

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2010



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Corporation of the City of Waterloo, which comprise the consolidated statement of financial position as at December 31, 2010, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.



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, 2010, and its results of operations, change in net financial assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

December 12, 2011
Waterloo, Canada

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2010, with comparative figures for 2009

	2010	2009 (restated-note 2)
Financial Assets		
Cash and short-term investments	\$ 43,311,518	\$ 50,873,951
Taxes receivable (note 3)	10,248,546	8,951,468
Accounts receivable (note 3)	12,379,612	14,271,978
Investments (note 4)	73,977,877	67,495,285
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 5)	80,477,857	76,597,703
	<u>220,395,410</u>	<u>218,190,385</u>
Financial Liabilities		
Accounts payable and accrued liabilities	30,772,817	41,545,893
Deferred revenue (note 6)	34,000,790	33,178,897
Employee future benefits (note 7)	10,389,625	9,710,247
Long-term liabilities (note 8)	21,787,592	13,072,104
Accrued interest on capital lease obligation (note 9)	8,092,058	8,832,145
Capital lease obligation (note 9)	48,353,159	48,353,159
	<u>153,396,041</u>	<u>154,692,445</u>
Total net financial assets	66,999,369	63,497,940
Non-Financial Assets		
Tangible capital assets (note 10)	661,562,707	652,396,509
Inventory	1,227,282	1,197,802
	<u>\$ 729,789,358</u>	<u>\$ 717,092,251</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, 2010, with comparative figures for 2009

	Budget 2010 (unaudited-note 17)	Actual 2010	Actual 2009 (restated-note 2)
Revenue:			
Taxation (note 12)	\$ 57,043,100	\$ 58,163,260	\$ 55,056,030
User charges	57,074,495	55,898,825	50,569,355
Grants:			
Province of Ontario	656,843	2,553,308	2,162,721
Government of Canada	2,998,000	6,012,975	2,540,985
Other municipalities	2,421,486	2,248,033	2,843,439
Other:			
Lot levies and development charges	8,161,201	8,357,554	2,153,629
Investment income	3,504,988	6,565,234	5,174,471
Other	2,367,931	4,269,964	3,427,572
Equity basis net income in Waterloo North Hydro Holding Corporation (note 5)	-	3,880,154	3,445,812
Total revenue	134,228,044	147,949,307	127,374,014
Expenses:			
General government	7,303,853	4,857,266	3,446,101
Protection to persons and property	18,462,478	18,293,193	17,455,208
Transportation services	16,548,667	26,648,119	23,532,248
Environmental services	34,324,979	33,840,660	33,375,328
Health services	1,492,056	1,404,544	1,633,326
Social and family services	1,017,925	923,806	1,466,368
Recreation and cultural services	31,873,695	40,565,336	34,703,803
Planning and development	9,962,319	8,039,897	7,894,584
Other	951,999	679,379	876,890
Total expenses	121,937,971	135,252,200	124,383,856
Annual surplus	12,290,073	12,697,107	2,990,158
Accumulated surplus, beginning of year (note 2)	701,520,595	717,092,251	714,102,093
Accumulated surplus, end of year	\$ 713,810,668	\$ 729,789,358	\$ 717,092,251

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, 2010, with comparative figures for 2009

	Budget 2010 (Unaudited-note 17)	Actual 2010	Actual 2009 (restated-note 2)
Annual surplus	\$ 12,290,073	\$ 12,697,107	\$ 2,990,158
Acquisition of tangible capital assets	(10,450,000)	(28,546,156)	(11,161,993)
Amortization of tangible capital assets	-	18,914,332	18,032,129
Loss on disposal of tangible capital assets	-	465,626	-
	1,840,073	3,530,909	9,860,294
Change in inventories of supplies	-	(29,480)	7,992
Change in net financial assets	1,840,073	3,501,429	9,868,286
Net financial assets, beginning of year	63,497,940	63,497,940	53,629,654
Net financial assets, end of year	\$ 65,338,013	\$ 66,999,369	\$ 63,497,940

