

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2012



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

Telephone 519-747-8800
Fax 519-747-8830
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the 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, 2012, the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of 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.

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.



Page 2

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, 2012, 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.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

May 13, 2013
Waterloo, Canada

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2012, with comparative information for 2011

	2012	2011
Financial Assets		
Cash and short-term investments	\$ 70,514,094	\$ 56,987,700
Taxes receivable (note 2)	8,138,113	12,669,274
Accounts receivable (note 2)	12,163,023	17,315,692
Investments (note 3)	82,528,147	78,061,264
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 4)	90,948,362	86,058,226
	<u>264,291,739</u>	<u>251,092,156</u>
Liabilities		
Accounts payable and accrued liabilities	45,920,970	37,889,452
Deferred revenue (note 5)	43,242,296	43,418,685
Employee future benefits (note 6)	12,144,732	11,371,842
Long-term liabilities (note 7)	8,670,644	14,711,408
Accrued interest on capital lease obligation (note 8)	6,311,015	7,254,360
Capital lease obligation (note 8)	48,353,159	48,353,159
	<u>164,642,816</u>	<u>162,998,906</u>
Total net financial assets	99,648,923	88,093,250
Non-Financial Assets		
Tangible capital assets (note 9)	677,700,407	670,245,920
Inventory	1,058,115	639,674
	<u>\$ 778,407,445</u>	<u>\$ 758,978,844</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, 2012, with comparative information for 2011

	Budget 2012 (unaudited - note 16)	Actual 2012	Actual 2011
Revenue:			
Taxation (note 11)	\$ 60,624,448	\$ 61,937,350	\$ 60,501,786
User charges	66,881,568	60,545,651	66,198,630
Grants:			
Province of Ontario	689,876	1,343,482	4,583,472
Government of Canada	2,990,000	1,430,886	5,117,195
Other municipalities	1,874,367	1,735,614	2,553,411
Other:			
Lot levies and development charges	10,230,065	13,699,852	5,475,098
Investment income	4,573,553	5,924,777	5,297,157
Other	2,903,910	4,022,930	8,203,356
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	-	4,890,136	5,580,369
Total revenue	150,767,787	155,530,678	163,510,474
Expenses:			
General government	7,400,765	4,943,936	6,705,229
Protection to persons and property	20,856,445	20,370,211	18,798,280
Transportation services	15,138,591	21,184,171	22,370,783
Environmental services	33,247,652	34,812,886	33,572,585
Health services	1,598,009	1,543,449	1,441,131
Social and family services	1,035,967	1,083,494	1,049,939
Recreation and cultural services	43,813,753	43,894,096	42,244,088
Planning and development	7,075,262	7,496,951	7,156,736
Other	965,000	772,883	982,217
Total expenses	131,131,444	136,102,077	134,320,988
Annual surplus	19,636,343	19,428,601	29,189,486
Accumulated surplus, beginning of year	758,978,844	758,978,844	729,789,358
Accumulated surplus, end of year	\$ 778,615,187	\$ 778,407,445	\$ 758,978,844

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, 2012, with comparative information for 2011

	Budget 2012 (Unaudited - note 16)	Actual 2012	Actual 2011
Annual surplus	\$ 19,636,343	\$ 19,428,601	\$ 29,189,486
Acquisition of tangible capital assets	(25,086,519)	(29,368,116)	(29,080,110)
Amortization of tangible capital assets	-	20,669,276	19,979,263
Loss on disposal of tangible capital assets	-	1,132,376	288,498
Proceeds from disposal of tangible capital assets	-	111,977	129,198
	(5,450,176)	11,974,114	20,506,273
Change in inventory	-	(418,441)	587,608
Change in net financial assets	(5,450,176)	11,555,673	21,093,881
Net financial assets, beginning of year	88,093,250	88,093,250	66,999,369
Net financial assets, end of year	\$ 82,643,074	\$ 99,648,923	\$ 88,093,250

