

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

Year ended December 31, 2009

DRAFT

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2009, with comparative figures for 2008

	2009	2008
		(restated, note 2)
Financial Assets		
Cash and short-term investments	\$ 50,873,951	\$ 40,122,789
Taxes recoverable	8,951,468	9,782,265
Accounts receivable (note 3)	14,271,978	8,867,713
Investments (note 4)	67,495,285	46,162,284
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 5)	76,597,703	73,151,891
	<u>218,190,385</u>	<u>178,086,942</u>
Financial Liabilities		
Accounts payable and accrued liabilities	41,545,893	23,392,992
Deferred revenue (note 6)	33,178,897	22,151,242
Employee future benefits (note 7)	9,710,247	8,653,847
Long-term liabilities (note 8)	13,072,104	12,423,957
Accrued interest on capital lease (note 9)	8,832,145	9,482,091
Capital lease obligation (note 9)	48,353,159	48,353,159
	<u>154,692,445</u>	<u>124,457,288</u>
Total net financial assets	63,497,940	53,629,654
Non-Financial Assets		
Tangible capital assets (note 10)	636,824,853	652,412,686
Inventory	1,197,802	1,205,794
Accumulated surplus (note 11)	<u>\$ 701,520,595</u>	<u>\$ 707,248,134</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, 2009, with comparative figures for 2008

	Budget 2009	Actual 2009	Actual 2008
Revenue:			
Taxation (note 12)	\$ 55,283,669	\$ 55,056,030	\$ 53,289,848
User charges	73,011,096	50,569,355	44,661,782
Grants:			
Province of Ontario	7,534,776	2,162,721	6,958,253
Government of Canada	9,707,327	2,540,985	146,969
Other municipalities	2,172,084	2,843,439	2,415,783
Other:			
Lot levies and development charges	8,198,414	2,153,629	3,184,044
Investment income	3,372,347	5,174,471	6,821,862
Other	2,951,191	3,427,572	6,537,974
Equity basis net income in Waterloo North Hydro Holding Corporation (note 5)	-	3,445,812	4,011,939
Total revenue	162,230,904	127,374,014	128,028,454
Expenses:			
General government	5,180,644	3,259,424	5,633,142
Protection to persons and property	17,753,591	17,455,208	13,826,273
Transportation services	31,187,305	29,810,312	10,958,981
Environmental services	43,445,676	33,375,566	25,657,582
Health services	1,512,697	1,633,326	959,927
Social and family services	1,582,834	1,466,368	1,455,707
Recreation and cultural services	42,838,784	37,329,875	36,477,097
Planning and development	6,410,536	7,894,584	7,029,120
Other	965,000	876,890	471,348
Total expenses	150,877,067	133,101,533	102,470,045
Annual surplus (deficit)	11,353,837	(5,727,539)	25,558,409
Accumulated surplus, beginning of year	699,692,793	707,248,134	681,689,725
Accumulated surplus, end of year	\$ 711,046,630	\$ 701,520,595	\$ 707,248,134

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, 2009, with comparative figures for 2008

	Budget 2009	Actual 2009	Actual 2008
	(Unaudited – note 18)		
Annual surplus	\$ 11,353,837	\$ (5,727,539)	\$ 25,558,409
Acquisition of tangible capital assets	(39,947,218)	(1,438,828)	(23,942,798)
Amortization of tangible capital assets	-	17,026,662	17,359,164
	(28,593,381)	9,860,295	18,974,775
Acquisition of inventories of supplies	-	-	(144,714)
Consumption of inventories of supplies	-	7,992	-
Change in net financial assets	(28,593,381)	9,868,286	18,830,061
Net financial assets, beginning of year	53,629,654	53,629,654	34,799,593
Net financial assets, end of year	\$ 25,036,273	\$ 63,497,940	\$ 53,629,654

