

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

And Independent Auditors' Report thereon

Year ended December 31, 2020

(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, 2020
- 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, 2020 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 9, 2021

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	2020	2019
Financial Assets		
Cash and short-term investments	\$ 84,006	\$ 110,764
Taxes receivable (note 2)	14,834	11,848
Accounts receivable (note 2)	20,870	22,200
Investments (note 3)	160,885	141,094
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 4)	102,419	103,504
	<u>383,014</u>	<u>389,410</u>
Liabilities		
Accounts payable and accrued liabilities	50,413	41,527
Deferred revenue (note 5)	82,114	97,360
Employee future benefits (note 6)	19,966	18,572
Long-term liabilities (note 7)	13,368	15,885
Capital lease obligation (note 8)	42,127	44,288
	<u>207,988</u>	<u>217,632</u>
Total net financial assets	175,026	171,778
Non-Financial Assets		
Tangible capital assets (note 9)	786,249	738,350
Inventory	2,198	1,425
Accumulated surplus (note 10)	<u>\$ 963,473</u>	<u>\$ 911,553</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, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Budget 2020 (note 16)	Actual 2020	Actual 2019
Revenue:			
Taxation (note 11)	\$ 82,888	\$ 82,951	\$ 78,762
User charges	72,949	66,293	75,216
Grants	2,235	14,855	8,478
Other:			
Lot levies and development charges	28,989	24,386	9,609
Investment income	4,458	7,158	9,903
Contributed assets	–	21,777	24,776
Other	12,276	4,772	5,188
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	2,284	1,504	4,960
Total revenue	206,079	223,696	216,892
Expenses:			
General government	8,798	8,619	8,748
Protection to persons and property	27,975	29,069	28,080
Transportation services	20,281	29,078	25,562
Environmental services	49,730	51,249	53,744
Health services	1,716	1,865	1,815
Social and family services	1,949	1,646	1,816
Recreation and cultural services	44,121	40,505	44,608
Planning and development	9,669	8,271	7,646
Other	762	1,474	1,568
Total expenses	165,001	171,776	173,587
Annual surplus	41,078	51,920	43,305
Accumulated surplus, beginning of year	911,553	911,553	868,248
Accumulated surplus, end of year	\$ 952,631	\$ 963,473	\$ 911,553

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, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	Budget 2020 (note 16)	Actual 2020	Actual 2019
Annual surplus	\$ 41,078	\$ 51,920	\$ 43,305
Acquisition of tangible capital assets	(96,982)	(77,178)	(56,782)
Amortization of tangible capital assets	–	26,109	25,192
Loss on disposal of tangible capital assets	–	2,922	406
Proceeds from disposal of tangible capital assets	–	248	629
	(55,904)	4,021	12,750
Change in inventory	–	(773)	917
Change in net financial assets	(55,904)	3,248	13,667
Net financial assets, beginning of year	171,778	171,778	158,111
Net financial assets, end of year	\$ 115,874	\$ 175,026	\$ 171,778

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, 2020, with comparative information for 2019
(Expressed in thousands of dollars)

	2020	2019
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 51,920	\$ 43,305
Items not involving cash:		
Amortization	26,109	25,192
Change in employee future benefits	1,394	1,569
Equity basis net income in Waterloo North Hydro Holding Corporation	(1,504)	(4,960)
Loss on disposal of tangible capital assets	2,922	406
Contributed assets	(21,777)	(24,776)
Changes in non-cash working capital:		
Taxes receivable	(2,986)	2,231
Accounts receivable	1,330	(546)
Accounts payable and accrued liabilities	8,886	(269)
Deferred revenue	(15,246)	12,672
Inventory	(773)	917
Net change in cash from operating activities	50,275	55,741
Capital activities:		
Cash used to acquire tangible capital assets	(55,401)	(32,006)
Proceeds from disposal of tangible capital assets	248	629
Net change in cash from capital activities	(55,153)	(31,377)
Investing activities:		
Net decrease (increase) in investments	(19,791)	34,629
Dividends received from Waterloo North Hydro Holding Corporation	2,589	2,652
	(17,202)	37,281
Financing activities:		
Long-term debt issued	–	3,453
Long-term debt repaid	(2,517)	(2,152)
Capital lease obligation repaid, including accrued interest	(2,161)	(1,965)
Net change in cash from financing activities	(4,678)	(664)
Net change in cash and short-term investments	(26,758)	60,981
Cash and short-term investments, beginning of year	110,764	49,783
Cash and short-term investments, end of year	\$ 84,006	\$ 110,764