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, 2012, with comparative information for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 19,428,601	\$ 29,189,486
Items not involving cash:		
Amortization	20,669,276	19,979,263
Contributed tangible capital assets	(942,076)	(1,990,289)
Change in employee future benefits	772,890	982,217
Net change in investment in Waterloo North Hydro Holding Corporation	(4,890,136)	(5,580,369)
Loss on disposal of tangible capital assets	1,132,376	288,436
Changes in non-cash working capital:		
Taxes receivable	4,531,161	(2,420,728)
Accounts receivable	5,152,669	(4,936,080)
Accounts payable and accrued liabilities	8,031,518	7,116,635
Deferred revenue	(176,389)	9,417,895
Inventory	(418,441)	587,608
Net change in cash from operating activities	53,291,449	52,634,074
Capital activities:		
Cash used to acquire tangible capital assets	(28,426,040)	(27,089,821)
Proceeds from disposal of tangible capital assets	111,977	129,198
Net change in cash from capital activities	(28,314,063)	(26,960,623)
Investing activities:		
Net increase in investments	(4,466,883)	(4,083,387)
Financing activities:		
Long-term debt repaid	(6,040,764)	(7,076,184)
Decrease in accrued interest on capital lease obligation	(943,345)	(837,698)
Net change in cash from financing activities	(6,984,109)	(7,913,882)
Net change in cash and short-term investments	13,526,394	13,676,182
Cash and short-term investments, beginning of year	56,987,700	43,311,518
Cash and short-term investments, end of year	\$ 70,514,094	\$ 56,987,700
Cash paid for interest	\$ 4,583,463	\$ 4,810,363
Cash received from interest	6,246,505	4,359,556

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, 2012

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 Canadian Institute of Chartered Accountants. 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 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, 2012

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 and fees 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, 2012

1. Significant accounting policies (continued):

(i) Employee future benefits:

The contributions to the Ontario Municipal Employers Retirement System ("OMERS"), a multi-employer defined benefit pension plan, are expensed when contributions are due.

The costs of post-employment benefits are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The cost of pensions and other retirement benefits is actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Any actuarial gains or losses from changes in assumptions are amortized over the average remaining service period for active employees.

(j) Non-financial assets:

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

(k) Tangible capital assets:

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

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

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(i) Contributions of tangible capital assets:

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2012

1. Significant accounting policies (continued):

(k) Tangible capital assets (continued):

(ii) Natural resources:

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

(iii) Works of art and cultural and historic assets

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

(iv) Interest capitalization:

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

(v) Leased tangible capital assets:

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

(l) Use of estimates:

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

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

Actual results could differ from these estimates.

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$250,000 (2011 - \$250,000).
Accounts receivable are reported net of a valuation allowance of \$2,363,705 (2011 - \$2,429,753).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2012

3. Investments:

The investments in the amount of \$82,528,147 (2011 - \$78,061,264) have a market value of \$88,719,626 (2011 - \$83,268,415) as at December 31, 2012. Investments are comprised of federal and provincial bonds with yields ranging from 0.75% to 5.69%.

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:

	2012	2011
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	43,524,445	38,634,309
	<u>\$ 90,948,362</u>	<u>\$ 86,058,226</u>

Both notes 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 5.32% (2011 - 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, 2012

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 2012 and 2011 fiscal years:

	2012	2011
Current assets	\$ 446,320	\$ 1,555,693
Long-term assets	112,095,690	108,529,967
Total assets	112,542,010	110,085,660
Current liabilities	32,991	1,193,154
Long-term notes payable	33,292,001	33,292,001
Total liabilities	33,324,992	34,485,155
Net assets	\$ 79,217,018	\$ 75,600,505

Results of operations:

	2012	2011
Revenues	\$ 8,722,566	\$ 9,857,532
Operating expenses	2,042,052	2,234,077
Net income	6,680,514	7,623,455
City share of net income - 73.2%	\$ 4,890,136	\$ 5,580,369

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

	2012	2011
Balance, beginning of year	\$ 88,335,882	\$ 82,755,513
City's share of net income	4,890,136	5,580,369
Balance, end of year	\$ 93,226,018	\$ 88,335,882

