

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2016



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of the City of Waterloo, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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



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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Waterloo as at December 31, 2016, and its consolidated results of operations, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

May 15, 2017
Waterloo, Canada

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Financial Assets | | |
| Cash and short-term investments | \$ 71,089,665 | \$ 43,894,718 |
| Taxes receivable (note 3) | 9,639,008 | 11,740,677 |
| Accounts receivable (note 3) | 16,596,346 | 15,624,097 |
| Investments (note 4) | 149,425,897 | 148,854,104 |
| Investment in Waterloo North Hydro Holding Corporation and affiliates (note 5) | 95,088,103 | 91,049,678 |
| | <u>341,839,019</u> | <u>311,163,274</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 44,141,593 | 32,416,482 |
| Deferred revenue (note 6) | 87,264,508 | 70,795,858 |
| Employee future benefits (note 7) | 14,769,163 | 14,205,636 |
| Long-term liabilities (note 8) | 13,879,002 | 15,880,001 |
| Accrued interest on capital lease obligation (note 9) | 1,298,194 | 2,757,342 |
| Capital lease obligation (note 9) | 48,353,159 | 48,353,159 |
| | <u>209,705,619</u> | <u>184,408,478</u> |
| Total net financial assets | 132,133,400 | 126,754,796 |
| Non-Financial Assets | | |
| Tangible capital assets (note 10) | 687,091,912 | 677,114,595 |
| Inventory | 1,232,489 | 1,120,677 |
| Accumulated surplus (note 11) | <u>\$ 820,457,801</u> | <u>\$ 804,990,068</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, 2016, with comparative information for 2015

| | Budget 2016 (note 17) | Actual 2016 | Actual 2015 (note 2) |
|---|-----------------------------|-----------------------|----------------------------|
| Revenue: | | | |
| Taxation (note 12) | \$ 68,697,431 | \$ 68,553,622 | \$ 66,426,463 |
| User charges | 66,835,744 | 69,974,214 | 65,380,340 |
| Grants: | | | |
| Province of Ontario | 685,876 | 1,662,471 | 1,454,617 |
| Government of Canada | 3,003,000 | 4,003,791 | 3,965,276 |
| Other municipalities | 1,458,737 | 1,602,350 | 1,410,318 |
| Other: | | | |
| Lot levies and development charges | 14,266,913 | 11,975,433 | 6,984,888 |
| Investment income | 4,361,937 | 6,446,863 | 6,058,591 |
| Other | 8,747,058 | 4,392,163 | 4,405,027 |
| Equity basis net income in Waterloo North Hydro Holding Corporation (note 5) | 1,709,000 | 6,611,405 | 3,976,685 |
| Total revenue | 169,765,696 | 175,222,312 | 160,062,205 |
| Expenses: | | | |
| General government | 7,879,835 | 9,700,208 | 6,086,665 |
| Protection to persons and property | 26,267,316 | 24,509,004 | 23,833,714 |
| Transportation services | 15,884,871 | 23,204,468 | 24,805,616 |
| Environmental services | 42,479,679 | 47,822,728 | 44,545,931 |
| Health services | 1,937,568 | 1,642,783 | 1,593,975 |
| Social and family services | 1,772,260 | 1,768,407 | 1,789,708 |
| Recreation and cultural services | 38,296,031 | 42,708,759 | 41,832,288 |
| Planning and development | 8,234,536 | 7,191,882 | 7,001,847 |
| Other | - | 1,206,340 | 941,782 |
| Total expenses | 142,752,096 | 159,754,579 | 152,431,526 |
| Annual surplus | 27,013,600 | 15,467,733 | 7,630,679 |
| Accumulated surplus, beginning of year | 804,990,068 | 804,990,068 | 797,359,389 |
| Accumulated surplus, end of year | \$ 832,003,668 | \$ 820,457,801 | \$ 804,990,068 |

