

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2008



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AUDITORS' REPORT

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

We have audited the consolidated statement of financial position of The Corporation of the City of Waterloo as at December 31, 2008 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the management of The Corporation of the City of Waterloo. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Waterloo as at December 31, 2008 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
April 24, 2009

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2008, with comparative figures for 2007

	2008	2007
Financial Assets		
Cash and short-term investments	\$ 40,122,789	\$ 15,856,796
Taxes recoverable	9,782,265	8,218,410
Accounts receivable	8,867,713	7,621,968
Investments (note 4)	46,162,284	47,528,742
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 5)	73,151,891	69,139,952
Total financial assets	178,086,942	148,365,868
Liabilities		
Accounts payable and accrued liabilities	23,392,992	20,271,856
Deferred revenue (note 6)	22,151,242	14,949,479
Employee future benefits (note 7)	8,653,847	8,182,499
Long-term liabilities (note 8)	12,423,957	11,760,441
Accrued interest on capital lease (note 9)	9,482,091	10,048,841
Capital lease obligation (note 9)	48,353,159	48,353,159
Total liabilities	124,457,288	113,566,275
Total net financial assets	53,629,654	34,799,593
Non-financial assets:		
Inventory	1,205,794	1,061,080
Net assets	\$ 54,835,448	\$ 35,860,673

Municipal Position

Fund balances:		
Operating fund (note 10, Schedule 1)	\$ 10,400,051	\$ 10,282,199
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 5)	75,429,547	71,417,608
Capital fund (Schedule 2)	7,689,870	4,729,283
Reserves (note 11, Schedule 3)	20,993,581	20,685,214
Reserve funds (note 11, Schedule 3)	19,235,453	7,091,309
	133,748,502	114,205,613
Amounts to be recovered in future years (note 10)	(78,913,054)	(78,344,940)
Contingent liabilities (note 13)		
Total municipal position	\$ 54,835,448	\$ 35,860,673

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Activities

Year ended December 31, 2008, with comparative figures for 2007

	Budget 2008	Actual 2008	Actual 2007
Revenue:			
Taxation and user charges:			
Residential and farm taxation	\$ 120,987,325	\$ 119,796,310	\$ 115,674,383
Commercial, industrial and business taxation and supplementary taxes	65,498,602	67,771,886	63,724,165
Taxation from other governments	3,326,897	3,682,387	3,574,908
User charges	43,662,762	44,661,782	42,287,565
Deduct amount received or receivable for Region and school boards (note 2)	(137,983,544)	(137,960,735)	(132,703,158)
Grants:			
Province of Ontario	670,939	6,958,253	1,163,331
Government of Canada	1,406,000	146,969	424,315
Other municipalities	2,164,446	2,415,783	2,109,770
Other:			
Lot levies and development charges	3,125,181	3,184,044	1,079,523
Investment income	3,388,535	6,821,862	4,983,879
Other	7,834,364	6,537,974	4,311,935
	114,081,507	124,016,515	106,630,616
Expenditures:			
Current:			
General government	3,429,600	2,656,063	3,000,151
Protection to persons and property	16,385,199	14,633,200	14,014,873
Transportation services	11,514,630	11,394,037	11,222,247
Environmental services	25,048,622	24,458,696	20,684,538
Health services	1,292,626	1,106,107	1,082,987
Social and family services	1,489,810	1,455,707	1,386,230
Recreation and cultural services	29,305,448	30,396,984	31,069,296
Planning and development	5,876,664	6,079,104	5,020,887
Other	-	616,062	846,079
	94,342,599	92,795,960	88,327,288
Capital:			
General government	4,526,000	2,580,436	2,260,569
Protection to persons and property	1,817,766	491,358	338,138
Transportation services	6,498,751	7,117,096	5,555,557
Environmental services	3,848,000	783,753	2,445,146
Health services	517,000	44,609	131,138
Recreation and cultural services	3,084,000	4,435,165	2,960,562
Planning and development	2,338,408	950,016	1,209,615
	22,629,925	16,402,433	14,900,725
Total expenditures (note 12)	116,972,524	109,198,393	103,228,013
Equity basis net income in Waterloo North Hydro Holding Corporation (note 5)	-	4,011,939	3,580,949
Accrued interest from Waterloo North Hydro Holding Corporation (note 5)	-	-	243,206
Net revenue (expenditures)	(2,891,017)	18,830,061	7,226,758
Increase (decrease) in non-financial assets	-	144,714	(129,287)
Increase (decrease) in amounts to be recovered	(2,408,922)	568,114	(472,405)
Change in fund balances	\$ (5,299,939)	\$ 19,542,889	\$ 6,625,066