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2012

5. Deferred revenue:

A requirement of the Public Sector Accounting Board, of the Canadian Institute of Chartered Accountants, 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:

	2012	2011
Building permits	\$ 7,538,017	\$ 6,451,427
Development charges	23,615,875	28,397,947
For park purposes	4,246,922	3,778,041
For subdivider deposits	2,564,015	1,320,921
Federal gas tax	5,277,467	3,470,349
	<u>\$ 43,242,296</u>	<u>\$ 43,418,685</u>

Continuity of deferred revenue is as follows:

	2012	2011
Balance, beginning of year	\$ 43,418,685	\$ 34,000,790
Contributions from Federal gas tax	2,990,406	2,990,046
Contributions from Development Charges Act	6,848,154	11,626,042
Contributions from Building Permit Act	2,901,325	723,339
Interest earned	1,226,042	1,076,481
Total revenue	<u>13,965,927</u>	<u>16,415,908</u>
Development charges and grants earned	14,142,316	6,998,013
Balance, end of year	<u>\$ 43,242,296</u>	<u>\$ 43,418,685</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. Workplace Safety and Insurance Board ("WSIB") liability was estimated by an actuarial valuation as at December 31, 2012. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2012. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2012.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2012

6. Employee future benefits (continued):

	2012	2011
Accumulated sick leave benefit plan entitlements	\$ 3,958,426	\$ 3,623,677
Vacation pay	1,605,031	1,536,341
Other post-employment benefits	6,581,275	6,211,824
	<u>\$ 12,144,732</u>	<u>\$ 11,371,842</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, 2012, are as follows:

	%
Discount rate	4.75
Expected long-term rate of return	6.00
Salary increase	3.00
Dental cost	3.00
Health care:	
2013	8.0
Declining by 2020 to	5.0

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

	2012	2011
Accrued benefit obligation:		
Balance, beginning of year	\$ (13,708,068)	\$ (13,182,122)
Actuarial gain	452,343	309,561
Current benefit cost	(673,639)	(731,031)
Interest	(592,734)	(606,295)
Benefits paid	596,159	501,819
Balance, end of year	<u>(13,925,939)</u>	<u>(13,708,068)</u>
Unamortized actuarial loss	1,781,207	2,336,226
Liability for benefits	<u>\$ (12,144,732)</u>	<u>\$ (11,371,842)</u>
Amortization of actuarial loss	<u>\$ (102,676)</u>	<u>\$ (132,697)</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2012

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 \$119,531 (2011 - \$76,425).

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 (2011 - \$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 \$202,923 (2011 - \$150,209).

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 \$3,837,707 (2011 - \$3,634,927) (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 8.3% and 12.8% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2012 was \$3,924,485 (2011 - \$3,471,100) for current service and is included as an expenditure on the consolidated statement of operations.

The OMERS pension plan has a deficit. 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 \$287,647 (2011 - \$251,599).

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, 2012

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:

	2012	2011
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	\$ 8,670,644	\$ 14,711,408
Long-term liabilities, end of year	\$ 8,670,644	\$ 14,711,408

- (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:

2013	\$ 5,686,018
2014	1,311,626
2015	428,000
2016	448,000
2017	468,986
Thereafter	328,014
	\$ 8,670,644

- (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 2.53% to 9.0%.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2012

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, 2012 of \$54,664,174 (2011 - \$55,607,519) represents \$48,353,159 (2011 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$6,311,015 (2011 - \$7,254,360) 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:

2013	\$ 4,881,765
2014	4,925,909
2015	4,970,935
2016	5,016,862
2017	5,063,707
Thereafter	76,371,153
	<hr/>
	101,230,331
Less amount representing interest at 7.35%	46,566,157
Present value of net minimum capital lease payments	<hr/>
	\$ 54,664,174

Interest of \$3,895,142 (2011 - \$3,958,360) 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, 2012 is \$44,022,481 (2011 - \$44,022,481) and accumulated amortization of leased tangible capital assets at December 31, 2012 is \$13,206,744 (2011 - \$12,106,182).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2012

