial, industrial and business taxation and supplementary taxes	91,994	86,887
Taxation from other governments	5,169	4,991
Balance, end of year	275,200	260,006
Payments to Region and school boards	(198,742)	(187,766)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 76,458</u>	<u>\$ 72,240</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2018
(Expressed in thousands of dollars)

12. Trust funds:

Trust funds administered by the Municipality amounting to \$10,284 (2017 - \$9,875) have neither 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 composed of the following:

	2018	2017
Cemeteries	\$ 9,799	\$ 9,352
Others	485	523
	<u>\$ 10,284</u>	<u>\$ 9,875</u>

13. Contingent liabilities:

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. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

14. Municipal insurance pool:

In 1998, the City entered into an agreement with members of the Waterloo Region Municipalities to purchase property damage and public liability insurance on a group basis and share a retained level of risk. The members pay an annual levy to fund insurance, pre-fund expected losses and contribute to a surplus. The pool has purchased insurance to fund losses above a pre-determined deductible and any losses above a pre-determined total in any year. The City's share of pool levies is 10.70% as of May 31, 2018 (11.78% as of May 31, 2017) and any surplus is 11.18% as of May 31, 2018 (11.41% as at May 31, 2017). The pool's surplus at May 31, 2018 is \$4,848 (2017 - \$2,975).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2018
(Expressed in thousands of dollars)

15. Segmented information:

Segmented information has been identified based upon lines of service provided by the City. City services are provided by department and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(i) General Government:

The General Government Services segment is comprised of governance and corporate management of the municipality.

(ii) Protective to persons and property:

The Protective to persons and property segment is comprised of the following service areas: fire services including fire suppression, fire prevention programs and fire inspections, by-law enforcement and building permit and inspection.

(iii) Transportation Services:

Transportation Services segment is comprised of the following services: roads maintenance, winter control, parking, street lighting and other transportation services.

(iv) Environmental Services:

The Environmental Services segment is comprised of services such as the engineering and operation of water distribution systems, storm and wastewater collection systems and other environmental services.

(v) Health Services:

The Health Services segment is comprised primarily of cemetery maintenance and management.

(vi) Social and Family Services:

The Social and Family Services segment is comprised primarily of assistance to aged persons.

(vii) Recreation and Cultural Services:

The Recreation and Cultural Services segment is comprised of the following service areas: parks, recreation programs, recreation facilities, golf courses, libraries, museums and other cultural services and activities.

(viii) Planning and Development:

The Planning and Development segment is comprised of planning and zoning, commercial and industrial developments and residential developments.

(ix) Other:

The Other segment is comprised of other services that could not be attributed to a specific segment.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2018
(Expressed in thousands of dollars)

15. Segmented information (continued):

Segmented information has been identified based upon lines of service provided by the City. City services are provided by department and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

Certain allocation methodologies are employed in the preparation of segmented financial information. Taxation and payment-in-lieu of taxes are allocated to the segments based on the segment's budgeted net expenditure. User charges and other revenue have been allocated to the segments based upon the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made. Development charges earned and developer contributions received were allocated to the segment for which the charge was collected.

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 19
(Expressed in thousands of dollars)