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, 2010, with comparative figures for 2009

	2010	2009 (restated-note 2)
Cash provided by (used in):		
Operating Activities:		
Annual surplus	\$ 12,697,107	\$ 2,990,158
Items not involving cash:		
Amortization	18,914,332	18,032,129
Change in employee future benefits	679,378	1,056,400
Net change in investment in Waterloo North Hydro Holding Corporation	(3,880,154)	(3,445,812)
Loss on disposal of tangible capital assets	465,626	-
Change in non-cash assets and liabilities:		
Taxes receivable	(1,297,078)	830,797
Accounts receivable	1,892,366	(5,404,265)
Accounts payable and accrued liabilities	(10,773,076)	18,152,901
Deferred revenue	821,893	11,027,655
Inventory	(29,480)	7,992
Net change in cash from operating activities	19,490,914	43,247,955
Capital activities:		
Cash used to acquire tangible capital assets	(28,546,156)	(11,161,993)
Investing activities:		
Net increase in investments	(6,482,592)	(21,333,001)
Financing activities:		
Debt issued	11,772,979	3,008,000
Long-term debt repaid	(3,057,491)	(2,359,853)
Decrease in accrued interest on capital lease obligation	(740,087)	(649,946)
Net change in cash from financing activities	7,975,401	(1,799)
Net change in cash and short-term investments	(7,562,433)	10,751,162
Cash and short-term investments, beginning of year	50,873,951	40,122,789
Cash and short-term investments, end of year	\$ 43,311,518	\$ 50,873,951
Cash paid for interest	\$ 4,778,065	\$ 4,856,890
Cash received from interest	6,793,928	5,152,092

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, 2010

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 generally accepted accounting principles for governments 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, 2010

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, 2010

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
Machinery and equipment	10
Computer hardware and software	5 - 25
Water and wastewater infrastructure	8 - 75
Roads infrastructure	20 - 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, 2010

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, has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

2. Restatement of comparative figures-tangible capital assets:

In 2009, the City implemented Section 3150 of the Public Sector Accounting Board ("PSAB") Handbook. Section 3150 requires governments to record and amortize their capital assets in their financial statements.

The tangible capital assets recorded in the 2009 financial statements were based on estimated historical costs of the City's assets. During 2010, the City reviewed the completeness of the recorded amounts of the estimated historical cost of the tangible capital assets and revised the historical estimated amounts for land, land improvements, building, equipment and work in process.

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Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2010

2. Restatement of comparative figures-tangible capital assets (continued):

As a result of these revisions, the comparative figures for the year ended December 31, 2009 have been restated resulting in a reduction in net expenses of \$8,717,697 including an increase in amortization expense of \$1,005,467. The remaining \$9,723,164 net reduction in expenses represents amounts previously expensed that upon further analysis were deemed to be capital in nature.

The changes in the 2009 expenses are as follows:

	Expenses as previously stated	Restated
General government	\$ 3,259,424	\$ 3,446,101
Protection to persons and property	17,455,208	17,455,208
Transportation services	29,810,312	23,532,248
Environmental services	33,375,566	33,375,328
Health services	1,633,326	1,633,326
Social and family services	1,466,368	1,466,368
Recreation and culture services	37,329,875	34,703,803
Planning and development	7,894,584	7,894,584
Other	876,890	876,890
Total	133,101,553	124,383,856
Difference	-	(8,717,697)

3. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$250,000 (2009 - \$250,000).
Accounts receivable are reported net of a valuation allowance of \$2,265,853 (2009 - \$1,813,306).

4. Investments:

The total of investments of \$73,977,877 (2009 - \$67,495,285) have a market value of \$75,921,453 (2009 - \$69,993,688) as at December 31, 2010. Investments are composed entirely of federal and provincial bonds with yields ranging from 0.75% to 5.69%.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2010

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

Under the provincial government's Electricity Competition Act (Bill 35), 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:

	2010	2009
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	33,053,940	29,173,786
	<u>\$ 80,477,857</u>	<u>\$ 76,597,703</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 the 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 8.25% (2009 - 6.00% and 8.25%) for the senior and junior long-term notes respectively.