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, 2020
(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, 2020
(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, 2020
(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, 2020
(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, 2020
(Expressed in thousands of dollars)

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$1,181 (2019 - \$1,181). Accounts receivable are reported net of a valuation allowance of \$1,910 (2019 - \$2,043).

3. Investments:

The investments in the amount of \$160,885 (2019 - \$141,094) have a market value of \$166,196 (2019 - \$146,689) as at December 31, 2020. Investments are comprised of federal and provincial bonds with yields ranging from 0.3% to 5.0%.

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:

	2020	2019
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	54,995	56,080
	<u>\$ 102,419</u>	<u>\$ 103,504</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 6.00% and 4.54% (2019 - 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, 2020
(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 2020 and 2019 fiscal years:

	2020	2019
Current assets	\$ 242	\$ 195
Long-term assets	136,278	137,163
Total assets	136,520	137,358
Current liabilities	749	104
Long-term notes payable	33,292	33,292
Total liabilities	34,041	33,396
Total shareholders equity	\$ 102,479	\$ 103,962

Results of operations:

	2020	2019
Revenues	\$ 4,114	\$ 8,916
Operating expenses	2,060	2,140
Net income	2,054	6,776
City share of net income - 73.2%	\$ 1,504	\$ 4,960

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

	2020	2019
Balance, beginning of year	\$ 103,504	\$ 101,196
City's share of net income	1,504	4,960
Dividends received during the year	(2,589)	(2,652)
Balance, end of year	\$ 102,419	\$ 103,504

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2020
(Expressed in thousands of dollars)

5. Deferred revenue:

A requirement of public sector accounting standards 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. Deferred revenue is made up of the following:

	2020	2019
Building permits	\$ 9,329	\$ 10,160
Development charges	30,355	41,026
For park purposes	31,602	29,869
For subdivider deposits	9,776	9,568
Federal gas tax	1,052	6,737
	\$ 82,114	\$ 97,360

Continuity of deferred revenue is as follows:

	2020	2019
Balance, beginning of year	\$ 97,360	\$ 84,688
Contributions from Federal gas tax	3,185	6,390
Contributions from Development Charges Act	10,452	13,036
Contributions from developers	3,107	3,885
Interest earned	1,664	2,726
Total contributions and interest	18,408	26,037
Development charges and grants earned	33,654	13,365
Balance, end of year	\$ 82,114	\$ 97,360

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 determined by an actuarial valuation as at December 31, 2020. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2019. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2020.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2020
(Expressed in thousands of dollars)

6. Employee future benefits (continued):

	2020	2019
Accumulated sick leave benefit plan entitlements	\$ 5,842	\$ 5,589
Vacation pay	2,215	2,013
Other post-employment benefits	11,909	10,970
	\$ 19,966	\$ 18,572

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, 2020, are as follows:

	%
Discount rate	3.50
Expected long-term rate of return	6.00
Dental cost	3.00
Health care	4.50

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

	2020	2019
Accrued benefit obligation:		
Balance, beginning of year	\$ (24,662)	\$ (23,662)
Current benefit cost	(1,194)	(1,568)
Actuarial loss	-	(52)
Interest	(805)	(788)
Benefits paid	1,276	1,408
Balance, end of year	(25,385)	(24,662)
Unamortized actuarial loss	5,419	6,090
Liability for benefits	\$ (19,966)	\$ (18,572)
Amortization of actuarial loss	\$ (671)	\$ (621)

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2020
(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 \$423 (2019 - \$594).