Year ended December 31, 2018

15. Segmented information (continued):

Year ended December 31, 2018

	General Government	Protection to Persons and property	Transportation services	Environmental services	Health services	Social and family services	Recreation and cultural services	Planning and development	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue:										
Taxation	2,838	21,225	13,020	-	-	-	30,738	5,094	3,543	76,458
User charges	1,081	5,515	544	54,315	1,743	389	8,449	2,560	39	74,635
Grants:										
Province of Ontario	-	-	413	974	-	747	816	-	1,546	4,496
Government of Canada	-	-	-	1,422	-	-	69	-	4,076	5,567
Other municipalities	219	9	1,907	829	-	18	195	-	-	3,177
Other:										
Lot levies and development charges	-	-	-	-	-	-	-	-	7,295	7,295
Investment income	6,909	-	-	-	-	-	-	-	-	6,909
Other	-	-	-	-	-	-	-	-	3,634	3,634
Equity basis net income in Waterloo North Hydro Holding Corporation	-	-	-	-	-	-	-	-	5,618	5,618
Total revenue	11,047	26,749	15,884	57,540	1,743	1,154	40,267	7,654	25,751	187,789
Expenditures:										
Current:										
Salaries, wages and benefits	14,301	20,962	7,113	4,136	1,130	1,269	19,064	4,392	1,189	73,556
Materials and services	5,322	2,078	5,679	40,765	573	181	11,797	2,520	-	68,915
Debenture interest	18	-	162	279	-	-	3,328	-	-	3,787
Other	880	51	29	1	24	9	859	812	-	2,665
Amortization	1,413	733	9,351	6,291	124	-	5,659	16	-	23,587
Internal transfers	(12,727)	2,372	1,445	3,660	49	408	3,875	918	-	-
Total expenditures	9,207	26,196	23,779	55,132	1,900	1,867	44,582	8,658	1,189	172,510
Annual surplus (deficit)	1,840	553	(7,895)	2,408	(157)	(713)	(4,315)	(1,004)	24,562	15,279

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 20
(Expressed in thousands of dollars)

Year ended December 31, 2018

15. Segmented information (continued):

Year ended December 31, 2017

	General Government	Protection to Persons and property	Transportation services	Environmental services	Health services	Social and family services	Recreation and cultural services	Planning and development	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue:										
Taxation	7,085	21,699	12,416	-	-	-	27,991	5,919	(2,870)	72,240
User charges	1,042	4,892	1,651	50,707	1,698	355	8,567	2,372	3	71,287
Grants:										
Province of Ontario	-	-	-	367	-	691	2,025	-	-	3,083
Government of Canada	-	-	-	-	2	(2)	509	-	4,726	5,235
Other municipalities	365	10	2,147	84	-	58	32	-	-	2,696
Other:										
Lot levies and development charges	-	-	-	-	-	-	-	-	21,271	21,271
Investment income	6,544	-	-	-	-	-	-	-	-	6,544
Other	-	-	-	-	-	-	-	-	5,378	5,378
Equity basis net income in Waterloo North Hydro Holding Corporation	-	-	-	-	-	-	-	-	6,602	6,602
Total revenue	15,036	26,601	16,214	51,158	1,700	1,102	39,124	8,291	35,110	194,336
Expenditures:										
Current:										
Salaries, wages and benefits	12,320	20,064	6,940	3,892	1,025	1,253	17,882	4,364	1,975	69,715
Materials and services	5,733	2,281	6,622	35,075	487	171	11,293	1,590	-	63,252
Debenture interest	33	7	177	176	-	-	3,449	-	-	3,842
Other	462	45	1	16	21	8	883	668	-	2,104
Amortization	1,400	686	9,159	6,181	106	-	5,363	16	-	22,911
Internal transfers	(10,740)	2,318	530	3,434	18	379	3,869	192	-	-
Total expenditures	9,208	25,401	23,429	48,774	1,657	1,811	42,739	6,830	1,975	161,824
Annual surplus (deficit)	5,828	1,200	(7,215)	2,384	43	(709)	(3,615)	1,461	33,135	32,512

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 21

Year ended December 31, 2018
(Expressed in thousands of dollars)

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2018 operating and capital budgets approved by Council on November 20, 2017. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Operating budget	185,827
Capital budget	120,965
Reserve budget	31,846
Less:	
Transfers from other funds	(150,355)
Proceeds on debt issue	-
<hr/> Total revenue	<hr/> 188,283
Expenses:	
Operating budget	185,827
Capital budget	120,965
Reserve budget	90,984
Less:	
Transfers to other funds	(132,192)
Capital expenses	(109,218)
Debt principal payments	(4,131)
<hr/> Total expenses	<hr/> 152,235
<hr/> Annual surplus	<hr/> <hr/> 36,048