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Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2010

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

The following table provides condensed financial information in respect of Waterloo North Hydro Holding Corporation for its 2010 fiscal year:

	2010	2009
Current assets	\$ 1,826,396	\$ 1,919,440
Long-term assets	101,510,599	96,775,489
Total assets	103,336,995	98,694,929
Current liabilities	1,428,944	1,448,635
Long-term notes payable	33,292,001	33,292,001
Total liabilities	34,720,945	34,740,636
Net assets	\$ 68,616,050	\$ 63,954,293

Results of operations:

	2010	2009
Revenues	\$ 7,787,635	\$ 7,364,706
Operating expenses	2,486,878	2,657,313
Net income	5,300,757	4,707,393
City share of net income - 73.2%	\$ 3,880,154	\$ 3,445,812

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

	2010	2009
Balance, beginning of year	\$ 78,875,359	\$ 75,429,547
City's share of net income	3,880,154	3,445,812
Balance, end of year	\$ 82,755,513	\$ 78,875,359

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2010

6. 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:

	2010	2009
Building permits	\$ 5,407,044	\$ 3,883,975
Development charges	21,431,558	22,201,115
For park purposes	2,944,092	1,578,380
For subdivider deposits	1,414,189	1,423,213
Federal gas tax	2,803,907	4,092,214
	<u>\$ 34,000,790</u>	<u>\$ 33,178,897</u>

Continuity of deferred revenue is as follows:

	2010	2009
Balance, beginning of year	\$ 33,178,897	\$ 22,151,242
Contributions from Federal gas tax	2,999,066	2,812,053
Contributions from Development Charges Act	9,266,846	8,888,120
Contributions from Building Permit Act	1,348,519	2,745,907
Interest earned	906,222	517,396
Total revenue	<u>14,520,653</u>	<u>14,963,476</u>
Development charges and grants earned	13,698,760	3,935,821
Balance, end of year	<u>\$ 34,000,790</u>	<u>\$ 33,178,897</u>

7. Employee future benefits:

The City provides certain employee benefits, which may require funding in future periods. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. Workplace Safety and Insurance Board ("WSIB") liability was estimated by an actuarial valuation as at December 31, 2010. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2010. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2010.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2010

7. Employee future benefits (continued):

	2010	2009
Accumulated sick leave benefit plan entitlements	\$ 3,197,393	\$ 3,092,502
Vacation pay	1,419,620	1,327,715
Other post-employment benefits	5,772,612	5,290,030
	<u>\$ 10,389,625</u>	<u>\$ 9,710,247</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, 2010, are as follows:

	%
Discount rate	5.00
Expected long-term rate of return	6.00
Salary increase	3.00
Dental cost	3.00
Health care:	
2010	8.00
Declining by 2016 to	5.00

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

	2010	2009
Accrued benefit obligation:		
Balance, beginning of year	\$ (11,706,536)	\$ (9,630,067)
Actuarial loss	(836,946)	(1,030,513)
Current benefit cost	(506,123)	(1,071,979)
Past service cost	(340,223)	-
Interest	(583,298)	(447,876)
Benefits paid	791,004	473,899
Balance, end of year	(13,182,122)	(11,706,536)
Unamortized actuarial loss	2,792,497	1,996,289
Liability for benefits	<u>\$ (10,389,625)</u>	<u>\$ (9,710,247)</u>
Amortization of actuarial loss	<u>\$ (55,100)</u>	<u>\$ (590,821)</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2010

7. Employee future benefits (continued):

(a) Workplace Safety and Insurance Board:

The WSIB administers injured worker benefit payments on behalf of the City as a Schedule 2 employer. The expense for the year was \$221,862 (2009 - \$59,948).