9. Tangible capital assets:

	2012							
	Land	Land Improvements	Building and Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under construction	Total
Cost								
Balance, beginning of year	\$ 141,997,593	\$ 13,914,208	\$ 171,235,543	\$ 28,809,730	\$ 327,986,960	\$ 295,491,018	\$ 10,209,383	\$ 989,644,435
Additions	1,870,462	154,326	532,670	4,945,587	6,707,249	4,610,308	10,547,514	29,368,116
Disposals	-	26,360	592,176	4,103,807	1,386,660	837,042	-	6,946,045
Balance, end of year	\$ 143,868,055	\$ 14,042,174	\$ 171,176,037	\$ 29,651,510	\$ 333,307,549	\$ 299,264,284	\$ 20,756,897	\$ 1,012,066,506
Accumulated amortization								
Balance, beginning of year	\$ -	\$ 3,726,539	\$ 59,731,176	\$ 17,106,022	\$ 96,684,564	\$ 142,150,214	\$ -	\$ 319,398,515
Disposals	-	-	332,742	4,028,102	696,655	644,193	-	5,701,692
Amortization expense	-	515,795	4,281,008	3,195,656	4,546,991	8,129,826	-	20,669,276
Balance, end of year	-	4,242,334	63,679,442	16,273,576	100,534,900	149,635,847	-	334,366,099
Net book value, end of year	\$ 143,868,055	\$ 9,799,840	\$ 107,496,595	\$ 13,377,934	\$ 232,772,649	\$ 149,628,437	\$ 20,756,897	\$ 677,700,407

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2012

9. Tangible capital assets (continued):

	2011							Total
	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under construction	
Cost								
Balance, beginning of year	\$ 141,042,166	\$ 13,100,623	\$ 151,813,548	\$ 26,659,541	\$ 326,182,395	\$ 290,771,879	\$ 14,083,444	\$ 963,653,596
Additions	1,187,801	836,502	19,421,995	3,975,536	2,130,245	5,402,092	(3,874,061)	29,080,110
Disposals	232,374	22,917	-	1,825,347	325,680	682,953	-	3,089,271
Balance, end of year	\$ 141,997,593	\$ 13,914,208	\$ 171,235,543	\$ 28,809,730	\$ 327,986,960	\$ 295,491,018	\$ 10,209,383	\$ 989,644,435
Accumulated amortization								
Balance, beginning of year	\$ -	\$ 3,274,962	\$ 55,219,222	\$ 16,454,570	\$ 92,406,580	\$ 134,735,555	\$ -	\$ 302,090,889
Disposals	-	22,917	-	1,829,346	179,266	640,108	-	2,671,637
Amortization expense	-	474,494	4,511,954	2,480,798	4,457,250	8,054,767	-	19,979,263
Balance, end of year	-	3,726,539	59,731,176	17,106,022	96,684,564	142,150,214	-	319,398,515
Net book value, end of year	\$ 141,997,593	\$ 10,187,669	\$ 111,504,367	\$ 11,703,708	\$ 231,302,396	\$ 153,340,804	\$ 10,209,383	\$ 670,245,920

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2012

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction having a value of \$20,756,897 (2011 - \$10,209,383) 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 \$942,076 (2011 - \$1,990,289) 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:

	2012	2011
For general reduction of taxation	\$ 2,135,275	\$ 1,947,843
For general reduction of user charges	6,655,061	10,160,077
Equity in tangible capital assets (note 9)	677,700,407	670,245,920
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 4)	93,226,018	88,335,882
Capital fund balance	29,024,217	29,610,287
Amounts to be recovered (note 10(c))	(75,479,550)	(81,690,769)
	733,261,428	718,609,240
Total reserves	27,549,059	24,710,440
Total reserve funds	17,596,958	15,659,164
Total accumulated surplus	\$ 778,407,445	\$ 758,978,844