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Changes in Financial Position

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net revenue	\$ 18,830,061	\$ 7,226,758
Item not involving cash:		
Net change in investment in Waterloo North Hydro Holding Corporation and Affiliates	(4,011,939)	(3,580,949)
	14,818,122	3,645,809
Sources (uses) of cash:		
Taxes recoverable	(1,563,855)	(2,756,604)
Accounts receivable	(1,245,745)	419,602
Accounts payable and accrued liabilities	3,121,136	377,620
Deferred revenue	7,201,763	6,465,420
Employee future benefits	471,348	975,366
Net change in cash from operations	22,802,769	9,127,213
Investing:		
Net increase in investments	1,366,458	(9,594,450)
Financing:		
Debt issued	2,691,000	1,281,000
Debt principal repayments	(2,027,484)	(2,238,764)
Decrease in accrued interest on capital lease	(566,750)	(490,007)
Net change in cash from financing	96,766	(1,447,771)
Net change in cash and short-term investments	24,265,993	(1,915,008)
Cash and short-term investments, beginning of year	15,856,796	17,771,804
Cash and short-term investments, end of year	\$ 40,122,789	\$ 15,856,796

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements

Year ended December 31, 2008

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the City of Waterloo (the "City") are the representation of management prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs and Housing and the standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgments.

(a) Basis of consolidation:

(i) Consolidated statements:

These consolidated statements reflect the assets, liabilities, sources of revenue and expenditures of the operating fund, capital fund, reserve funds and reserves and include the activities 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

All interfund assets and liabilities and sources of financing and expenditures have been eliminated.

(ii) 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 of Waterloo'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, expenditures, assets and liabilities with respect to the operations of the school boards, and The Regional Municipality of Waterloo are not reflected in the municipal fund balances of these financial statements.

(iv) Trust funds:

Trust funds and their related operations administered by the City are not consolidated, but are reported separately on the "Trust Funds Financial Statements".

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2008

1. Accounting policies (continued):

(b) Basis of accounting:

(i) Revenue and expenditures:

Revenue and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) Accounts receivable:

Accounts receivable are reported net of any allowance for doubtful accounts.

(iii) Inventory:

Inventory is valued at the lower of cost or net realizable value.

(iv) Tangible capital assets:

The historical cost and accumulated amortization for tangible capital assets is not recorded for municipal purposes. Tangible capital assets are reported as an expenditure on the consolidated statement of financial activities in the year of acquisition.

(v) 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.

(vi) Investment income:

Investment income earned on surplus current funds, capital funds, reserves and reserve funds (other than obligatory reserve funds) are 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.

(vii) Employee benefit plan:

The contributions to 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 gains or losses from changes in assumptions are amortized over the average remaining service period for active employees.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2008

1. Accounting policies (continued):

(b) Basis of accounting (continued):

(viii) Government transfers:

Government transfers are recognized in the financial statements in the period in which the 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.

2. Operations of School Boards and The Regional Municipality of Waterloo:

Further to note 1(a)(iii) the taxation, other revenues and requisitions for the School Boards and The Regional Municipality of Waterloo, are comprised of the following:

	School Boards	The Regional Municipality of Waterloo	Total
Taxation and user charges	\$ 53,768,839	\$ 82,209,057	\$ 135,977,896
Share of payment in lieu of taxes	573	1,982,266	1,982,839
Amounts requisitioned	\$ 53,769,412	\$ 84,191,323	\$ 137,960,735

3. Trust funds:

Trust funds administered by the Municipality amounting to \$5,150,219 (2007 - \$4,727,016) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of financial activities. The trust funds under administration are composed of the following:

	2008	2007
Cemeteries	\$ 5,085,463	\$ 4,667,704
Ontario Home Renewal Plan	3,501	-
Others	61,255	59,312
	\$ 5,150,219	\$ 4,727,016

4. Investments:

The total of investments of \$46,162,284 (2007 - \$47,528,742) reported on the consolidated statement of financial position, at cost, have a market value of \$47,205,455 (2007 - \$47,985,622) at the end of the year. Investments are composed entirely of federal and provincial bonds with yields ranging from 3.25% to 6.5%.