The accompanying notes are an integral part to these consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operating Activities:		
Annual surplus	\$ (5,727,539)	\$ 25,558,409
Items not involving cash:		
Amortization	17,026,662	17,359,164
Change in employee benefits and other liabilities	1,056,400	471,348
Net change in investment in Waterloo North Hydro Holding Corporation and Affiliates	(3,445,812)	(4,011,939)
Change in non-cash assets and liabilities:		
Taxes recoverable	830,797	(1,563,855)
Accounts receivable	(5,404,265)	(1,245,745)
Accounts payable and accrued liabilities	18,152,901	3,121,136
Deferred revenue	11,027,655	7,201,763
Inventory	7,992	(144,714)
Net change in cash from operating activities	33,524,791	46,745,566
Capital activities:		
Cash used to acquire tangible capital assets	(1,438,828)	(23,942,798)
Net change in cash from capital activities	(1,438,828)	(23,942,798)
Investing activities:		
Net increase (decrease) in investments	(21,333,001)	1,366,458
Financing activities:		
Debt issued	3,008,000	2,691,000
Long-term debt repaid	(2,359,853)	(2,027,484)
Decrease in accrued interest on capital lease obligation	(649,946)	(566,750)
Net change in cash from financing activities	(1,799)	96,766
Net change in cash and short-term investments	10,751,162	24,265,993
Cash and short-term investments, beginning of year	40,122,789	15,856,796
Cash and short-term investments, end of year	\$ 50,873,951	\$ 40,122,789
Cash paid for interest	\$ 4,856,890	\$ 4,876,918
Cash received from interest	5,012,025	6,745,655

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, 2009

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 inter-organizational 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, 2009

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) Cash and 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, 2009

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 are amortized on a straight-line basis over their estimated useful lives as follows:

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

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, 2009

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 PS3150 has requirement management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

2. Change in accounting policies:

The City has implemented Public Sector Accounting Board ("PSAB") sections 1200, "Financial Statement Presentation" and 3150, "Tangible Capital Assets". Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, tangible capital asset additions were expensed in the year of acquisition or construction.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2009

2. Change in accounting policies (continued):

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

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The City applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records, except in circumstances where it could 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, appropriate indices were used in order to deflate the replacement or reproduction cost to an estimated historical cost at the year of acquisition.

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

Accumulated surplus at January 1, 2008:

Operating fund balance	\$ 10,282,199
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 6)	71,417,608
Capital fund balance	4,729,283
Reserves	20,685,214
Reserve funds	7,091,309
Amounts to be recovered	(78,344,940)
Accumulated surplus, as previously reported	35,860,673
Net book value of tangible capital assets recorded	645,829,052
Accumulated surplus, as restated	\$ 681,689,725

Annual surplus for 2008:

Net revenues, as previously reported	\$ 18,830,061
Assets capitalized but previously expensed	23,942,798
Amortization expense not previously recorded	(17,359,164)
Change in non-financial assets not previously reported as expense	144,714
Annual surplus, as restated	\$ 25,558,409

3. Accounts receivable

Taxes recoverable are reported net of a valuation allowance of \$250,000 (2008 - \$250,000).

Accounts receivable are reported net of a valuation allowance of \$1,813,306 (2008 - \$1,813,306).

4. Investments:

The total of investments of \$67,495,285 (2008 - \$46,162,284) have a market value of \$69,618,688 (2008 - \$47,205,455) as at December 31, 2009. Investments are composed entirely of federal and provincial bonds with yields ranging from 0.75% to 6.5%.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2009

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:

	2009	2008
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	29,173,766	25,727,974
	<u>\$ 76,597,703</u>	<u>\$ 73,151,891</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% (2008 - 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 2009 fiscal year:

	2009	2008
Current assets	\$ 1,919,440	\$ 1,931,844
Long-term assets	96,775,489	99,732,581
Total assets	<u>98,694,929</u>	<u>101,664,425</u>
Current liabilities	1,448,635	1,414,304
Long-term notes payable	33,292,001	40,181,222
Total liabilities	<u>34,740,636</u>	<u>41,595,526</u>
Net assets	<u>\$ 63,954,293</u>	<u>\$ 60,068,899</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2009