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2012

10. Accumulated surplus (continued):

	2012		2011	
Reserves set aside for specific purpose by Council:				
For acquisition of capital assets:				
Work equipment	\$	1,857,830	\$	2,050,742
Computer replacement		386,273		276,115
Heritage		<u>634,452</u>	\$	<u>714,452</u>
For WSIB		585,264		585,264
For winter control		631,467		349,681
For facilities maintenance		536,659		372,978
For elections		134,000		67,000
For tax rate stabilization		9,162,401		6,863,587
For operating budget contingency		57,871		100,587
For environmental fund		152,501		279,717
For employee development and capacity		3,518,043		3,644,872
For RIM Park investment		8,679,066		8,674,842
For innovation fund		629,857		730,603
For economic development		583,375		-
Total reserves	\$	27,549,059	\$	24,710,440
Reserve funds set aside for specific purpose by Council:				
For acquisition of capital assets:				
Capital infrastructure	\$	2,409,161	\$	1,401,908
Fire equipment		348,546		305,228
Grey Silo		12,704		53,559
Parking		<u>781,069</u>	\$	<u>595,266</u>
For sick leave		3,837,707		3,634,927
For insurance		268,509		174,115
For rental housing		123,797		-
For other capital expenditures:				
Capital reserve fund		5,008,453		6,504,543
City centre maintenance		280,948		283,113
City centre vacancy		179,289		133,027
Uptown development		2,420,832		884,130
Environmentally sensitive lands		95,846		97,391
Fire expansion fund		-		-
OMB Hearings		1,018,431		1,039,370
Cemetery		811,666		552,587
Total reserve funds	\$	17,596,958	\$	15,659,164

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2012

10. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ended December 31, 2012, has been reduced by an amount of \$3,097,109 (2011 - \$3,258,503) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$75,479,550 (2011 - \$81,690,769) in future years, is comprised of the following:

	2012	2011
Long-term liabilities (note 7)	\$ 8,670,644	\$ 14,711,408
Capital lease proceeds (note 8)	54,664,174	55,607,519
Employee benefits and other liabilities (note 6)	12,144,732	11,371,842
	<u>\$ 75,479,550</u>	<u>\$ 81,690,769</u>

11. Taxation:

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

	2012	2011
Residential and farm taxation	\$ 135,787,637	\$ 132,122,152
Commercial, industrial and business taxation and supplementary taxes	77,615,299	79,289,042
Taxation from other governments	4,546,617	4,399,484
Balance, end of year	217,949,553	215,810,678
Payments to Region and school boards	(156,012,203)	(155,308,892)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 61,937,350</u>	<u>\$ 60,501,786</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2012

12. Trust funds:

Trust funds administered by the Municipality amounting to \$7,206,482 (2011 - \$6,695,203) 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:

	2012	2011
Cemeteries	\$ 7,038,717	\$ 6,629,697
Ontario Home Renewal Plan	1,805	1,938
Others	165,960	63,568
	<hr/>	<hr/>
	\$ 7,206,482	\$ 6,695,203

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 13.54% as of May 31, 2012 (13.5% as of May 31, 2011) and any surplus is 11.88% as of May 31, 2012 (11.26% as at May 31, 2011). The pool's surplus at May 31, 2012 is \$3,855,372 (2011 - \$2,806,791).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2012