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 \$513,560 (2009 - \$513,560) (note 11).

(b) Sick leave:

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to a cash payment when they leave the City's employment. The expense for the current year was \$221,258 (2009 - \$255,828).

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 \$3,104,554 (2009 - \$2,509,973) (note 11).

(c) Pension plan:

The City makes contributions to OMERS, which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees, based on the length of service and rates of pay.

Contribution rates for employees earning below the year's maximum pensionable earnings is 6.4% and 9.7% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2010 was \$3,104,553 (2009 - \$2,662,878) 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 \$265,585 (2009 - \$219,340).

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2010

8. Long-term liabilities:

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

	2010	2009
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:	\$ 21,787,592	\$ 13,072,104
Long-term liabilities, end of year	\$ 21,787,592	\$ 13,072,104

- (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:

2011	\$ 7,076,204
2012	6,040,764
2013	5,686,018
2014	1,311,626
2015	428,000
Thereafter	1,244,980
	\$ 21,787,592

- (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 12

Year ended December 31, 2010

9. Capital lease obligation:

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

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

In accordance with the terms of the Original Agreement, no amounts were payable until January 1, 2002. The balance as at December 31, 2010 of \$56,445,217 (2009 - \$57,185,304) represents \$48,353,159 (2009 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$8,092,058 (2009 - \$8,832,145) 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:

2011	\$ 4,796,058
2012	4,838,487
2013	4,881,765
2014	4,925,909
2015	4,970,935
Thereafter	86,451,722
	<hr/>
	110,864,876
Less amount representing interest at 7.35%	54,419,659
Present value of net minimum capital lease payments	<hr/>
	\$ 56,445,217

Interest of \$4,014,373 (2009 - \$4,063,732) relating to the capital lease obligation has been included in expenses in the consolidated statement of operations.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2010

10. Tangible capital assets:

	2010							
	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	\$ 139,656,164	\$ 7,743,066	\$ 149,533,291	\$ 24,183,076	\$ 325,281,183	\$ 287,037,248	\$ 5,699,465	\$ 939,133,493
Additions	1,386,002	5,357,557	2,852,361	4,760,856	945,193	4,860,208	8,383,979	28,546,156
Disposals	-	-	572,104	2,284,391	43,981	1,125,577	-	4,026,053
Balance, end 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
Accumulated amortization								
Balance, beginning of year	\$ -	\$ 2,744,012	\$ 51,656,828	\$ 16,430,126	\$ 87,995,101	\$ 127,910,917	\$ -	\$ 286,736,984
Disposals	-	-	221,320	2,227,651	17,731	1,093,725	-	3,560,427
Amortization expense	-	530,950	3,783,714	2,252,095	4,429,210	7,918,363	-	18,914,332
Balance, end of year	-	3,274,962	55,219,222	16,454,570	92,406,580	134,735,555	-	302,090,889
Net book value, end of year	\$ 141,042,166	\$ 9,825,661	\$ 96,594,326	\$ 10,204,971	\$ 233,775,815	\$ 156,036,324	\$ 14,083,444	\$ 661,562,707

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2010

10. Tangible capital assets (continued):

	2009 (restated-note 2)							
	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	\$ 138,941,487	\$ 4,862,857	\$ 149,916,716	\$ 21,744,347	\$ 324,689,736	\$ 286,641,894	\$ 1,557,888	\$ 928,354,925
Additions	714,677	2,880,209	-	2,438,729	591,447	395,354	4,141,577	11,161,993
Disposals	-	-	383,425	-	-	-	-	383,425
Balance, end of year	\$ 139,656,164	\$ 7,743,066	\$ 149,533,291	\$ 24,183,076	\$ 325,281,183	\$ 287,037,248	\$ 5,699,465	\$ 939,133,493
Accumulated amortization								
Balance, beginning of year	\$ -	\$ 2,428,664	\$ 48,310,690	\$ 14,497,775	\$ 83,590,229	\$ 120,260,922	\$ -	\$ 269,088,280
Disposals	-	-	383,425	-	-	-	-	383,425
Amortization expense	-	315,348	3,729,563	1,932,351	4,404,872	7,649,995	-	18,032,129
Balance, end of year	-	2,744,012	51,656,828	16,430,126	87,995,101	127,910,917	-	286,736,984
Net book value, end of year	\$ 139,656,164	\$ 4,999,054	\$ 97,876,463	\$ 7,752,950	\$ 237,286,082	\$ 159,126,331	\$ 5,699,465	\$ 652,396,509