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, 2016, with comparative information for 2015

| | Budget 2016 (note 17) | Actual 2016 | Actual 2015 |
|---|-----------------------------|----------------|----------------|
| Annual surplus | \$ 27,013,600 | \$ 15,467,733 | \$ 7,630,679 |
| Acquisition of tangible capital assets | (46,143,577) | (33,846,699) | (20,475,942) |
| Amortization of tangible capital assets | - | 23,453,725 | 21,557,131 |
| Loss on disposal of tangible capital assets | - | 206,270 | 334,396 |
| Proceeds from disposal of tangible capital assets | - | 209,387 | 208,256 |
| | (19,129,977) | 5,490,416 | 9,254,520 |
| Change in inventory | - | (111,812) | (99,119) |
| Change in net financial assets | (19,129,977) | 5,378,604 | 9,155,401 |
| Net financial assets, beginning of year | 126,754,796 | 126,754,796 | 117,599,395 |
| Net financial assets, end of year | \$ 107,624,819 | \$ 132,133,400 | \$ 126,754,796 |

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, 2016, with comparative information for 2015

| | 2016 | 2015 |
|---|---------------|---------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual surplus | \$ 15,467,733 | \$ 7,630,679 |
| Items not involving cash: | | |
| Amortization | 23,453,725 | 21,557,131 |
| Change in employee future benefits | 563,527 | 941,782 |
| Equity basis net income in Waterloo North Hydro Holding Corporation | (6,611,405) | (3,976,685) |
| Loss on disposal of tangible capital assets | 206,270 | 334,396 |
| Changes in non-cash working capital: | | |
| Taxes receivable | 2,101,669 | (629,720) |
| Accounts receivable | (972,249) | (2,370,144) |
| Accounts payable and accrued liabilities | 11,725,111 | (339,782) |
| Deferred revenue | 16,468,650 | 843,126 |
| Inventory | (111,812) | (99,119) |
| Net change in cash from operating activities | 62,291,219 | 23,891,664 |
| Capital activities: | | |
| Cash used to acquire tangible capital assets | (33,846,699) | (20,475,942) |
| Proceeds from disposal of tangible capital assets | 209,387 | 208,256 |
| Net change in cash from capital activities | (33,637,312) | (20,267,686) |
| Investing activities: | | |
| Net increase in investments | (571,793) | (6,481,682) |
| Dividends received from Waterloo North Hydro Holding Corporation | 2,572,980 | 2,428,044 |
| | 2,001,187 | (4,053,638) |
| Financing activities: | | |
| Long-term debt repaid | (2,000,999) | (1,942,999) |
| Interest on capital lease obligation repaid | (1,459,148) | (1,314,811) |
| Net change in cash from financing activities | (3,460,147) | (3,257,810) |
| Net change in cash and short-term investments | 27,194,947 | (3,687,470) |
| Cash and short-term investments, beginning of year | 43,894,718 | 47,582,188 |
| Cash and short-term investments, end of year | 71,089,665 | \$ 43,894,718 |
| Cash paid for interest | | |
| | \$ 3,996,919 | \$ 4,135,642 |
| Cash received from interest | | |
| | 6,469,406 | 3,593,840 |

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, 2016

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, 2016

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, 2016

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.

(ii) Natural resources:

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2016

1. Significant accounting policies (continued):

(k) Tangible capital assets (continued):

(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.

2. Reclassification of prior year presentation:

Certain comparative figures have been reclassified to conform to the current year's presentation.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2016

3. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$681,000 (2015 - \$250,000). Accounts receivable are reported net of a valuation allowance of \$1,689,020 (2015 - \$2,384,136).

4. Investments:

The investments in the amount of \$149,425,897 (2015 - \$148,854,104) have a market value of \$164,214,432 (2015 - \$158,195,648) as at December 31, 2016. Investments are comprised of federal and provincial bonds with yields ranging from 1.5% to 4.53%.