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, 2012

15. Segmented information (continued):

Year ended December 31, 2012

	Fire	Roadways	Sanitary Sewer System	Waterworks System	Facilities	Other	Total
Revenue:							
Taxation	\$ 14,903,433	\$ 2,461,724	\$ -	\$ -	\$ 6,591,125	\$ 37,981,068	\$ 61,937,350
User charges	78,259	1,101,606	20,247,200	17,638,161	4,695,069	16,784,356	60,544,651
Grants:							
Province of Ontario	-	98,638	-	-	85,237	1,159,607	1,343,482
Government of Canada	-	98,638	-	-	20,245	1,312,003	1,430,886
Other municipalities	-	1,181,670	-	3,456	-	550,488	1,735,614
Other:							
Lot levies and development charges	-	12,398,906	-	-	-	1,300,948	13,699,852
Investment income	-	-	-	-	-	5,924,777	5,924,777
Other	-	-	-	-	-	8,913,066	8,913,066
Total revenue	14,981,692	17,341,182	20,247,200	17,641,617	11,391,676	73,926,311	155,530,678
Expenditures:							
Current:							
Salaries, wages and benefits	15,815,030	1,847,150	713,638	1,417,836	5,283,525	33,440,739	58,517,918
Materials and services	756,900	1,367,240	12,035,340	10,283,932	4,491,818	15,161,600	44,096,830
Debenture debt interest	51,283	114,403	-	33,730	3,895,142	488,905	4,583,463
Other	2,721	(1,883)	176,084	2,817	173,794	4,082,505	4,436,038
Employee future benefits	-	-	-	-	-	772,890	772,890
Grants to not-for-profit organizations	-	-	-	-	-	3,025,662	3,025,662
Amortization	580,322	7,241,234	1,600,117	1,128,495	2,765,242	7,353,866	20,669,276
Internal transfers	7,502	411,253	1,552,485	2,467,971	1,086,897	(5,526,108)	-
Total expenditures	17,213,758	10,979,397	16,077,664	15,334,781	17,696,418	58,800,059	136,102,077
Annual surplus (deficit)	\$ (2,231,066)	\$ 6,361,785	\$ 4,169,536	\$ 2,306,836	\$ (6,304,742)	\$ 15,126,252	\$ 19,428,601

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 20

Year ended December 31, 2012

15. Segmented information (continued):

Year ended December 31, 2011

	Fire	Roadways	Sanitary Sewer System	Waterworks System	Facilities	Other	Total
Revenue:							
Taxation	\$ 14,391,517	\$ 2,484,626	\$ -	\$ -	\$ 6,841,846	\$ 36,783,797	\$ 60,501,786
User charges	32,710	4,952,110	18,474,122	16,948,590	5,037,205	20,753,893	66,198,630
Grants:							
Province of Ontario	-	829,813	-	-	1,969,294	1,784,365	4,583,472
Government of Canada	-	829,813	-	-	1,876,142	2,411,240	5,117,195
Other municipalities	-	1,317,407	-	5,690	-	1,230,314	2,553,411
Other:							
Lot levies and development charges	-	5,393,098	-	-	-	82,000	5,475,098
Investment income	-	-	-	-	-	5,297,157	5,297,157
Other	-	-	-	-	-	13,783,725	13,783,725
Total revenue	14,424,227	15,806,867	18,474,122	16,954,280	15,724,487	82,126,491	163,510,474
Expenditures:							
Current:							
Salaries, wages and benefits	12,724,313	1,933,568	710,501	1,390,466	5,386,820	34,117,697	56,263,365
Materials and services	706,837	2,247,202	11,761,552	9,547,073	5,124,756	15,395,434	44,782,854
Debenture debt interest	67,890	159,231	11,256	47,104	3,958,360	566,522	4,810,363
Other	539	7,174	245,527	6,185	440,917	4,044,899	4,745,241
Employee future benefits	-	-	-	-	-	982,217	982,217
Grants to not-for-profit organizations	-	-	-	-	-	2,757,685	2,757,685
Amortization	546,365	7,159,544	1,554,437	1,107,660	2,650,543	6,960,714	19,979,263
Internal transfers	76,483	719,669	1,609,595	2,136,723	311,997	(4,854,467)	-
Total expenditures	14,122,427	12,226,388	15,892,868	14,235,211	17,873,393	59,970,701	134,320,988
Annual surplus (deficit)	\$ 301,800	\$ 3,580,479	\$ 2,581,254	\$ 2,719,069	\$ (2,148,906)	\$ 22,155,790	\$ 29,189,486

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 21

Year ended December 31, 2012

16. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets approved by Council on February 14, 2012. 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
	(unaudited)
Revenues:	
Operating budget	\$ 145,039,173
Capital budget	50,392,818
Reserve budget	25,289,058
Other entities	
Less:	
Transfers from other funds	(69,953,262)
Proceeds on debt issue	-
Total revenue	150,767,787
Expenses:	
Operating budget	145,039,222
Capital budget	50,392,818
Reserve budget	37,637,849
Other entities	
Less:	
Transfers to other funds	(69,953,262)
Capital expenses	(25,086,519)
Debt principal payments	(6,898,664)
Total expenses	131,131,444
Annual surplus	\$ 19,636,343

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of The Corporation of the City of Waterloo, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information prepared in accordance with Canadian public sector accounting standards and expressed an unmodified opinion on the consolidated financial statements on May 31, 2013.