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Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2008

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:

	2008	2007
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	25,727,974	21,716,035
	<u>\$ 73,151,891</u>	<u>\$ 69,139,952</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% (2007 - 6.00% and 8.25%) for the senior and junior long-term notes respectively.

The following table provides condensed financial information in respect of Waterloo North Hydro Holding Corporation for its 2008 fiscal year:

	2008	2007
Current assets	\$ 1,931,844	\$ 5,794,335
Long-term investments	99,732,581	99,433,494
Total assets	<u>101,664,425</u>	<u>105,227,829</u>
Current liabilities	1,414,304	6,530,094
Long-term notes payable	40,181,222	41,681,222
Total liabilities	<u>41,595,526</u>	<u>48,211,316</u>
Net assets	<u>\$ 60,068,899</u>	<u>\$ 57,016,513</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2008

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

Results of operations:

	2008	2007
Revenues	\$ 8,348,541	\$ 7,797,261
Operating expenses	2,867,750	2,905,254
Net income	5,480,791	4,892,007
City share of net income - 73.2%	\$ 4,011,939	\$ 3,580,949

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

	2008	2007
Balance, beginning of year	\$ 71,417,608	\$ 67,593,453
City's share of net income	4,011,939	3,580,949
Interest accrued on notes receivable and not paid at year end	-	243,206
Balance, end of year	\$ 75,429,547	\$ 71,417,608

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 balances in deferred revenue of the City are summarized below:

	2008	2007
Building permits	\$ 4,014,285	\$ 2,520,004
Development charges	12,384,496	8,172,230
For park purposes	1,449,365	1,359,018
For subdivider deposits	773,746	781,777
Federal gas tax	3,529,350	2,116,450
	\$ 22,151,242	\$ 14,949,479

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2008

6. Deferred revenue (continued):

The deferred revenues, reported on the consolidated statement of financial position, are made up of the following:

	2008	2007
Balance, beginning of year	\$ 14,949,479	\$ 8,484,059
Contributions from Federal gas tax	1,406,027	1,124,897
Contributions from Development Charges Act	7,117,540	5,295,633
Contributions from Building Permit Act	1,992,455	1,034,072
Interest earned	905,442	506,409
Total revenue	11,421,464	7,961,011
Debt payment to operating	980,549	801,122
Development charges and grants earned	3,239,152	694,469
Balance, end of year	\$ 22,151,242	\$ 14,949,479

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. WSIB liability was estimated by an actuarial valuation as at December 31, 2008. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2007. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2005.

	2008	2007
Accumulated sick leave benefit plan entitlements	\$ 2,947,138	\$ 2,814,359
Vacation pay	1,242,341	1,154,877
Other post-employment benefits	4,464,368	4,213,263
	\$ 8,653,847	\$ 8,182,499

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, 2008, are as follows:

	%
Discount rate	5.25
Expected long-term rate of return	5.25
Salary increase	3.00
Dental cost	3.00
Health care:	
2008	9.50
Declining by 2017 to	5.00

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2008

7. Employee future benefits (continued):

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

	2008	2007
Accrued benefit obligation:		
Balance, beginning of year	\$ (9,201,951)	\$ (8,269,197)
Current benefit cost	(424,017)	(451,246)
Past service cost	-	(428,346)
Interest	(428,987)	(388,392)
Benefits paid	424,888	335,230
Balance, end of year	(9,630,067)	(9,201,951)
Unamortized actuarial loss	976,220	1,019,452
Liability for benefits	\$ (8,653,847)	\$ (8,182,499)
Amortization of actuarial loss	\$ (43,232)	\$ (42,612)

(a) Workplace Safety and Insurance Board:

The Workplace Safety and Insurance Board (WSIB) administers injured worker benefit payments on behalf of the City as a Schedule 2 employer. The expense for the year was \$15,044 (2007 - \$27,983).