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

Results of operations:

	2009	2008
Revenues	\$ 7,364,706	\$ 8,348,541
Operating expenses	2,657,313	2,867,750
Net income	4,707,393	5,480,791
City share of net income - 73.2%	\$ 3,445,812	\$ 4,011,939

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

	2009	2008
Balance, beginning of year	\$ 75,429,547	\$ 71,417,608
City's share of net income	3,445,812	4,011,939
Balance, end of year	\$ 78,875,359	\$ 75,429,547

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:

	2009	2008
Building permits	\$ 3,883,975	\$ 4,014,285
Development charges	22,201,115	12,384,496
For park purposes	1,578,380	1,449,365
For subdivider deposits	1,423,213	773,746
Federal gas tax	4,092,214	3,529,350
	\$ 33,178,897	\$ 22,151,242

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2009

6. Deferred revenue (continued):

Continuity of deferred revenue is as follows:

	2009	2008
Balance, beginning of year	\$ 22,151,242	\$ 14,949,479
Contributions from Federal gas tax	2,812,053	1,406,027
Contributions from Development Charges Act	8,888,120	7,117,540
Contributions from Building Permit Act	2,745,907	1,992,455
Interest earned	517,396	905,442
Total revenue	14,963,476	11,421,464
Development charges and grants earned	3,935,821	4,219,701
Balance, end of year	\$ 33,178,897	\$ 22,151,242

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, 2009. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2009. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2009.

	2009	2008
Accumulated sick leave benefit plan entitlements	\$ 3,092,502	\$ 2,947,138
Vacation pay	1,327,715	1,242,341
Other post-employment benefits	5,290,030	4,464,368
	\$ 9,710,247	\$ 8,653,847

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, 2009, are as follows:

	%
Discount rate	5.50
Expected long-term rate of return	5.50
Salary increase	3.00
Dental cost	3.00
Health care:	
2009	8.00
Declining by 2016 to	5.00

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2009

7. Employee future benefits (continued):

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

	2009	2008
Accrued benefit obligation:		
Balance, beginning of year	\$ (9,630,067)	\$ (9,201,951)
Current benefit cost	(1,030,513)	(424,017)
Past service cost	(1,071,979)	-
Interest	(447,876)	(428,987)
Benefits paid	473,899	424,888
Balance, end of year	(11,706,536)	(9,630,067)
Unamortized actuarial loss	1,996,289	976,220
Liability for benefits	\$ (9,710,247)	\$ (8,653,847)
Amortization of actuarial loss	\$ (590,821)	\$ (43,232)

(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 \$59,948 (2008 - \$15,044).

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 (2008 - \$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 \$255,828 (2008 - \$390,299).

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 \$ 2,509,973 (2008 - \$2,499,421) (note 11).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2009

7. Employee future benefits (continued):

(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 6.3% and 9.5% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2009 was \$2,662,878 (2008 - \$2,444,420) for current service and is included as an expenditure on the consolidated statement of financial activities.

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 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 \$219,340 (2008 - \$224,046).

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:

	2009	2008
The City has assumed responsibility for the payment of principal and interest charges on certain long-term liabilities issued by the Region of Waterloo. At the end of the year, the outstanding principal amount of this liability is	\$ 13,072,104	\$ 12,413,957
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
Long-term liabilities, end of year	\$ 13,072,104	\$ 12,423,957

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2009

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 and thereafter are as follows:

2010	\$ 3,057,491
2011	3,223,209
2012	2,116,772
2013	1,690,006
2014	1,311,626
Thereafter	1,673,000
	<hr/>
	\$ 13,072,104

- (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, 2009 of \$57,185,304 (2008 - \$57,835,250) represents \$48,353,159 (2008 - \$48,353,159), financed under the Original Agreement, plus accrued interest of \$8,832,145 (2008 - \$9,482,091) 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 CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2009

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:

2010	\$ 4,754,460
2011	4,796,058
2012	4,838,487
2013	4,881,765
2014	4,925,909
Thereafter	91,422,657
	<hr/>
Less amount representing interest at 7.35%	115,619,336
	<hr/>
Present value of net minimum capital lease payments	58,434,032
	<hr/>
	\$ 57,185,304

Interest of \$4,063,732 (2008 - \$4,106,946) relating to capital lease obligations has been included in expenses on the consolidated statement of financial activities.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2009

10. Tangible capital assets:

	2009							
	Land	Landfill and 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	\$ 139,072,101	\$ 2,322,295	\$ 149,884,850	\$ 21,493,039	\$ 325,280,805	\$ 264,229,398	\$ 7,555,341	\$ 909,837,829
Additions	900,558	-	-	1,935,930	591,447	395,354	-	3,823,288
Disposals	-	-	-	-	-	-	2,384,460	2,384,460
Balance, end of year	\$ 139,972,659	\$ 2,322,295	\$ 149,884,850	\$ 23,428,969	\$ 325,872,252	\$ 264,624,752	\$ 5,170,881	\$ 911,276,657
Accumulated Amortization								
Balance, beginning of year	-	1,103,681	48,311,485	14,372,655	84,181,060	109,456,262	-	257,425,143
Disposals	-	-	-	-	-	-	-	-
Amortization Expense	-	61,211	3,728,767	1,843,126	4,405,110	6,988,447	-	17,026,661
Balance, end of year	-	1,164,892	52,040,252	16,215,781	88,586,170	116,444,709	-	274,451,804
Net Book Value, end of year	\$ 139,972,659	\$ 1,157,403	\$ 97,844,598	\$ 7,213,188	\$ 237,286,082	\$ 148,180,043	\$ 5,170,881	\$ 636,824,853

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2009

10. Tangible capital assets (continued):

	2008							
	Land	Landfill and 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	\$ 138,858,051	\$ 2,322,295	\$ 149,884,850	\$ 19,425,076	\$ 323,006,120	\$ 249,857,188	\$ 2,541,449	\$ 885,895,029
Additions	214,050	-	-	2,067,963	2,274,685	14,372,210	5,013,892	23,942,800
Disposals	-	-	-	-	-	-	-	-
Balance, end of year	\$ 139,072,101	\$ 2,322,295	\$ 149,884,850	\$ 21,493,039	\$ 325,280,805	\$ 264,229,398	\$ 7,555,341	\$ 909,837,829
Accumulated Amortization								
Balance, beginning of year	\$ -	\$ 1,037,330	\$ 44,582,718	\$ 12,454,658	\$ 79,773,400	\$ 102,217,873	\$ -	\$ 240,065,979
Disposals	-	-	-	-	-	-	-	-
Amortization Expense	-	66,351	3,728,767	1,917,997	4,407,660	7,238,389	-	17,359,164
Balance, end of year	-	1,103,681	48,311,485	14,372,655	84,181,060	109,456,262	-	257,425,143
Net Book Value, end of year	\$ 139,072,101	\$ 1,218,614	\$ 101,573,365	\$ 7,120,385	\$ 241,099,745	\$ 154,773,136	\$ 7,555,341	\$ 652,412,686

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2009

10. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction having a value of \$5,170,881 (2008 - \$7,555,341) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed Tangible Capital Assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. There were no contributed assets received during the year (2008 - \$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:

	2009	2008
For general reduction of taxation	\$ 4,244,798	\$ 1,213,843
For general reduction of user charges	9,573,499	9,186,208
Equity in tangible capital assets (note 12)	634,138,128	652,412,686
Equity in Waterloo North		
Hydro Holding Corporation and affiliates (note 7)	78,875,359	75,429,547
Capital fund balance	16,823,381	7,689,870
Amounts to be recovered (note 11(c))	(79,967,655)	(78,913,054)
	\$ 663,687,510	\$ 667,019,100

