

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2017



KPMG LLP
115 King Street South
2nd Floor
Waterloo ON N2J 5A3
Canada
Tel 519-747-8800
Fax 519-747-8830

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, 2017, 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.



Page 2

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, 2017, 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', with a slight upward curve at the end.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
July 23, 2018

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial Assets		
Cash and short-term investments	\$ 70,347,500	\$ 71,089,665
Taxes receivable (note 2)	13,660,599	9,639,008
Accounts receivable (note 2)	20,597,461	16,596,346
Investments (note 3)	149,019,613	149,425,897
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 4)	98,633,729	95,088,103
	<u>352,258,902</u>	<u>341,839,019</u>
Liabilities		
Accounts payable and accrued liabilities	50,305,352	44,141,593
Deferred revenue (note 5)	78,640,557	87,264,508
Employee future benefits (note 6)	15,816,629	14,769,163
Long-term liabilities (note 7)	15,945,003	13,879,002
Accrued interest on capital lease obligation (note 8)	-	1,298,194
Capital lease obligation (note 8)	48,036,308	48,353,159
	<u>208,743,849</u>	<u>209,705,619</u>
Total net financial assets	143,515,053	132,133,400
Non-Financial Assets		
Tangible capital assets (note 9)	707,633,780	687,091,912
Inventory	1,818,372	1,232,489
Accumulated surplus (note 10)	<u>\$ 852,967,205</u>	<u>\$ 820,457,801</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, 2017, with comparative information for 2016

	Budget 2017 (note 16)	Actual 2017	Actual 2016 (note 2)
Revenue:			
Taxation (note 11)	\$ 71,485,788	\$ 72,240,113	\$ 68,553,622
User charges	69,450,220	71,286,678	69,974,214
Grants:			
Province of Ontario	685,876	3,082,541	1,662,471
Government of Canada	3,003,000	5,234,821	4,003,791
Other municipalities	1,726,288	2,695,751	1,602,350
Other:			
Lot levies and development charges	13,997,324	21,271,012	11,975,433
Investment income	4,029,034	6,543,543	6,446,863
Other	6,322,330	5,377,713	4,392,163
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	1,709,000	6,601,726	6,611,405
Total revenue	172,408,860	194,333,898	175,222,312
Expenses:			
General government	8,492,511	9,208,406	9,700,208
Protection to persons and property	26,599,791	25,401,215	24,509,004
Transportation services	16,214,367	23,429,360	23,204,468
Environmental services	43,431,474	48,773,861	47,822,728
Health services	1,649,204	1,656,510	1,642,783
Social and family services	1,782,508	1,810,694	1,768,407
Recreation and cultural services	39,124,718	42,738,505	42,708,759
Planning and development	8,292,372	6,830,830	7,191,882
Other	1,274,310	1,975,113	1,206,340
Total expenses	146,861,255	161,824,494	159,754,579
Annual surplus	25,547,605	32,509,404	15,467,733
Accumulated surplus, beginning of year	820,457,801	820,457,801	804,990,068
Accumulated surplus, end of year	\$ 846,005,406	\$ 852,967,205	\$ 820,457,801

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, 2017, with comparative information for 2016

	Budget 2017 (note 16)	Actual 2017	Actual 2016
Annual surplus	\$ 25,547,605	\$ 32,509,404	\$ 15,467,733
Acquisition of tangible capital assets	(47,872,667)	(44,103,103)	(33,846,699)
Amortization of tangible capital assets	-	22,911,162	23,453,725
Loss (gain) on disposal of tangible capital assets	-	(248,871)	206,270
Proceeds from disposal of tangible capital assets	-	898,944	209,387
	(22,325,062)	11,967,536	5,490,416
Change in inventory	-	(585,883)	(111,812)
Change in net financial assets	(22,325,062)	11,381,653	5,378,604
Net financial assets, beginning of year	132,133,400	132,133,400	126,754,796
Net financial assets, end of year	\$ 109,808,338	\$ 143,515,053	\$ 132,133,400