A reserve has been established to provide for this liability and is included in reserves and reserve funds on the "consolidated statement of financial position". The balance at the end of the year is \$513,560 (2007 - \$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 \$390,299 (2007 - \$363,857).

A reserve fund has been established to provide for this past service liability and is included in reserves and reserve funds on the consolidated statement of financial position. The balance at the end of the year is \$2,499,421 (2007 - \$1,114,170) (note 11).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2008

7. Employee future benefits (continued):

(c) Pension plan:

The City makes contributions to the Ontario Municipal Employees Retirement System ("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 6.0% and 8.8% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2008 was \$2,444,420 (2007 - \$2,193,497) for current service and is included as an expenditure on the consolidated statement of financial activities.

(d) Other liabilities:

The City of Waterloo 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 \$224,046 (2007 - \$434,064).

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

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:

	2008	2007
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	\$ 12,413,957	\$ 11,740,441
Total long-term liabilities incurred by the City including those incurred on behalf of the school boards, other municipalities and municipal enterprises and outstanding at the end of the year amount to	10,000	20,000
Long-term liabilities, end of year	\$ 12,423,957	\$ 11,760,441

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Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2008

8. Long-term liabilities (continued):

- (b) For the long-term liabilities in (a) of this note, the annual principal payments over the next five years are as follows:

2009	\$ 2,359,853
2010	2,485,571
2011	2,636,820
2012	1,515,547
2013	1,073,571
Thereafter	2,352,595
	<hr/>
	\$ 12,423,957

- (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 2.50% to 9.0%.

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, 2008 of \$57,835,250 (2007 - \$58,402,000) represents \$48,353,159 (2007 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$9,482,091 (2007 - \$10,048,841) 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.

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Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2008

9. Capital lease obligation (continued):

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:

2009	\$	4,713,678
2010		4,754,460
2011		4,796,058
2012		4,838,487
2013		4,881,765
Thereafter		96,348,566
	\$	120,333,014

10. Municipal position at the end of the year:

(a) The operating fund balance on the consolidated statement of financial position of \$10,400,051 (2007 - \$10,282,199) at the end of the year, is comprised of the following:

	2008	2007
For general reduction of taxation	\$ 1,213,843	\$ 1,219,545
For general reduction of user charges	9,186,208	9,062,654
	\$ 10,400,051	\$ 10,282,199

(b) The balance available for general reduction of taxation for the fiscal year ending December 31, 2008, has been reduced by an amount of \$1,955,491 (2007 - \$1,219,342) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$78,913,054 (2007 - \$78,344,940) in future years, is comprised of the following:

	2008	2007
Long-term liabilities (note 8)	\$ 12,423,957	\$ 11,760,441
Capital lease proceeds (note 9)	57,835,250	58,402,000
Employee benefits and other liabilities (note 7)	8,653,847	8,182,499
	\$ 78,913,054	\$ 78,344,940

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Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2008

11. Reserves and reserve funds:

The total balances of reserves and reserve funds of \$20,993,581 (2007 - \$20,685,214) and \$19,235,453 (2007 - \$7,091,309), respectively, are made up of the following:

	2008		2007	
Reserves set aside for specific purpose by Council:				
For development revenue contingency:				
Development revenue	\$	-	\$	-
For acquisition of capital assets:				
Work equipment	\$	841,207	\$	527,926
Computer replacement		347,812		238,704
Heritage		13,893		11,893
Public art		-		209
		1,202,912		778,732
For WSIB		513,560		513,560
For winter control		300,000		553,754
For facilities maintenance		432,238		518,003
For elections		117,795		50,795
For tax rate stabilization		4,844,291		4,583,851
For 404 Wing		10,000		20,000
For operating budget contingency		137,534		100,201
For fee assistance		63,031		23,031
For environmental fund		349,609		325,190
For uptown facade program		16,427		16,427
For vacancy management		1,966,130		1,344,815
For RIM Park investment		10,831,055		11,702,580
For innovation fund		208,999		154,275
Total reserves	\$	20,993,581	\$	20,685,214
Reserve funds set aside for specific purpose by Council:				
For library expansion fund				
	\$	166,137	\$	186,993
For acquisition of capital assets:				
Capital Infrastructure	\$	5,835,800	\$	-
Fire equipment		1,039,310		935,000
Grey Silo		68,977		-
Parkade maintenance		87,604		227,518
		7,031,691		1,162,518
For sick leave		2,499,421		1,114,170
For insurance		132,606		54,863
For other capital expenditures:				
Capital reserve fund		8,202,289		3,582,158
City centre maintenance		149,299		349,880
City centre vacancy		-		-
Uptown development		80,097		56,759
Environmentally sensitive lands		107,104		72,483
Fire expansion fund		280,652		17,006
OMB Hearings		358,008		160,434
Cemetery		228,149		334,045
		9,405,598		4,572,765
Total reserve funds	\$	19,235,453	\$	7,091,309