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2010

10. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction having a value of \$14,083,444 (2009 - \$5,699,465) 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 have been recognized at fair market value at the date of contribution. There were no contributed assets received during the year (2009 - \$nil).

(c) Works of art and historical treasures:

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

11. Accumulated surplus:

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

	2010	2009 (restated-note 2)
For general reduction of taxation	\$ 4,639,089	\$ 1,558,075
For general reduction of user charges	10,939,510	9,573,499
Equity in tangible capital assets (note 10)	661,562,707	652,396,509
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 5)	82,755,513	78,875,359
Capital fund balance	25,423,137	16,823,381
Amounts to be recovered (note 11(c))	(88,622,434)	(79,967,655)
	<u>\$ 696,697,522</u>	<u>\$ 679,259,168</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2010

11. Accumulated surplus (continued):

	2010	2009 (restated-note 2)
Reserves set aside for specific purpose by Council:		
For acquisition of capital assets:		
Work equipment	\$ 1,863,589	\$ 1,733,372
Computer replacement	489,810	473,941
Heritage	<u>20,000</u>	<u>20,000</u>
	2,373,399	2,227,313
For WSIB	513,560	513,560
For winter control	331,753	340,896
For facilities maintenance	513,262	398,193
For elections	-	184,795
For tax rate stabilization	2,557,858	5,692,214
For operating budget contingency	141,528	176,961
For fee assistance	47,891	63,031
For environmental fund	369,717	374,609
For uptown facade program	-	16,427
For vacancy management	3,257,500	3,422,157
For RIM Park investment	9,264,178	10,267,265
For innovation fund	280,769	283,685
Total reserves	\$ 19,651,415	\$ 23,961,106
Reserve funds set aside for specific purpose by Council:		
For library expansion fund	\$ 4,619	\$ 307,944
For acquisition of capital assets:		
Capital infrastructure	\$ 1,244,952	\$ 1,126,143
Fire equipment	443,399	980,913
Grey Silo	44,844	18,883
Parkade maintenance	<u>548,499</u>	<u>223,660</u>
	2,281,694	2,349,599
For sick leave	3,104,554	2,509,973
For insurance	(27,317)	76,657
For other capital expenditures:		
Capital reserve fund	5,563,702	6,589,152
City centre maintenance	217,761	191,190
City centre vacancy	88,124	44,142
Uptown development	641,583	406,100
Environmentally sensitive lands	98,890	103,302
Fire expansion fund	388,251	376,943
OMB Hearings	666,043	646,561
Cemetery	412,517	270,414
	8,076,871	8,627,804
Total reserve funds	13,440,421	13,871,977
Total accumulated surplus	\$ 729,789,358	\$ 717,092,251

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2010

11. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ending December 31, 2010, has been reduced by an amount of \$nil (2009 - \$1,484,565) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$88,622,484 (2009 - \$79,967,655) in future years, is comprised of the following:

	2010	2009
Long-term liabilities (note 8)	\$ 21,787,592	\$ 13,072,104
Capital lease proceeds (note 9)	56,445,217	57,185,304
Employee benefits and other liabilities (note 7)	10,389,625	9,710,247
	<u>\$ 88,622,434</u>	<u>\$ 79,967,655</u>