5. 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:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Waterloo North Hydro Holding Corporation common shares | \$ 18,423,325 | \$ 18,423,325 |
| Waterloo North Hydro Holding Corporation Class A special shares | 1,596,726 | 1,596,726 |
| Waterloo North Hydro Holding Corporation senior long-term notes receivable | 15,243,646 | 15,243,646 |
| Waterloo North Hydro Holding Corporation junior long-term notes receivable | 12,160,220 | 12,160,220 |
| Share of net income since acquisition | 47,664,186 | 43,625,761 |
| | <u>\$ 95,088,103</u> | <u>\$ 91,049,678</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% (2015 - 6.00% and 5.32%) 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, 2016

5. 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 2016 and 2015 fiscal years:

| | 2016 | 2015 |
|---------------------------|---------------|---------------|
| Current assets | \$ 1,309,827 | \$ 1,418,911 |
| Long-term assets | 124,489,042 | 118,905,510 |
| Total assets | 125,798,869 | 120,324,421 |
| Current liabilities | 42,063 | 84,590 |
| Long-term notes payable | 33,292,001 | 33,292,001 |
| Total liabilities | 33,334,064 | 33,376,591 |
| Total shareholders equity | \$ 92,464,805 | \$ 86,947,830 |

Results of operations:

| | 2016 | 2015 |
|----------------------------------|---------------|--------------|
| Revenues | \$ 10,981,758 | \$ 7,564,129 |
| Operating expenses | 1,949,784 | 2,131,499 |
| Net income | 9,031,974 | 5,432,630 |
| City share of net income - 73.2% | \$ 6,611,405 | \$ 3,976,685 |

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

| | 2016 | 2015 |
|------------------------------------|---------------|---------------|
| Balance, beginning of year | \$ 91,049,678 | \$ 89,501,037 |
| City's share of net income | 6,611,405 | 3,976,685 |
| Dividends received during the year | (2,572,980) | (2,428,044) |
| Balance, end of year | \$ 95,088,103 | \$ 91,049,678 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2016

6. 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:

| | 2016 | 2015 |
|-------------------------|----------------------|----------------------|
| Building permits | \$ 9,896,952 | \$ 9,461,556 |
| Development charges | 41,818,493 | 35,387,388 |
| For park purposes | 21,878,718 | 14,753,073 |
| For subdivider deposits | 8,370,567 | 5,063,309 |
| Federal gas tax | 5,299,778 | 6,130,532 |
| | <u>\$ 87,264,508</u> | <u>\$ 70,795,858</u> |

Continuity of deferred revenue is as follows:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Balance, beginning of year | \$ 70,795,858 | \$ 69,952,732 |
| Contributions from Federal gas tax | 3,003,227 | 2,860,216 |
| Contributions from Development Charges Act | 19,074,038 | 6,393,931 |
| Contributions from developers | 9,101,654 | 1,855,909 |
| Interest earned | 1,805,731 | 1,483,286 |
| Total contributions and interest | <u>32,984,650</u> | <u>12,593,342</u> |
| Development charges and grants earned | 16,516,000 | 11,750,216 |
| Balance, end of year | <u>\$ 87,264,508</u> | <u>\$ 70,795,858</u> |

7. 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, 2016. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2016. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2016.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2016

7. Employee future benefits (continued):

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Accumulated sick leave benefit plan entitlements | \$ 4,798,494 | \$ 4,717,575 |
| Vacation pay | 1,624,067 | 1,736,347 |
| Other post-employment benefits | 8,346,602 | 7,751,714 |
| | \$ 14,769,163 | \$ 14,205,636 |

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, 2016, are as follows:

| | % | % |
|-----------------------------------|------|------|
| Discount rate | 3.60 | 3.60 |
| Expected long-term rate of return | 6.00 | 6.00 |
| Dental cost | 3.00 | 3.00 |
| Health care: | | |
| 2017 | 6.50 | 6.50 |
| Declining by 2019 to | 5.00 | 5.00 |