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2008

12. Expenditures by object:

The total expenditures on the consolidated statement of financial activities are summarized by the object as follows:

	2008	2007
Salaries, wages and employee benefits	\$ 48,839,660	\$ 43,834,019
Materials and services	51,167,625	49,168,535
Debenture debt interest	4,876,918	4,950,679
Grants to not-for-profit organizations	1,935,111	1,433,298
Employee future benefits	471,348	975,366
Other	1,907,731	2,866,116
	<u>\$ 109,198,393</u>	<u>\$ 103,228,013</u>

13. Contingent liabilities:

Legal action has been undertaken against the City relating to a number of contract disputes and other matters. The outcome of these actions is not presently determinable. It is management's opinion that the City's insurance will adequately cover any potential liability arising from these contract disputes and other matters. Should any liability be determined, and not covered by insurance, it will be recognized in the period when a liability is likely.

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 and any surplus is 11.90% as of May 31, 2008 (13.33% as at May 31, 2007).

15. Tangible capital assets:

Transitional provisions:

Effective January 1, 2008, the City adopted Accounting Guideline (PSG-7) of the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants with respect to the disclosure of tangible capital assets of local governments. PSG-7 provides transitional guidance on presenting information related to tangible capital assets until Section 3150 - Tangible Capital Assets of the Public Sector Accounting Handbook comes into effect on January 1, 2009. These provisions require local government to capitalize assets at historical cost and amortize these assets over their estimated useful life. Currently the City records tangible capital assets as capital expenditures in the statement of financial activities.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2008

15. Tangible capital assets (continued):

The City is currently undertaking an inventory of all its tangible capital assets and has identified the following major categories within each major asset class within each category (General or Infrastructure):

- Land
- Land improvements
- Leasehold improvements
- Buildings
- Machinery and equipment
- Vehicles
- Linear assets
- Capital work in progress

Methods used for determining the cost of each major category of tangible capital assets

The financial information to be recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records are not available, other methods will be used to estimate the costs and accumulated amortization of the assets. The City will apply a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset. After defining replacement or reproduction cost, an appropriate price index will be used as a resource for determining appropriate indices in order to deflate the replacement or reproduction cost to an estimated historical cost.

The City has prepared a draft accounting policy for tangible capital assets and is in the process of reviewing and approving this policy. The approval of this policy will be completed in adequate time to allow for recognition of the City's tangible capital assets on the consolidated statement of financial position for the year ending December 31, 2009.

Amortization

Amortization will be calculated on a straight-line basis over the asset's expected useful life for all classes except land. Land has been considered to have an infinite life.

Contributed Tangible Capital Assets

Contributed capital assets will be recognized at fair market value at the date of contribution.

Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset will be recognized at a nominal value.

Works of Art/Historical Treasures

The City holds a collection of various works of art and historical treasures. This collection includes original paintings, various public sculptures and monuments and historical items relating to businesses that operated in the City and the City itself.

Interest Capitalization

The City's draft tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of a tangible capital asset.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14
(Unaudited)