12. Taxation:

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

	2010	2009
Residential and farm taxation	\$ 128,885,399	\$ 124,826,518
Commercial, industrial and business taxation and supplementary taxes	73,496,618	67,006,745
Taxation from other governments	4,188,646	3,897,457
Balance, end of year	206,570,663	195,730,720
Payments to Region and school boards	(148,407,403)	(140,674,690)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 58,163,260</u>	<u>\$ 55,056,030</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2010

13. Trust funds:

Trust funds administered by the Municipality amounting to \$6,336,625 (2009 - \$5,517,716) have either 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:

	2010	2009
Cemeteries	\$ 6,271,480	\$ 5,452,975
Ontario Home Renewal Plan	2,534	2,967
Others	62,611	61,774
	<u>\$ 6,336,625</u>	<u>\$ 5,517,716</u>

14. Contingent liabilities:

Legal action has been undertaken against the City relating to a number of contract disputes and other matters. The outcome of these actions is not presently determinable. It is management's opinion that the City's insurance will adequately cover any potential liability arising from these contract disputes and other matters. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

15. Municipal insurance pool:

In 1998, the City entered into an agreement with members of the Waterloo Region Municipalities to purchase property damage and public liability insurance on a group basis and share a retained level of risk. The members pay an annual levy to fund insurance, pre-fund expected losses and contribute to a surplus. The pool has purchased insurance to fund losses above a pre-determined deductible and any losses above a pre-determined total in any year. The City's share of pool levies and any surplus is 11.09% as of May 31, 2010 (10.99% as at May 31, 2009). The pool's surplus at May 31, 2010 is \$2,670,340 (2009 - \$2,583,338).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 19
(Unaudited)

Year ended December 31, 2010

16. Segmented information:

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

(i) Protective Services - Fire:

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

(ii) Public Works - Transportation - Roadways:

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

(iii) Public Works - Environment - Water:

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

(iv) Public Works - Environment - Sanitary Sewer Systems:

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

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 20

Year ended December 31, 2010

16. Segmented information (continued):

Year ended December 31, 2010

	Fire	Roadways	Sanitary Sewer System	Waterworks System	Facilities	Other	Total
Revenue:							
Taxation	\$ 13,990,218	\$ 2,391,123	\$ -	\$ -	\$ 6,094,215	\$ 35,687,704	\$ 58,163,260
User charges	10,591	1,800,027	15,765,017	16,504,319	4,933,233	16,885,638	55,898,825
Grants:							
Province of Ontario	-	413,165	-	-	1,255,131	885,012	2,553,308
Government of Canada	-	375,665	-	-	1,202,329	4,434,981	6,012,975
Other municipalities	-	1,030,955	-	2,523	-	1,214,555	2,248,033
Other:							
Lot levies and development charges	-	8,357,554	-	-	-	-	8,357,554
Investment income	-	-	-	-	-	6,565,234	6,565,234
Other	-	1,454	-	-	73,682	8,074,982	8,150,118
Total revenue	14,000,809	14,369,943	15,765,017	16,506,842	13,558,590	73,748,106	147,949,307
Expenditures:							
Current:							
Salaries, wages and benefits	11,735,226	1,979,115	744,260	1,369,136	5,432,328	33,068,635	54,328,700
Materials and services	1,196,291	7,182,892	2,909,265	1,633,030	7,352,641	28,808,944	49,083,063
Debenture debt interest	83,383	17,746	22,050	59,774	4,014,373	580,739	4,778,065
Other	1,396	-	88,714	817	183,347	4,634,667	4,908,941
Employee future benefits	-	-	-	-	-	679,378	679,378
Grants to not-for-profit organizations	-	-	-	-	-	2,559,721	2,559,721
Amortization	535,104	7,016,036	1,544,976	1,110,472	2,680,825	6,026,919	18,914,332
Internal transfers	95,526	657,967	1,559,797	2,306,900	311,320	(4,931,510)	-
Total expenditures	13,646,926	16,853,756	6,869,062	6,480,129	19,974,834	71,427,493	135,252,200
Annual surplus (deficit)	\$ 353,883	\$ (2,483,813)	\$ 8,895,955	\$ 10,026,713	\$ (6,416,244)	\$ 2,320,613	\$ 12,697,107