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, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 32,509,404	\$ 15,467,733
Items not involving cash:		
Amortization	22,911,162	23,453,725
Change in employee future benefits	1,047,466	563,527
Equity basis net income in Waterloo North Hydro Holding Corporation	(6,601,726)	(6,611,405)
Loss (gain) on disposal of tangible capital assets	(248,871)	206,270
Changes in non-cash working capital:		
Taxes receivable	(4,021,591)	2,101,669
Accounts receivable	(4,001,115)	(972,249)
Accounts payable and accrued liabilities	6,163,759	11,725,111
Deferred revenue	(8,623,951)	16,468,650
Inventory	(585,883)	(111,812)
Net change in cash from operating activities	38,548,654	62,291,219
Capital activities:		
Cash used to acquire tangible capital assets	(44,103,103)	(33,846,699)
Proceeds from disposal of tangible capital assets	898,944	209,387
Net change in cash from capital activities	(43,204,159)	(33,637,312)
Investing activities:		
Net decrease (increase) in investments	406,284	(571,793)
Dividends received from Waterloo North Hydro Holding Corporation	3,056,100	2,572,980
	3,462,384	2,001,187
Financing activities:		
Long-term debt issued	4,128,000	-
Long-term debt repaid	(2,061,999)	(2,000,999)
Interest on capital lease obligation repaid, including accrued interest	(1,615,045)	(1,459,148)
Net change in cash from financing activities	450,956	(3,460,147)
Net change in cash and short-term investments	(742,165)	27,194,947
Cash and short-term investments, beginning of year	71,089,665	43,894,718
Cash and short-term investments, end of year	\$ 70,347,500	\$ 71,089,665
Cash paid for interest	\$ 3,841,731	\$ 3,996,919
Cash received from interest	\$ 4,929,331	\$ 6,469,406

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, 2017

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, 2017

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, 2017

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, 2017

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.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2017

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$1,181,000 (2016 - \$681,000). Accounts receivable are reported net of a valuation allowance of \$1,858,779 (2016 - \$1,689,020).

3. Investments:

The investments in the amount of \$149,019,613 (2016 - \$149,425,897) have a market value of \$167,270,661 (2016 - \$164,214,432) as at December 31, 2017. Investments are comprised of federal and provincial bonds with yields ranging from 1.3% to 5.43%.

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:

	2017	2016
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	51,209,812	47,664,186
	<u>\$ 98,633,729</u>	<u>\$ 95,088,103</u>

Both notes receivable are unsecured. Waterloo North Hydro Holding Corporation's senior and junior long-term notes bear interest at a rate per annum equal to the interest rate on debt which the Ontario Energy Board or its successor determines is appropriate to pay for rate making purposes in the establishment of distribution rates. These rates may change from time to time with changes in the debt rate approved by the Ontario Energy Board. The interest rates are currently set at 6.0% and 4.54% (2016 - 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, 2017

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 2017 and 2016 fiscal years:

	2017	2016
Current assets	\$ 1,209,596	\$ 1,309,827
Long-term assets	129,439,112	124,489,042
Total assets	130,648,708	125,798,869
Current liabilities	48,150	42,063
Long-term notes payable	33,292,001	33,292,001
Total liabilities	33,340,151	33,334,064
Total shareholders equity	\$ 97,308,557	\$ 92,464,805

Results of operations:

	2017	2016
Revenues	\$ 11,110,762	\$ 10,981,758
Operating expenses	2,092,010	1,949,784
Net income	9,018,752	9,031,974
City share of net income - 73.2%	\$ 6,601,726	\$ 6,611,405

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

	2017	2016
Balance, beginning of year	\$ 95,088,103	\$ 91,049,678
City's share of net income	6,601,726	6,611,405
Dividends received during the year	(3,056,100)	(2,572,980)
Balance, end of year	\$ 98,633,729	\$ 95,088,103

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2017

5. Deferred revenue:

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

	2017	2016
Building permits	\$ 10,593,872	\$ 9,896,952
Development charges	33,297,626	41,818,493
For park purposes	22,406,636	21,878,718
For subdivider deposits	8,712,384	8,370,567
Federal gas tax	3,630,039	5,299,778
	<u>\$ 78,640,557</u>	<u>\$ 87,264,508</u>

Continuity of deferred revenue is as follows:

	2017	2016
Balance, beginning of year	\$ 87,264,508	\$ 70,795,858
Contributions from Federal gas tax	3,056,394	3,003,227
Contributions from Development Charges Act	9,379,245	19,074,038
Contributions from developers	3,592,670	9,101,654
Interest earned	1,661,114	1,805,731
Total contributions and interest	17,689,423	32,984,650
Development charges and grants earned	26,313,374	16,516,000
Balance, end of year	<u>\$ 78,640,557</u>	<u>\$ 87,264,508</u>

6. Employee future benefits:

The City provides certain employee benefits, which may require funding in future periods. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The Workplace Safety and Insurance Board ("WSIB") liability was estimated by an actuarial valuation as at December 31, 2017. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2017. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2017.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2017

6. Employee future benefits (continued):

	2017	2016
Accumulated sick leave benefit plan entitlements	\$ 5,148,188	\$ 4,798,494
Vacation pay	1,738,544	1,624,067
Other post-employment benefits	8,929,897	8,346,602
	<u>\$ 15,816,629</u>	<u>\$ 14,769,163</u>

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, 2017, 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	5.00	5.00

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

	2017	2016
Accrued benefit obligation:		
Balance, beginning of year	\$ (18,081,749)	\$ (17,832,337)
Current benefit cost	(959,269)	(690,809)
Interest	(595,525)	(589,446)
Benefits paid	762,244	1,030,843
Balance, end of year	<u>(18,874,299)</u>	<u>(18,081,749)</u>
Unamortized actuarial loss	3,057,670	3,312,586
Liability for benefits	<u>\$ (15,816,629)</u>	<u>\$ (14,769,163)</u>
Amortization of actuarial loss	<u>\$ (254,916)</u>	<u>\$ (314,115)</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2017

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 \$308,029 (2016 - \$146,042).

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 (2016 - \$585,264) (note 10).

(b) Sick leave:

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to a cash payment when they leave the City's employment. The expense for the current year was \$337,235 (2016 - \$614,168).

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 \$4,443,788 (2016 - \$4,336,611) (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 2017 was \$5,318,960 (2016 - \$4,897,358) 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, 2017. At that time the plan reported \$5.4 billion actuarial deficit (2016 - \$5.7 billion), based on actuarial liabilities of \$94 billion (2016 - \$88 billion) and actuarial assets of \$89 billion (2016 - \$82 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 \$290,313 (2016 - \$295,540).

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, 2017

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:

	2017	2016
Loan payable at 1.25%-3.75% repayable in semi-annual payments of principal and interest due 2023	\$ 4,673,000	\$ 5,372,000
Loan payable at 1.15%-3.00% repayable in semi-annual payments of principal and interest due 2024	6,816,000	7,710,000
Loan payable at 3.00% repayable in annual payments of principal and interest due 2027	4,128,000	-
Loan payable at 4.5%-4.8% repayable in annual payments of principal and interest due 2017	-	155,000
Loan payable at 4.2%-5.2% repayable in annual payments of principal and interest due 2018	328,003	642,000
Long-term liabilities, end of year	\$ 15,945,003	\$ 13,879,000

- (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:

2018	\$ 2,348,000
2019	2,066,000
2020	2,113,000
2021	2,164,000
2022	2,214,000
Thereafter	5,040,003
	\$ 15,945,003

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2017

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.

In accordance with the terms of the Original Agreement, no amounts were payable until January 1, 2002. The balance as at December 31, 2017 of \$48,036,308 (2016 - \$49,651,353) represents \$48,036,308 (2016 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$nil (2016 - \$1,298,194) 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:

2018	\$ 5,111,490
2019	5,160,228
2020	5,209,941
2021	5,260,648
2022	5,312,369
Thereafter	50,316,479
	<hr/> 76,371,155
Less amount representing interest at 7.35%	28,334,847
	<hr/>
Present value of net minimum capital lease payments	\$ 48,036,308

Interest of \$3,448,662 (2016 - \$3,557,713) 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, 2017 is \$44,541,654 (2016 - \$44,541,654) and accumulated amortization of leased tangible capital assets at December 31, 2017 is \$18,742,318 (2016 - \$17,628,777).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2017