Year ended December 31, 2008

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 15

Year ended December 31, 2008

16. Segmented information (continued):

Year ended December 31, 2008

	Fire	Roadways	Sanitary Sewer System	Waterworks System	Facilities	Other	Total
	\$	\$	\$	\$	\$	\$	\$
Revenue:							
Taxation	13,275,874	2,826,820	-	-	7,956,994	29,230,160	53,289,848
User charges	4,359	101,211	13,494,155	13,504,471	7,933,356	9,624,229	44,661,781
Grants:							
Province of Ontario	-	-	-	-	-	6,958,253	6,958,253
Government of Canada	-	-	-	-	-	146,969	146,969
Other municipalities	-	716,051	-	-	-	1,699,732	2,415,783
Other:							
Lot levies and development charges	-	1,393,118	-	29,000	-	1,761,926	3,184,044
Investment income	-	-	-	-	-	6,821,862	6,821,862
Other	9,750	595,570	1,215	-	304,545	5,626,895	6,537,975
	13,289,983	5,632,770	13,495,370	13,533,471	16,194,895	61,870,026	124,016,515
Expenditures:							
Current:							
Salaries, wages and benefits	9,962,409	1,644,556	554,738	1,080,810	6,332,574	29,264,573	48,839,660
Materials and services	1,122,431	8,305,414	9,668,608	8,981,168	4,599,428	18,490,576	51,167,625
Debt interest	111,094	27,361	-	82,967	4,106,946	548,550	4,876,918
Other	(288)	-	360,301	360,301	432,974	754,443	1,907,731
Employee future benefits	-	-	-	-	-	471,348	471,348
Grants to not for profit organizations	-	-	-	-	1,624,339	310,772	1,935,111
Internal transfers	871,052	598,999	950,025	1,140,309	1,207,521	(4,767,906)	-
Total expenditures (note 12)	12,066,698	10,576,330	11,533,672	11,645,555	18,303,782	45,072,356	109,198,393
Net revenue (expenditures)	1,223,285	(4,943,560)	1,961,698	1,887,916	(2,108,887)	16,797,670	14,818,122

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 16

Year ended December 31, 2008

16. Segmented information (continued):

Year ended December 31, 2007

	Fire \$	Roadways \$	Sanitary Sewer System \$	Waterworks System \$	Facilities \$	Other \$	Total \$
Revenue:							
Taxation	12,042,033	2,830,158	-	-	7,943,887	27,454,221	50,270,299
User charges	5,774	128,608	11,661,964	12,483,666	6,994,552	11,013,002	42,287,566
Grants:							
Province of Ontario	-	-	-	-	-	1,163,331	1,163,331
Government of Canada	-	-	-	-	-	424,315	424,315
Other municipalities	-	1,157,494	-	8,547	-	943,729	2,109,770
Other:							
Lot levies and development charges	8,826	637,736	-	28,000	-	404,960	1,079,522
Investment income	-	-	-	-	-	4,983,880	4,983,880
Other	32,137	1,156,578	(420,000)	(246,000)	505,559	3,283,659	4,311,933
	12,088,770	5,910,574	11,241,964	12,274,213	15,443,998	49,671,097	106,630,616
Expenditures:							
Current:							
Salaries, wages and benefits	9,643,348	1,501,998	494,650	1,024,483	5,659,974	25,509,566	43,834,019
Materials and services	953,786	7,279,736	7,658,615	8,446,620	4,906,429	19,923,349	49,168,535
Debenture debt interest	59,563	35,646	9,192	145,273	4,144,491	556,514	4,950,679
Other	-	-	348,604	351,745	199,069	1,966,698	2,866,116
Employee future benefits	-	-	-	-	-	975,366	975,366
Grants to not for profit organizations	-	-	-	-	574	1,432,724	1,433,298
Internal transfers	851,985	674,096	940,733	1,075,134	1,616,172	(5,158,120)	-
Total expenditures (note 12)	11,508,682	9,491,476	9,451,794	11,043,255	16,526,709	45,206,097	103,228,013
Net revenue (expenditures)	580,088	(3,580,902)	1,790,170	1,230,958	(1,082,711)	4,465,000	3,402,603