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

| | 2016 | 2015 |
|--------------------------------|------------------------|------------------------|
| Accrued benefit obligation: | | |
| Balance, beginning of year | \$ (17,832,337) | \$ (16,064,218) |
| Actuarial gain (loss) | - | (988,188) |
| Current benefit cost | (690,809) | (784,679) |
| Interest | (589,446) | (700,876) |
| Benefits paid | 1,030,843 | 705,624 |
| Balance, end of year | (18,081,749) | (17,832,337) |
| Unamortized actuarial loss | 3,312,586 | 3,626,701 |
| Liability for benefits | \$ (14,769,163) | \$ (14,205,636) |
| Amortization of actuarial loss | \$ (314,115) | \$ (40,341) |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2016

7. 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 \$146,042 (2015 - \$119,635).

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 \$585,264 (2015 - \$585,264) (note 11).

(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 \$614,168 (2015 - \$317,048).

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 \$4,336,611 (2015 - \$4,453,535) (note 11).

(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 2016 was \$4,897,358 (2015 - \$4,786,146) 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, 2016. At that time the plan reported \$5.7 billion actuarial deficit (2015 - \$7.5 billion), based on actuarial liabilities of \$88 billion (2015 - \$85 billion) and actuarial assets of \$82 billion (2015 - \$77 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 \$295,540 (2015 - \$315,167).

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, 2016

8. Long-term liabilities:

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

| | 2016 | 2015 |
|--|---------------|---------------|
| The City has assumed responsibility for the payment of principal and interest charges on certain long-term liabilities issued by the Region of Waterloo. At the end of the year, the outstanding principal amount of this liability is | \$ 13,879,002 | \$ 15,880,001 |
| Long-term liabilities, end of year | \$ 13,879,002 | \$ 15,880,001 |

- (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:

| | |
|------------|---------------|
| 2017 | \$ 2,062,000 |
| 2018 | 1,962,000 |
| 2019 | 1,676,000 |
| 2020 | 1,718,000 |
| 2021 | 1,763,000 |
| Thereafter | 4,698,002 |
| | \$ 13,879,002 |

- (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.
- (d) The long-term liabilities carry interest rates ranging from 1.25% to 6.5%.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2016

9. 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.

In accordance with the terms of the Original Agreement, no amounts were payable until January 1, 2002. The balance as at December 31, 2016 of \$49,651,353 (2015 - \$51,110,501) represents \$48,353,159 (2015 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$1,298,194 (2015 - \$2,757,342) at 7.35%.

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:

| | |
|---|---------------|
| 2017 | \$ 5,063,707 |
| 2018 | 5,111,490 |
| 2019 | 5,160,228 |
| 2020 | 5,209,941 |
| 2021 | 5,260,648 |
| Thereafter | 55,628,847 |
| | <hr/> |
| | 81,434,861 |
| Less amount representing interest at 7.35% | 31,783,508 |
| | <hr/> |
| Present value of net minimum capital lease payments | \$ 49,651,353 |

Interest of \$3,557,713 (2015 - \$3,656,124) 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, 2016 is \$44,541,654 (2015 - \$44,113,209) and accumulated amortization of leased tangible capital assets at December 31, 2016 is \$17,628,777 (2015 - \$16,515,235).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2016