(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 \$269 (2019 - \$393).

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 \$4,417 (2019 - \$4,434) (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 2020 was \$5,649 (2019 - \$5,606) 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, 2019. At that time the plan reported a \$3.2 billion actuarial deficit (2020 - \$3.4 billion), based on actuarial liabilities of \$113 billion (2019 - \$112 billion) and actuarial assets of \$110 billion (2019 - \$109 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 of service with the City. The expense for the year was \$513 (2019 - \$402).

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, 2020
(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:

	2020	2019
Loan payable at 1.25%-3.75% repayable in semi-annual payments of principal and interest due 2023	\$ 2,443	\$ 3,209
Loan payable at 1.15%-3.00% repayable in semi-annual payments of principal and interest due 2024	4,018	4,970
Loan payable at 1.15%-2.35% repayable in annual payments of principal and interest due 2027	2,957	3,352
Loan payable at 2.0%-3.1% repayable in annual payments of principal and interest due 2028	812	901
Loan payable at 1.95%-2.35% repayable in annual payments of principal and interest due 2029	3,138	3,453
Long-term liabilities, end of year	\$ 13,368	\$ 15,885

- (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:

2021	\$ 2,576
2022	2,635
2023	2,697
2024	1,896
2025	879
Thereafter	2,685
	\$ 13,368

- (c) 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, 2020
(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:

2021	\$	5,261
2022		5,312
2023		5,365
2024		5,418
2025		5,474
Thereafter		34,059
		<hr/> 60,889
Less amount representing interest at 7.35%		18,762
Present value of net minimum capital lease payments	\$	<hr/> 42,127

Interest of \$3,049 (2019 - \$3,195) 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, 2020 is \$44,542 (2019 - \$44,542) and accumulated amortization of leased tangible capital assets at December 31, 2020 is \$22,083 (2019 - \$20,969).

THE CORPORATION OF THE CITY OF WATERLOO

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

Year ended December 31, 2020

9. Tangible capital assets:

2020	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	160,937	32,202	201,846	47,924	395,208	344,467	18,524	1,201,108
Additions	4,142	13,323	1,483	5,926	19,711	20,605	11,988	77,178
Disposals	–	968	–	2,626	622	6,468	–	10,684
Balance, end of year	165,079	44,557	203,329	51,224	414,297	358,604	30,512	1,267,602
Accumulated amortization:								
Balance, beginning of year	–	9,550	95,722	29,870	132,806	194,810	–	462,758
Disposals	–	873	–	2,539	490	3,612	–	7,514
Amortization expense	–	1,619	5,000	4,514	5,695	9,281	–	26,109
Balance, end of year	–	10,296	100,722	31,845	138,011	200,479	–	481,353
Net book value, end of year	165,079	34,261	102,607	19,379	276,286	158,125	30,512	786,249

THE CORPORATION OF THE CITY OF WATERLOO

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

Year ended December 31, 2020

9. Tangible capital assets (continued):

2019	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	156,347	28,768	198,805	44,498	373,784	328,946	19,726	1,150,874
Additions	4,590	3,497	3,139	6,328	22,777	17,653	(1,202)	56,782
Disposals	–	63	98	2,902	1,353	2,132	–	6,548
Balance, end of year	160,937	32,202	201,846	47,924	395,208	344,467	18,524	1,201,108
Accumulated amortization:								
Balance, beginning of year	–	8,368	90,765	28,106	128,073	187,767	–	443,079
Disposals	–	60	71	2,900	682	1,800	–	5,513
Amortization expense	–	1,242	5,028	4,664	5,415	8,843	–	25,192
Balance, end of year	–	9,550	95,722	29,870	132,806	194,810	–	462,758
Net book value, end of year	160,937	22,652	106,124	18,054	262,402	149,657	18,524	738,350

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2020
(Expressed in thousands of dollars)