THE CORPORATION OF THE CITY OF WATERLOO

Schedule 1 - Consolidated Operating Fund Activities

Year ended December 31, 2008, with comparative figures for 2007

	Budget 2008	Actual 2008	Actual 2007
Revenues:			
Taxations and user charges:			
Residential and farm	\$ 120,987,325	\$ 119,796,310	\$ 115,674,383
Commercial, industrial and business taxation and supplementary taxes	65,498,602	67,771,886	63,724,165
Taxation from other governments	3,326,897	3,682,387	3,574,908
User charges	43,662,762	44,661,782	42,287,565
Deduct amount received or receivable on behalf of the Region and school boards (note 2)	(137,983,544)	(137,960,735)	(132,703,158)
Grants:			
Province of Ontario	670,939	6,958,253	1,138,931
Other municipalities	2,164,446	2,082,322	2,109,770
Lot levies and development charges	-	980,549	801,122
Investment income	3,206,535	5,592,855	4,015,409
Other	2,351,831	3,424,006	2,445,728
	103,885,793	116,989,615	103,068,823
Expenditures:			
General government	3,429,600	2,656,063	3,000,151
Protection to persons and property	16,385,199	14,633,200	14,014,873
Transportation services	11,514,630	11,394,037	11,222,247
Environmental services	25,048,622	24,458,696	20,684,538
Health services	1,292,626	1,106,107	1,082,987
Social and family services	1,489,810	1,455,707	1,386,230
Recreation and cultural services	29,305,448	30,396,984	31,069,296
Planning and development	5,876,664	6,079,104	5,020,887
Other	-	616,062	846,079
	94,342,599	92,795,960	88,327,288
Net revenues	9,543,194	24,193,655	14,741,535
Financing and transfers:			
Debt principal repayments	(2,408,922)	(2,594,234)	(2,728,771)
Employee future benefits	-	471,348	975,366
Change in non-financial assets	-	144,714	(129,287)
Transfer to reserves and reserve funds	(3,290,509)	(19,161,777)	(8,594,568)
Transfer to capital fund	(4,017,696)	(2,935,854)	(900,263)
	(9,717,127)	(24,075,803)	(11,377,523)
Change in operating fund	(173,933)	117,852	3,364,012
Fund balance, beginning of year	10,282,199	10,282,199	6,918,187
Fund balance, end of year	\$ 10,108,266	\$ 10,400,051	\$ 10,282,199

THE CORPORATION OF THE CITY OF WATERLOO

Schedule 2 - Consolidated Capital Fund Activities

Year ended December 31, 2008, with comparative figures for 2007

	Actual 2008	Actual 2007
Revenues:		
Province of Ontario	\$ -	\$ 24,400
Government of Canada	146,969	424,315
Other municipal grants	333,461	-
Development charges earned	2,203,495	278,401
Other (including claims, recoveries, and fundraising)	3,113,968	1,866,207
	<u>5,797,893</u>	<u>2,593,323</u>
Expenditures:		
General government	2,580,436	2,260,566
Protection to persons and property	491,358	338,138
Transportation services	7,117,096	5,555,557
Environmental services	783,753	2,445,146
Health services	44,609	131,138
Recreation and cultural services	4,435,165	2,960,562
Planning and development	950,016	1,209,618
	<u>16,402,433</u>	<u>14,900,725</u>
Net expenditures	(10,604,540)	(12,307,402)
Financing and transfers:		
Debt issued	2,691,000	1,281,000
Transfer from operating fund	2,935,854	900,263
Transfer from reserves and reserve funds	7,938,273	11,398,161
	<u>13,565,127</u>	<u>13,579,424</u>
Change in capital fund	2,960,587	1,272,022
Fund balance, beginning of year	4,729,283	3,457,261
Fund balance, end of year	<u>\$ 7,689,870</u>	<u>\$ 4,729,283</u>

THE CORPORATION OF THE CITY OF WATERLOO

Schedule 3 - Consolidated Reserves and Reserve Funds

Year ended December 31, 2008, with comparative figures for 2007

	Actual 2008	Actual 2007
Revenues:		
Investment income	\$ 1,229,007	\$ 968,470
Financing and transfers:		
Transfer from operating fund	19,161,777	8,594,568
Transfer to capital fund	(7,938,273)	(11,398,161)
	11,223,504	(2,803,593)
Change in reserves and reserve funds	12,452,511	(1,835,123)
Reserves and reserve funds, beginning of year	27,776,523	29,611,646
Reserves and reserve funds, end of year	\$ 40,229,034	\$ 27,776,523
Reserves and reserve funds consist of:		
Reserves	\$ 20,993,581	\$ 20,685,214
Reserve funds	19,235,453	7,091,309
	\$ 40,229,034	\$ 27,776,523



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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, 2008 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.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Waterloo, Canada
April 24, 2009