10. Tangible capital assets:

| 2016 | 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 | 150,137,267 | 16,661,558 | 180,257,216 | 34,648,388 | 354,757,741 | 311,326,969 | 16,130,798 | 1,063,919,937 |
| Additions | 2,228,388 | 3,765,865 | 2,502,659 | 6,057,845 | 6,368,524 | 3,192,749 | 9,730,669 | 33,846,699 |
| Disposals | (633) | (29,200) | (-) | (1,713,834) | (722,806) | (608,060) | (-) | (3,074,533) |
| Balance, end of year | 152,365,022 | 20,398,223 | 182,759,875 | 38,992,399 | 360,403,459 | 313,911,658 | 25,861,467 | 1,094,692,103 |
| Accumulated amortization: | | | | | | | | |
| Balance, beginning of year | - | 5,853,323 | 76,623,871 | 21,112,346 | 114,124,171 | 169,091,631 | - | 386,805,342 |
| Disposals | (-) | (26,071) | (-) | (1,598,782) | (445,496) | (588,527) | (-) | (2,658,876) |
| Amortization expense | - | 693,314 | 4,537,896 | 5,228,997 | 4,942,036 | 8,051,482 | - | 23,453,725 |
| Balance, end of year | - | 6,520,566 | 81,161,767 | 24,742,561 | 118,620,711 | 176,554,586 | - | 407,600,191 |
| Net book value, end of year | 152,365,022 | 13,877,657 | 101,598,108 | 14,249,838 | 241,782,748 | 137,357,072 | 25,861,467 | 687,091,912 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2016

10. Tangible capital assets (continued):

| 2015 | Land | | Building and | Vehicles, | Water and | Roads | Assets under | Total |
|-----------------------------|-------------|--------------|--------------|---------------|-------------|----------------|--------------|---------------|
| | Land | Improvements | Building | Machinery and | Wastewater | Infrastructure | Construction | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost: | | | | | | | | |
| Balance, beginning of year | 148,308,568 | 15,959,150 | 175,800,087 | 32,401,444 | 350,820,950 | 303,632,783 | 20,392,594 | 1,047,315,576 |
| Additions | 1,937,545 | 731,054 | 4,457,129 | 3,839,791 | 4,367,949 | 9,404,270 | (4,261,796) | 20,475,942 |
| Disposals | (108,846) | (28,646) | (-) | (1,592,847) | (431,158) | (1,710,084) | (-) | (3,871,581) |
| Balance, end of year | 150,137,267 | 16,661,558 | 180,257,216 | 34,648,388 | 354,757,741 | 311,326,969 | 16,130,798 | 1,063,919,937 |
| Accumulated amortization: | | | | | | | | |
| Balance, beginning of year | - | 5,291,598 | 72,148,542 | 19,264,562 | 109,493,517 | 162,378,921 | - | 368,577,140 |
| Disposals | (-) | (28,646) | (-) | (1,589,097) | (263,599) | (1,447,587) | (-) | (3,328,929) |
| Amortization expense | - | 590,371 | 4,475,329 | 3,436,881 | 4,894,253 | 8,160,297 | - | 21,557,131 |
| Balance, end of year | - | 5,853,323 | 76,623,871 | 21,112,346 | 114,124,171 | 169,091,631 | - | 386,805,342 |
| Net book value, end of year | 150,137,267 | 10,808,235 | 103,633,345 | 13,536,042 | 240,633,570 | 142,235,338 | 16,130,798 | 677,114,595 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2016

10. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction having a value of \$25,861,467 (2015 - \$16,130,798) 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 (2015 - \$101,550) have been recognized at fair market value at the date of contribution during the year.

(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.

11. Accumulated surplus:

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

| | 2016 | 2015 |
|--|----------------|----------------|
| For general reduction of taxation | \$ 2,456,525 | \$ 2,259,002 |
| For general reduction of user charges | 20,928,451 | 14,155,136 |
| Equity in tangible capital assets (note 10) | 687,091,912 | 677,114,595 |
| Equity in Waterloo North Hydro Holding Corporation and affiliates (note 5) | 95,088,103 | 91,049,678 |
| Capital fund balance | 55,659,568 | 50,926,230 |
| Amounts to be recovered (note 11(c)) | (78,299,518) | (81,196,137) |
| | 782,925,041 | 754,308,504 |
| Total reserves | 25,891,000 | 29,179,221 |
| Total reserve funds | 11,641,760 | 21,502,343 |
| Total accumulated surplus | \$ 820,457,801 | \$ 804,990,068 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2016