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 21

Year ended December 31, 2010

16. Segmented information (continued):

Year ended December 31, 2009 (restated-note 2)

	Fire	Roadways	Sanitary Sewer System	Waterworks System	Facilities	Other	Total
Revenue:							
Taxation	\$ 13,171,879	\$ 2,188,219	\$ -	\$ -	\$ 5,338,285	\$ 34,357,647	\$ 55,056,030
User charges	6,437	1,324,796	16,825,250	15,822,911	8,254,953	8,335,008	50,569,355
Grants:							
Province of Ontario	-	-	-	-	-	2,162,721	2,162,721
Government of Canada	-	-	-	-	-	2,540,985	2,540,985
Other municipalities	-	1,560,080	-	13,512	-	1,269,847	2,843,439
Other:							
Lot levies and development charges	-	2,153,629	-	-	-	-	2,153,629
Investment income	-	-	-	-	-	5,174,471	5,174,471
Other	-	11,481	-	-	84,146	6,777,757	6,873,384
Total revenue	13,178,316	7,238,205	16,825,250	15,836,423	13,677,384	60,618,436	127,374,014
Expenditures:							
Current:							
Salaries, wages and benefits	10,200,706	1,705,686	621,463	1,289,693	6,069,238	30,243,070	50,129,856
Materials and services	2,368,129	3,926,373	11,378,163	9,850,712	4,870,185	10,033,142	42,426,704
Debenture debt interest	97,727	22,767	38,447	71,746	4,063,731	562,472	4,856,890
Other	(96)	-	361,199	360,766	287,803	4,163,288	5,172,960
Employee future benefits	-	-	-	-	-	1,056,400	1,056,400
Grants to not-for-profit organizations	-	-	-	-	-	2,708,917	2,708,917
Amortization	385,427	7,515,804	1,508,596	1,079,119	2,334,680	5,208,503	18,032,129
Internal transfers	1,201,752	1,585,317	1,214,325	1,751,416	1,898,225	(7,651,035)	-
Total expenditures	14,253,645	14,755,947	15,122,193	14,403,452	19,523,862	46,324,737	124,383,856
Annual surplus (deficit)	\$ (1,075,329)	\$ (7,517,742)	\$ 1,703,057	\$ 1,432,971	\$ (5,846,478)	\$ 14,293,697	\$ 2,990,158

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 22
(Unaudited)

Year ended December 31, 2010

17. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2010 operating and capital budgets approved by Council on January 10, 2010. 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	\$ 132,047,262
Capital budget	33,036,000
Reserve budget	26,348,407
Other entities	
Less:	
Transfers from other funds	(51,756,242)
Proceeds on debt issue	(5,447,383)
Total revenue	134,228,044
Expenses:	
Operating budget	132,352,905
Capital budget	33,036,000
Reserve budget	22,968,541
Other entities	
Less:	
Transfers to other funds	(52,347,666)
Capital expenses	(10,450,000)
Debt principal payments	(3,621,809)
Total expenses	121,937,971
Annual surplus	\$ 12,290,073



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AUDITORS' REPORT ON SUPPLEMENTARY FINANCIAL INFORMATION

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 as at December 31, 2010 and our report thereon is presented in the preceding section of this report. The following information is for purposes of additional analysis and is not required for fair presentation of the City's financial position, financial activities or changes in financial position. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the City and, in our opinion, is fairly presented in all material respects to those financial statements.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Accountants, Licensed Public Accountants

December 12, 2011
Waterloo, Canada

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KPMG Canada provides services to KPMG LLP.