Opinion

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in the following section is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

May 13, 2013
Waterloo, Canada

THE CORPORATION OF THE CITY OF WATERLOO

Five-year financial review

Years ended December 31

	2012	2011	2010	2009	2008
Population at the end of the year	129,100	124,900	122,900	122,200	120,000
Area in acres at the end of the year	16,500	16,500	16,500	16,500	16,500
Employees:					
Continuous full time	557	544	542	533	528
Part time	500	500	519	541	493
Number of households	42,590	41,730	40,530	41,644	41,535
Assessment (\$'000):					
Taxable assessment upon which the year's rates of taxation were set:					
Residential and farm	\$ 10,643,844	\$ 10,064,380	\$ 9,425,937	\$ 8,850,243	\$ 8,279,682
Commercial and industrial	2,075,676	1,856,409	1,654,002	1,535,860	1,380,682
	\$ 12,719,520	\$11,920,789	\$11,079,939	\$10,386,103	\$9,660,364
Per capita	\$ 98,525	\$ 95,443	\$ 90,154	\$ 84,993	\$ 80,503
Non-residential as a percentage of weighted taxable assessment	26%	24%	24%	24%	24%
Exempt assessment (\$'000)	\$ 989,307	\$ 943,330	\$ 899,203	\$ 847,653	\$ 826,467
Assessment Growth (%)	1.79%	2.12%	2.49%	0.91%	1.88%
Rate of taxation:					
Residential tax rate for:					
General municipal purposes	0.381861%	0.396610%	0.414224%	0.423440%	0.430511%
Regional purposes	0.531368%	0.548918%	0.577293%	0.591282%	0.570352%
School board purposes	0.2210000%	0.231000%	0.241000%	0.252000%	0.264000%
Tax arrears:					
Per capita	55	63	60	61	47
Percentage of current levy	3.32%	3.69%	3.62%	3.84%	2.98%

THE CORPORATION OF THE CITY OF WATERLOO

Five-year financial review, continued

Years ended December 31

	2012	2011	2010	2009	2008
	\$	\$	\$	\$	\$
Net long-term liabilities (\$'000):					
General municipal activities	58,318	57,506	61,828	59,660	60,423
Non-tax supported	5,017	12,813	16,405	10,597	9,836
Total debt	63,335	70,319	78,233	70,257	70,259
Total debt per capita	491	563	637	575	585
Total debt for general municipal activities per capita	452	460	503	488	504
Charges for net long-term liabilities:					
General municipal activities	6,250	7,017	5,795	5,247	4,848
Non-tax supported	5,318	5,707	2,605	2,620	2,623
Total debt charges	11,568	12,724	8,400	7,867	7,471
Debt charges for general municipal activities per capita	48	56	47	43	40
Revenue for general municipal services:					
Operating	155,531	163,510	147,949	127,374	122,013
Capital Financing	n/a	n/a	n/a	n/a	2,559
Total Revenue	155,531	163,510	147,949	127,374	124,572
Expenditures - general municipal					
Operating	136,102	134,321	135,252	133,281	127,234
Capital expenditures during year		n/a	n/a	n/a	16,398
Capital Additions	29,368	29,080	28,546	1,439	n/a
Total Expenditures	165,470	163,401	163,798	134,720	143,632
Amortization	20,669	19,979	18,914	17,027	17,359
End of year balances:					
Reserve, reserve funds and obligatory reserve fund	88,388	83,788	67,093	71,012	62,380
Equity in Waterloo North Holding Corporation	93,226	88,336	82,756	78,875	75,430
Equity in Tangible Capital Assets	677,700	670,246	661,563	636,825	652,413