11. Accumulated surplus (continued):

| | 2016 | | 2015 | |
|--|-------------|----------------------|--------------|----------------------|
| Reserves set aside for specific purpose by Council: | | | | |
| For acquisition of capital assets: | | | | |
| Work equipment | \$1,388,074 | | \$ 1,182,066 | |
| Computer replacement | 500,000 | | 500,000 | |
| Heritage | 610,352 | \$ 2,498,426 | 610,352 | \$ 2,292,418 |
| For WSIB | | 585,264 | | 585,264 |
| For winter control | | 769,106 | | 623,132 |
| For facilities maintenance | | 520,044 | | 668,144 |
| For elections | | 158,313 | | 67,000 |
| For tax rate stabilization | | 3,674,152 | | 6,906,168 |
| For operating budget contingency | | 187,033 | | 196,186 |
| For environmental fund | | 938,167 | | 999,501 |
| For employee development and capacity | | 3,439,160 | | 4,175,884 |
| For RIM Park investment | | 10,985,511 | | 10,504,413 |
| For innovation fund | | 712,343 | | 307,765 |
| For economic development | | 1,423,481 | | 1,853,346 |
| Total reserves | | \$ 25,891,000 | | \$ 29,179,221 |

Reserve funds set aside for specific purpose by Council:

| | | | | |
|------------------------------------|--------------|----------------------|--------------|----------------------|
| For acquisition of capital assets: | | | | |
| Capital infrastructure | \$ 693,611 | | \$ 1,136,121 | |
| Fire equipment | 587,256 | | 358,041 | |
| Grey Silo | 149,610 | | 151,440 | |
| Parking | 1,114,431 | \$ 2,544,908 | 1,197,311 | \$ 2,842,913 |
| For sick leave | | 4,336,611 | | 4,453,535 |
| For insurance | | - | | 318,932 |
| For rental housing | | 228,587 | | 60,821 |
| For senior outing day program | | 62,209 | | 32,526 |
| For storm events | | 516,161 | | 600,000 |
| For other capital expenditures: | | | | |
| Capital reserve fund | 7,151,774 | | 4,188,443 | |
| City centre maintenance | 306,503 | | 236,349 | |
| City centre vacancy | 13,458 | | 74,292 | |
| Uptown development | 3,751,027 | | 4,402,690 | |
| Environmentally sensitive lands | 141,245 | | 76,951 | |
| Industrial Land purchases | (12,157,665) | | - | |
| Library expansion fund | 2,858,680 | | 2,339,505 | |
| OMB Hearings | 1,097,761 | | 1,072,051 | |
| Cemetery | 790,501 | 3,953,284 | 803,335 | 13,193,616 |
| Total reserve funds | | \$ 11,641,760 | | \$ 21,502,343 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2016

11. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ended December 31, 2016, has been reduced by an amount of \$209,321 (2015 - \$854,479) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$78,299,517 (2015 - \$81,196,137) in future years, is comprised of the following:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Long-term liabilities (note 8) | \$ 13,879,002 | \$ 15,880,000 |
| Capital lease proceeds (note 9) | 49,651,353 | 51,110,501 |
| Employee benefits and other liabilities (note 7) | 14,769,163 | 14,205,636 |
| | <u>\$ 78,299,518</u> | <u>\$ 81,196,137</u> |

12. Taxation:

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

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Residential and farm taxation | \$ 162,208,956 | \$ 154,254,323 |
| Commercial, industrial and business taxation and supplementary taxes | 79,959,557 | 80,219,342 |
| Taxation from other governments | 4,579,097 | 4,564,276 |
| Balance, end of year | 246,747,610 | 239,037,941 |
| Payments to Region and school boards | (178,193,988) | (172,611,478) |
| Net property taxes and payment-in-lieu available for municipal purposes | <u>\$ 68,553,622</u> | <u>\$ 66,426,463</u> |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2016

13. Trust funds:

Trust funds administered by the Municipality amounting to \$9,358,054 (2015 - \$8,742,059) 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:

| | 2016 | 2015 |
|------------|---------------------|---------------------|
| Cemeteries | \$ 8,876,928 | \$ 8,362,797 |
| Others | 481,126 | 379,262 |
| | <u>\$ 9,358,054</u> | <u>\$ 8,742,059</u> |

14. 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.