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction in the amount of \$30,512 (2019 - \$18,524) 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 \$21,777 (2019 - \$24,776) 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:

	2020	2019
For general reduction of taxation	\$ 2,672	\$ 2,334
Equity in tangible capital assets (note 9)	786,249	738,350
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 4)	102,419	103,504
Capital fund balance	84,438	75,584
Amounts to be recovered (note 10(c))	(75,461)	(78,745)
	900,317	841,027
Total reserves	63,680	61,798
Total reserve funds	(524)	8,728
Total accumulated surplus	\$ 963,473	\$ 911,553

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2020
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

	2020	2019
Reserves set aside for specific purpose by Council:		
For acquisition of capital assets:		
Work equipment	\$ 1,138	\$ 1,761
Grey Silo	143	113
Heritage	528	548
For Business licensing	42	46
For Rental Housing	34	51
For water	16,892	17,771
For sewage	10,460	12,060
For storm water	4,231	3,334
For winter control	881	528
For facilities maintenance	154	154
For elections	222	100
For tax rate stabilization	5,750	5,119
For operating budget contingency	2,683	2,375
For employee development and capacity	2,488	1,045
For RIM Park investment	16,245	15,222
For innovation fund	250	250
For economic development	1,539	1,321
Total reserves	\$ 63,680	\$ 61,798
Reserve funds set aside for specific purpose by Council:		
For acquisition of capital assets:		
Capital infrastructure	\$ 7,579	\$ 7,699
Parking	1,823	1,697
For sick leave	4,417	4,434
For other capital expenditures:		
Capital reserve fund	11,274	14,949
Industrial Land purchases	(29,845)	(22,949)
Library expansion fund	2,898	738
OMB Hearings	892	889
Cemetery	438	1,271
Total reserve funds	\$ (524)	\$ 8,728

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2020
(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, 2020, has been reduced by an amount of \$311 (2019 - \$1,782) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.
- (c) The amounts to be recovered of \$75,461 (2019 - \$78,745) in future years, is comprised of the following:

	2020	2019
Long-term liabilities (note 7)	\$ 13,368	\$ 15,885
Capital lease obligation (note 8)	42,127	44,288
Employee benefits and other liabilities (note 6)	19,966	18,572
	<u>\$ 75,461</u>	<u>\$ 78,745</u>

11. Taxation:

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

	2020	2019
Residential and farm taxation	\$ 192,872	\$ 183,263
Commercial, industrial and business taxation and supplementary taxes	99,710	94,563
Taxation from other governments	5,856	5,706
Total taxation levied on behalf of City, Region, and School Board	298,438	283,532
Payments to Region and school boards	(215,487)	(204,770)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 82,951</u>	<u>\$ 78,762</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2020
(Expressed in thousands of dollars)

12. Trust funds:

Trust funds administered by the Municipality amounting to \$11,332 (2019 - \$10,682) 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:

	2020	2019
Cemeteries	\$ 10,750	\$ 10,243
Others	582	439
	<u>\$ 11,332</u>	<u>\$ 10,682</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 11.07% as of May 31, 2020 (10.90% as of May 31, 2019) and any surplus is 11.14% as of May 31, 2020 (11.14% as at May 31, 2019). The pool's surplus at May 31, 2020 is \$6,885 (2019 - \$6,606).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2020
(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, 2020
(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, 2020