THE CORPORATION OF THE CITY OF WATERLOO

Five-year financial review

Years ended December 31

	2008	2007	2006	2005	2004
Population at the end of the year	120,000	117,700	115,400	110,440	106,951
Area in acres at the end of the year	16,500	16,500	16,500	16,500	16,500
Employees:					
Continuous full time	499	493	505	471	487
Part time	493	509	589	479	544
Number of households	41,535	41,426	41,317	41,208	41,208
Assessment:					
Taxable assessment upon which the year's rates of taxation were set:					
Residential and farm	\$ 8,279,682	\$ 8,229,930	\$ 8,068,925	\$ 6,939,449	\$ 6,803,044
Commercial and industrial	1,380,682	1,317,226	1,294,936	1,206,826	1,179,988
	<u>\$ 9,660,364</u>	<u>\$ 9,547,156</u>	<u>\$ 9,363,861</u>	<u>\$ 8,146,275</u>	<u>\$ 7,983,032</u>
Per capita	80,503	81,114	81,143	73,762	74,642
Non-residential as a percentage of weighted taxable assessment	24%	24%	24%	25%	25%
Exempt assessment	826,467	739,134	739,134	766,903	744,500
Rate of taxation:					
Residential tax rate for:					
General municipal purposes	0.430511%	0.412104%	0.394723%	0.418356%	0.393400%
Regional purposes	0.570352%	0.554024%	0.535145%	0.577157%	0.550158%
School board purposes	0.264000%	0.264000%	0.264000%	0.296000%	0.296000%
Tax class ratios:					
Residential	1.0000	1.0000	1.0000	1.0000	1.0000
Multi-residential	2.1500	2.2400	2.5800	2.5800	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	2.2800	2.4500	2.6100	2.6100	2.6100
Industrial - vacant	1.4820	1.5925	1.6965	1.6965	1.6965
Industrial - awaiting development	0.6500	0.3500	0.3500	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

	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$
Revenue for general municipal services:					
Taxation	51,756	48,810	46,432	43,384	38,779
Payments-in-lieu of taxes	1,533	1,460	1,422	1,406	1,599
Ontario grants	6,958	1,139	2,671	704	588
Other municipalities	2,082	2,110	1,485	1,471	1,499
Fees and services charges	39,950	38,485	36,034	35,434	35,400
Municipal Hydro System	4,011	3,824	4,192	4,466	2,307
Other	14,709	11,065	9,449	7,970	5,999
	120,999	106,893	101,685	94,835	86,171
Tax arrears:					
Per capita	47	39	35	22	33
Percentage of current levy	2.98%	2.57%	2.32%	1.47%	2.28%
Expenditure - general municipal	127,234	106,222	105,911	92,955	88,100
Transfers to the Region	84,202	80,258	76,981	73,512	66,892
Transfers to the School Boards	53,769	52,446	50,707	49,987	49,264
Net long-term liabilities:					
General municipal activities	60,423	59,601	58,953	60,457	61,507
Non-tax supported	9,836	10,561	12,657	12,958	14,907
Total debt	70,259	70,162	71,610	73,415	76,414
Total debt per capita	585	596	621	665	714
Total debt for general municipal activities per capita	504	506	511	547	575
Charges for net long-term liabilities:					
General municipal activities	4,848	5,150	5,403	5,296	4,395
Non-tax supported	2,623	2,529	2,593	2,791	2,517
Total debt charges	7,471	7,679	7,996	8,087	6,912
Debt charges for general municipal activities per capital	40	44	47	48	41
Capital financing during the year:					
Contributions from own funds	14,108	12,988	19,025	13,871	13,161
Long-term liabilities	2,691	1,281	1,235	-	2,430
Capital Grants:					
Canada	17	8	-	2,788	2,138
Ontario	-	24	-	2,969	2,138
Development charges earned		-	-	4,811	3,805
Other	2,542	1,866	2,595	3,340	3,143
Total capital financing	19,358	16,167	22,855	27,779	26,815
Capital expenditures during the year	16,398	14,896	17,909	22,901	17,788
End of year balances:					
Operating fund	10,400	10,282	6,918	9,917	7,068
Equity in Waterloo:					
North Hydro Holding	75,430	71,418	67,593	63,402	58,936
Reserve, reserve funds and obligatory reserve fund	62,380	42,726	38,096	34,002	32,013