15. 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 11.51% as of May 31, 2016 (12.28% as of May 31, 2015) and any surplus is 11.40% as of May 31, 2016 (11.41% as at May 31, 2015). The pool's surplus at May 31, 2016 is \$2,706,708 (2015 - \$2,758,390).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2016

16. 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) Protective Services - Fire:

The Protective Services department is responsible for the delivery of fire rescue services.

(ii) Public Works - Transportation - Roadways:

The Public Works department is responsible for the delivery of municipal public works services related to the maintenance of roadway systems.

(iii) Public Works - Environment - Sanitary Sewer System:

The City is responsible for environmental programs such as the engineering and operation of wastewater collection systems.

(iv) Public Works - Environment - Waterworks System:

The City is responsible for environmental programs such as the engineering and operation of water distribution systems.

(v) Community, Culture and Recreation Services - Facilities:

The City is responsible for operation and rental of space in facilities such as Manulife Financial Sportsplex and Healthy Living Centre, Waterloo Memorial Recreation Complex, Albert McCormick Community Centre and Moses Springer Community Centre.

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

Year ended December 31, 2016

16. Segmented information (continued):

Year ended December 31, 2016

| | Sanitary Sewer | | | Waterworks | | | Total |
|--|-----------------------|---------------------|---------------------|-------------------|------------------------|----------------------|----------------------|
| | Fire | Roadways | System | System | Facilities | Other | |
| Revenue: | | | | | | | |
| Taxation | \$ 17,009,332 | \$ 2,677,496 | \$ - | \$ - | \$ 4,637,167 | \$ 44,229,627 | \$ 68,553,622 |
| User charges | 215,415 | 649,947 | 23,972,674 | 19,897,935 | 3,773,103 | 21,465,140 | 69,974,214 |
| Grants: | | | | | | | |
| Province of Ontario | - | - | - | - | 8 | 1,662,463 | 1,662,471 |
| Government of Canada | - | - | - | - | - | 4,003,791 | 4,003,791 |
| Other municipalities | - | 1,376,420 | - | 22,094 | - | 203,836 | 1,602,350 |
| Other: | | | | | | | |
| Lot levies and development charges | - | 11,975,433 | - | - | - | - | 11,975,433 |
| Investment income | - | - | - | - | - | 6,446,863 | 6,446,863 |
| Other | - | - | - | - | - | 11,003,568 | 11,003,568 |
| Total revenue | 17,224,747 | 16,679,296 | 23,972,674 | 19,920,029 | 8,410,278 | 89,015,288 | 175,222,312 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Salaries, wages and benefits | 15,631,728 | 2,259,812 | 1,016,918 | 1,985,552 | 5,726,182 | 41,125,925 | 67,746,117 |
| Materials and services | 1,197,322 | 2,770,102 | 15,959,306 | 14,358,108 | 4,889,203 | 22,725,759 | 61,899,800 |
| Debenture debt interest | 14,470 | 189,132 | 168,666 | - | 3,557,714 | 66,935 | 3,996,917 |
| Other | 579 | - | - | 608 | 96,281 | 646,840 | 744,308 |
| Employee future benefits | - | - | - | - | - | - | - |
| Grants to not-for-profit organizations | - | 8,331 | - | 7,525 | 12,000 | 1,885,856 | 1,913,712 |
| Amortization | 623,456 | 7,836,384 | 2,025,036 | 1,239,560 | 2,802,277 | 8,927,012 | 23,453,725 |
| Internal transfers | 1,433,414 | 1,081,302 | 1,397,354 | 1,629,659 | 2,073,394 | (7,615,123) | - |
| Total expenditures | 18,900,969 | 14,145,063 | 20,567,280 | 19,221,012 | 19,157,051 | 67,763,204 | 159,754,579 |
| Annual surplus (deficit) | \$ (1,676,222) | \$ 2,534,233 | \$ 3,405,394 | \$ 699,017 | \$ (10,746,773) | \$ 21,252,084 | \$ 15,467,733 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 20