9. Tangible capital assets:

2017	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under Construction	Total
	\$	\$	\$			\$		\$
Cost:								
Balance, beginning of year	152,365,022	20,398,223	182,759,875	38,992,399	360,403,459	313,911,658	25,861,467	1,094,692,103
Additions	2,856,442	3,378,510	15,200,679	5,293,818	1,764,187	5,736,913	9,872,554	44,103,103
Disposals	323,989	34,019	400,919	1,962,602	273,786	317,290	-	3,312,605
Balance, end of year	154,897,475	23,742,714	197,559,635	42,323,615	361,893,860	319,331,281	35,734,021	1,135,482,601
Accumulated amortization:								
Balance, beginning of year	-	6,520,566	81,161,767	24,742,561	118,620,711	176,554,586	-	407,600,191
Disposals	-	31,520	250,575	1,910,448	212,644	257,345	-	2,662,532
Amortization expense	-	845,031	4,907,819	3,742,467	4,967,749	8,448,096	-	22,911,162
Balance, end of year	-	7,334,077	85,819,011	26,574,580	123,375,816	184,745,337	-	427,848,821
Net book value, end of year	154,897,475	16,408,637	111,740,624	15,749,035	238,518,044	134,585,944	35,734,021	707,633,780

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2017

9. Tangible capital assets (continued):

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	3,198,749	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 14

Year ended December 31, 2017

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction in the amount of \$34,544,521 (2016 - \$25,861,467) 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 \$302,441 (2016 - \$nil) 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:

	2017	2016
For general reduction of taxation	\$ 2,549,238	\$ 2,456,525
For general reduction of user charges	28,348,694	20,928,451
Equity in tangible capital assets (note 9)	707,633,780	687,091,912
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 4)	98,633,729	95,088,103
Capital fund balance	56,364,400	55,659,568
Amounts to be recovered (note 10(c))	(79,797,940)	(78,299,518)
	813,731,901	782,925,041
Total reserves	25,093,042	25,891,000
Total reserve funds	14,142,262	11,641,760
Total accumulated surplus	\$ 852,967,205	\$ 820,457,801

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2017

10. Accumulated surplus (continued):

	2017		2016	
Reserves set aside for specific purpose by Council:				
For acquisition of capital assets:				
Work equipment	\$ 1,641,696		\$ 1,388,074	
Computer replacement	500,000		500,000	
Heritage	610,352	\$ 2,752,048	610,352	\$ 2,498,426
For WSIB		585,264		585,264
For winter control		758,925		769,106
For facilities maintenance		487,885		520,044
For elections		252,965		158,313
For tax rate stabilization		4,231,027		3,674,152
For operating budget contingency		168,121		187,033
For environmental fund		486,558		938,167
For employee development and capacity		1,331,468		3,439,160
For RIM Park investment		11,744,813		10,985,511
For innovation fund		720,603		712,343
For economic development		1,573,365		1,423,481
Total reserves		\$ 25,093,042		\$ 25,891,000

Reserve funds set aside for specific purpose by Council:

For acquisition of capital assets:				
Capital infrastructure	\$ 1,000,774		\$ 693,611	
Fire equipment	700,525		587,256	
Grey Silo	70,608		149,610	
Parking	1,357,845	\$ 3,129,752	1,114,431	\$ 2,544,908
For sick leave		4,443,788		4,336,611
For insurance				-
For rental housing		374,645		228,587
For senior outing day program		66,427		62,209
For storm events		516,161		516,161
For other capital expenditures:				
Capital reserve fund	7,879,629		7,151,774	
City centre maintenance	372,526		306,503	
City centre vacancy	38,201		13,458	
Uptown development	3,223,566		3,751,027	
Environmentally sensitive lands	709,391		141,245	
Industrial Land purchases	(12,199,320)		(12,157,665)	
Library expansion fund	3,454,219		2,858,680	
OMB Hearings	1,016,528		1,097,761	
Cemetery	1,116,749	5,611,489	790,501	3,953,284
Total reserve funds		\$ 14,142,262		\$ 11,641,760

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2017

10. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ended December 31, 2017, has been reduced by an amount of \$1,955,552 (2016 - \$209,321) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$79,797,940 (2016 - \$78,299,518) in future years, is comprised of the following:

	2017	2016
Long-term liabilities (note 7)	\$ 15,945,003	\$ 13,879,002
Capital lease proceeds (note 8)	48,036,308	49,651,353
Employee benefits and other liabilities (note 6)	15,816,629	14,769,163
	<u>\$ 79,797,940</u>	<u>\$ 78,299,518</u>

11. Taxation:

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

	2017	2016
Residential and farm taxation	\$ 187,735,224	\$ 162,208,956
Commercial, industrial and business taxation and supplementary taxes	93,552,357	79,959,557
Taxation from other governments	5,072,504	4,579,097
Balance, end of year	286,360,085	246,747,610
Payments to Region and school boards	(214,119,972)	(178,193,988)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 72,240,113</u>	<u>\$ 68,553,622</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2017

12. Trust funds:

Trust funds administered by the Municipality amounting to \$9,875,085 (2016 - \$9,358,054) 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:

	2017	2016
Cemeteries	\$ 9,352,367	\$ 8,876,928
Others	522,718	481,126
	<u>\$ 9,875,085</u>	<u>\$ 9,358,054</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 11.78% as of May 31, 2017 (11.70% as of May 31, 2016) and any surplus is 11.41% as of May 31, 2017 (11.50% as at May 31, 2016). The pool's surplus at May 31, 2017 is \$2,975,055 (2016 - \$2,706,708).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2017

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) 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, 2017

15. Segmented information (continued):

Year ended December 31, 2017

	Fire		Sanitary Sewer System		Waterworks System		Facilities	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	
Revenue:									
Taxation	\$ 18,144,396	\$ 4,583,032	\$ -	\$ -	\$ 4,616,798	\$ 44,895,887	\$ 72,240,113		
User charges	140,213	462,981	24,072,490	20,052,203	3,709,006	22,849,785	71,286,678		
Grants:									
Province of Ontario	-	\$ -	-	366,996	1,138,029	1,577,516	3,082,541		
Government of Canada	-	-	-	-	-	5,234,821	5,234,821		
Other municipalities	-	2,146,939	-	70,641	-	478,171	2,695,751		
Other:									
Lot levies and development charges	-	21,271,012	-	-	-	-	21,271,012		
Investment income	-	-	-	-	-	6,543,543	6,543,543		
Other	-	-	-	-	-	11,979,439	11,979,439		
Total revenue	18,284,609	28,463,964	24,072,490	20,489,840	9,463,833	93,559,162	194,333,898		
Expenditures:									
Current:									
Salaries, wages and benefits	16,528,766	2,136,464	1,005,660	2,039,186	5,923,971	42,080,760	69,714,807		
Materials and services	1,150,985	2,765,153	17,809,932	15,329,249	4,425,915	21,770,966	63,252,200		
Debt interest	7,440	177,015	157,631	-	3,448,663	50,982	3,841,731		
Other	118	-	15,549	787	99,892	595,139	711,485		
Grants to not-for-profit organizations	-	170	-	15	16	1,392,908	1,393,109		
Amortization	677,912	8,014,860	2,054,052	1,253,807	2,837,452	8,073,079	22,911,162		
Internal transfers	1,303,417	831,197	1,411,445	1,634,246	1,966,354	(7,146,659)	-		
Total expenditures	19,668,638	13,924,859	22,454,269	20,257,290	18,702,263	66,817,175	161,824,494		
Annual surplus (deficit)	\$ (1,384,029)	\$ 14,539,105	\$ 1,618,221	\$ 232,550	\$ (9,238,430)	\$ 26,741,987	\$ 32,509,404		

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 20

Year ended December 31, 2017

15. 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
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
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 Financial Statements, page 21

Year ended December 31, 2017

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2017 operating and capital budgets approved by Council on December 9, 2016. 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	\$ 176,359,662
Capital budget	62,491,767
Reserve budget	31,424,054
Less:	
Transfers from other funds	84,432,078
Proceeds on debt issue	13,434,545
Total revenue	172,408,860
Expenses:	
Operating budget	176,359,662
Capital budget	62,491,767
Reserve budget	54,822,945
Less:	
Transfers to other funds	95,263,408
Capital expenses	47,872,667
Debt principal payments	3,677,044
Total expenses	146,861,255
Annual surplus	\$ 25,547,605