15. Segmented information (continued):

Year ended December 31, 2020

	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	675	27,527	18,102	-	-	-	39,855	7,785	(10,993)	82,951
User charges	469	439	653	57,122	1,762	128	3,836	1,884	-	66,293
Grants	3,136	9	1,526	196	-	687	430	-	8,871	14,855
Other:										
Lot levies and development charges	-	-	-	-	-	-	-	-	24,386	24,386
Investment income	4,518	-	-	-	-	-	-	-	2,640	7,158
Other	-	-	-	-	-	-	-	-	26,549	26,549
Equity basis net income in Waterloo North Hydro Holding Corporation	-	-	-	-	-	-	-	-	1,504	1,504
Total revenue	8,798	27,975	20,281	57,318	1,762	815	44,121	9,669	52,957	223,696
Expenditures:										
Current:										
Salaries, wages and benefits	15,967	22,084	7,632	4,299	1,131	1,113	17,678	4,607	1,394	75,905
Materials and services	3,849	3,730	9,002	36,529	518	135	9,130	1,417	76	64,386
Debenture interest	-	-	124	206	-	-	3,095	14	1	3,440
Other	590	20	-	1	28	-	519	777	1	1,936
Amortization	2,398	829	10,104	6,396	132	-	6,239	11	-	26,109
Internal transfers	(14,185)	2,406	2,216	3,818	56	398	3,844	1,445	2	-
Total expenditures	8,619	29,069	29,078	51,249	1,865	1,646	40,505	8,271	1,474	171,776
Annual surplus (deficit)	179	(1,094)	(8,797)	6,069	(103)	(831)	3,616	1,398	51,483	51,920

THE CORPORATION OF THE CITY OF WATERLOO

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

Year ended December 31, 2020

15. Segmented information (continued):

Year ended December 31, 2019

	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	3,953	27,446	15,061	–	–	–	32,828	6,189	(6,715)	78,762
User charges	718	570	573	55,608	1,658	355	8,762	2,080	4,892	75,216
Grants	2,606	10	1,849	470	-	740	438	-	2,365	8,478
Other:										
Lot levies and development charges	–	–	–	–	–	–	–	–	9,609	9,609
Investment income	5,794	–	–	–	–	–	–	–	4,109	9,903
Other	–	–	–	–	–	–	–	–	29,964	29,964
Equity basis net income in Waterloo North Hydro Holding Corporation	–	–	–	–	–	–	–	–	4,960	4,960
Total revenue	13,071	28,026	17,483	56,078	1,658	1,095	42,028	8,269	49,184	216,892
Expenditures:										
Current:										
Salaries, wages and benefits	15,724	21,490	7,383	4,150	1,065	1,216	19,576	4,390	1,568	76,562
Materials and services	3,202	3,287	6,444	39,688	559	198	11,091	1,603	–	66,072
Debenture interest	–	–	144	234	–	–	3,456	–	–	3,834
Other	463	53	3	13	23	2	786	584	–	1,927
Amortization	2,579	830	9,676	6,071	120	-	5,906	10	–	25,192
Internal transfers	(13,220)	2,420	1,912	3,588	48	400	3,793	1,059	–	–
Total expenditures	8,748	28,080	25,562	53,744	1,815	1,816	44,608	7,646	1,568	173,587
Annual surplus (deficit)	4,323	(54)	(8,079)	2,334	(157)	(721)	(2,580)	623	47,616	43,305

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 21

Year ended December 31, 2020
(Expressed in thousands of dollars)

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2020 operating and capital budgets approved by Council on February 10, 2020. 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	\$ 190,863
Capital budget	116,090
Reserve budget	58,845
Less:	
Transfers from other funds	(159,719)
Total revenue	206,079
Expenses:	
Operating budget	190,863
Capital budget	116,090
Reserve budget	118,665
Less:	
Transfers to other funds	(158,957)
Capital expenses	(96,982)
Debt principal payments	(4,678)
Total expenses	165,001
Annual surplus	\$ 41,078

17. Impact of COVID-19:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and societal impact. At the time of the approval of these financial statements, the City has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic.

The financial impact to the City has included reduced user charges due to closure of certain City facilities, increased expenses for Personal Protective Equipment and increased grant revenue from Federal and Provincial governments to help the City address the financial implications of the pandemic.

Financial statements are required to be adjusted for events occurring between the date of the financial statements and the date of the auditors' report which provide additional evidence relating to conditions that existed as at year end.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 22

Year ended December 31, 2020
(Expressed in thousands of dollars)

17. Impact of COVID-19 (continued):

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.