Year ended December 31, 2016

16. Segmented information (continued):

Year ended December 31, 2015

| | | | Sanitary Sewer | Waterworks | | | Total |
|--|-----------------------|-----------------------|---------------------|-------------------|-----------------------|----------------------|---------------------|
| | Fire | Roadways | System | System | Facilities | Other | |
| Revenue: | | | | | | | |
| Taxation | \$ 16,802,924 | \$ 2,715,090 | \$ - | \$ - | \$ 6,976,077 | \$ 39,932,372 | \$ 66,426,463 |
| User charges | 42,679 | 551,965 | 22,155,584 | 19,021,060 | 4,118,037 | 19,491,015 | 65,380,340 |
| Grants: | | | | | | | |
| Province of Ontario | - | 54,185 | - | - | - | 1,400,432 | 1,454,617 |
| Government of Canada | - | 54,185 | - | - | - | 3,911,091 | 3,965,276 |
| Other municipalities | - | 1,295,770 | - | 73,581 | 1,500 | 39,467 | 1,410,318 |
| Other: | | | | | | | |
| Lot levies and development charges | - | 6,984,888 | - | - | - | - | 6,984,888 |
| Investment income | - | - | - | - | - | 6,058,591 | 6,058,591 |
| Other | - | - | - | - | - | 8,381,712 | 8,381,712 |
| Total revenue | 16,845,603 | 11,656,083 | 22,155,584 | 19,094,641 | 11,095,614 | 79,214,680 | 160,062,205 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Salaries, wages and benefits | 15,356,007 | 1,994,150 | 926,950 | 2,003,320 | 5,691,721 | 38,814,426 | 64,786,574 |
| Materials and services | 1,077,454 | 3,576,188 | 16,079,504 | 13,781,391 | 5,540,880 | 19,021,001 | 59,076,418 |
| Debt interest | 21,144 | 199,171 | 177,724 | - | 3,656,120 | 81,479 | 4,135,638 |
| Other | 323 | - | - | 350 | 87,885 | 585,094 | 673,652 |
| Employee future benefits | - | - | - | - | - | 941,782 | 941,782 |
| Grants to not-for-profit organizations | - | - | - | - | - | 1,260,331 | 1,260,331 |
| Amortization | 639,913 | 7,910,705 | 2,007,973 | 1,248,254 | 2,764,735 | 6,985,551 | 21,557,131 |
| Internal transfers | 1,146,568 | 640,407 | 1,204,263 | 1,735,670 | 1,987,780 | (6,714,688) | - |
| Total expenditures | 18,241,409 | 14,320,621 | 20,396,414 | 18,768,985 | 19,729,121 | 60,974,976 | 152,431,526 |
| Annual surplus (deficit) | \$ (1,395,806) | \$ (2,664,538) | \$ 1,759,170 | \$ 325,656 | \$ (8,633,507) | \$ 18,239,704 | \$ 7,630,679 |

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 21

Year ended December 31, 2016

17. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2016 operating and capital budgets approved by Council on December 9, 2015. 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 | \$ 170,045,237 |
| Capital budget | 60,358,600 |
| Reserve budget | 37,435,100 |
| Less: | |
| Transfers from other funds | (81,267,861) |
| Proceeds on debt issue | (16,805,380) |
| Total revenue | 169,765,696 |
| Expenses: | |
| Operating budget | 170,045,237 |
| Capital budget | 60,358,600 |
| Reserve budget | 53,156,363 |
| Less: | |
| Transfers to other funds | (91,204,380) |
| Capital expenses | (46,143,577) |
| Debt principal payments | (3,460,147) |
| Total expenses | 142,752,096 |
| Annual surplus | \$ 27,013,600 |