THE CORPORATION OF THE CITY OF WATERLOO

Five-year financial review

Years ended December 31

	2010	2009	2008	2007	2006
Population at the end of the year	122,200	122,200	120,000	117,700	115,400
Area in acres at the end of the year	16,500	16,500	16,500	16,500	16,500
Employees:					
Continuous full time	542	533	499	493	505
Part time	519	541	493	509	589
Number of households	40,530	41,644	41,535	41,426	41,317
Assessment (\$'000):					
Taxable assessment upon which the year's rates of taxation were set:					
Residential and farm	\$ 9,425,937	\$ 8,850,243	\$ 8,279,682	\$ 8,229,930	\$ 8,068,925
Commercial and industrial	1,654,002	1,535,860	1,380,682	1,317,226	1,294,936
	\$ 11,079,939	\$ 10,386,103	\$ 9,660,364	\$ 9,547,156	\$ 9,363,861
Per capita	\$ 90,154	\$ 84,993	\$ 80,503	\$ 81,114	\$ 81,143
Non-residential as a percentage of weighted taxable assessment	24%	24%	24%	24%	24%
Exempt assessment (\$'000)	\$ 899,203	\$ 847,653	\$ 826,467	\$ 739,134	\$ 739,134
Rate of taxation:					
Residential tax rate for:					
General municipal purposes	0.414224%	0.423440%	0.430511%	0.412104%	0.394723%
Regional purposes	0.577293%	0.591282%	0.570352%	0.554024%	0.535145%
School board purposes	0.241000%	0.252000%	0.264000%	0.264000%	0.264000%
Tax class ratios:					
Residential	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-residential	1.9500	2.0500	2.1500	2.2400	2.5800
Multi-residential - awaiting development	0.3500	0.3500	0.3500	0.3500	0.3500
Farmland	0.2500	0.2500	0.2500	0.2500	0.2500
Managed forests	0.2500	0.2500	0.2500	0.2500	0.2500
Commercial	1.9500	1.9500	1.9500	1.9500	1.9500
Commercial - vacant	1.2675	1.2675	1.2675	1.2675	1.2675
Commercial - awaiting development	0.3500	0.3500	0.3500	0.3500	0.3500
Parking lots	1.9500	1.9500	1.9500	1.9500	1.9500
Shopping centres	1.9500	1.9500	1.9500	1.9500	1.9500
Shopping centres - vacant	1.2675	1.2675	1.2675	1.2675	1.2675
Industrial	1.9500	2.1000	2.2800	2.4500	2.6100
Industrial - vacant	1.2675	1.3650	1.4820	1.5925	1.6965
Industrial - awaiting development	0.3500	0.3500	0.6500	0.3500	0.3500
Pipelines	1.1613	1.1613	1.1613	1.1613	1.1613
Office building	1.9500	1.9500	1.9500	1.9500	1.9500
Office building - vacant	1.2675	1.2675	1.2675	1.2675	1.2675

THE CORPORATION OF THE CITY OF WATERLOO

Five-year financial review, continued

Years ended December 31

	2010	2009	2008	2007	2006
	\$	\$	\$	\$	\$
Tax arrears:					
Per capita	60	61	47	39	35
Percentage of current levy	3.62%	3.84%	2.98%	2.57%	2.32%
Net long-term liabilities (\$'000):					
General municipal activities	61,828	59,660	60,423	59,601	58,953
Non-tax supported	16,405	10,597	9,836	10,561	12,657
Total debt	78,233	70,257	70,259	70,162	71,610
Total debt per capita	637	575	585	596	621
Total debt for general municipal activities per capita	503	488	504	506	511
Charges for net long-term liabilities:					
General municipal activities	5,795	5,247	4,848	5,150	5,403
Non-tax supported	2,605	2,620	2,623	2,529	2,593
Total debt charges	8,400	7,867	7,471	7,679	7,996
Debt charges for general municipal activities per capita	47	43	40	44	47
End of year balances:					
Reserve, reserve funds and obligatory reserve fund	67,093	71,012	62,380	42,726	38,096