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2009

11. Accumulated surplus (continued):

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

	2009		2008	
Reserves set aside for specific purpose by Council:				
For acquisition of capital assets:				
Work equipment	\$ 1,733,372		\$ 841,207	
Computer replacement	473,941		347,812	
Heritage	<u>20,000</u>	2,227,313	<u>13,893</u>	1,202,912
For WSIB		513,560		513,560
For winter control		340,896		300,000
For facilities maintenance		398,193		432,238
For elections		184,795		117,795
For tax rate stabilization		5,692,214		4,844,291
For 404 Wing		-		10,000
For operating budget contingency		176,961		137,534
For fee assistance		63,031		63,031
For environmental fund		374,609		349,609
For uptown facade program		6,427		16,427
For vacancy management		3,422,157		1,966,130
For RIM Park investment		10,267,265		10,831,055
For innovation fund		283,685		208,999
Total reserves	\$ 23,961,106		\$ 20,993,581	
Reserve funds set aside for specific purpose by Council:				
For library expansion fund		\$ 307,944		\$ 166,137
For acquisition of capital assets:				
Capital Infrastructure	1,126,143		5,835,800	
Fire equipment	980,913		1,039,310	
Grey Silo	18,883		68,977	
Parkade maintenance	<u>223,660</u>	2,349,600	<u>87,604</u>	7,031,691
For sick leave		2,509,973		2,499,421
For insurance		76,657		132,606
For other capital expenditures:				
Capital reserve fund	6,589,152		8,202,289	
City centre maintenance	191,190		149,299	
City centre vacancy 44,142		-		
Uptown development	406,100		80,097	
Environmentally sensitive lands	103,302		107,104	
Fire expansion fund	376,943		280,652	
OMB Hearings	646,561		358,008	
Cemetery	<u>270,414</u>	8,627,804	<u>228,149</u>	9,405,598
Total reserve funds	\$ 13,871,978		\$ 19,235,453	
Total Accumulated Surplus	\$ 701,520,595		\$ 707,248,134	

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2009

11. Accumulated surplus (continued):

(b) The balance available for general reduction of taxation for the fiscal year ending December 31, 2009, has been reduced by an amount of \$1,484,565 (2008 - \$1,955,491) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.

(c) The amounts to be recovered of \$79,967,655 (2008 - \$78,912,054) in future years, is comprised of the following:

	2009	2008
Long-term liabilities (note 9)	\$ 13,072,104	\$ 12,423,957
Capital lease proceeds (note 10)	57,185,304	57,835,250
Employee benefits and other liabilities (note 8)	9,710,247	8,653,847
	<u>\$ 79,967,655</u>	<u>\$ 78,913,054</u>

12. Taxation:

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

	2009	2008
Residential and farm taxation	\$ 124,826,518	\$ 119,796,310
Commercial, industrial and business taxation and supplementary taxes	67,006,745	67,771,886
Taxation from other governments	3,897,457	3,682,387
Balance, end of year	195,730,720	191,250,583
Payments to Region and school boards	(140,674,690)	(137,960,735)
Net property taxes and payment-in-lieu available for municipal purposes	<u>\$ 55,056,030</u>	<u>\$ 53,289,848</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2009

13. Trust funds:

Trust funds administered by the Municipality amounting to \$5,517,716 (2008 - \$5,150,219) have not 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:

	2009	2008
Cemeteries	\$ 5,452,975	\$ 5,085,463
Ontario Home Renewal Plan	2,967	3,501
Others	61,774	61,255
	<u>\$ 5,517,716</u>	<u>\$ 5,150,219</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.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 19
(Unaudited)

Year ended December 31, 2009

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 10.99% as of May 31, 2009 (11.90% as at May 31, 2008). The pool's surplus at May 31, 2009 is \$2,583,338.

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, 2009

16. Segmented information (continued):

Year ended December 31, 2009

	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	6,777,758	6,873,384
	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	10,452,410	11,378,163	9,850,712	4,870,185	13,230,269	52,149,868
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	6,854,256	1,508,834	1,079,119	2,334,680	4,864,346	17,026,662
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	20,620,436	15,122,431	14,403,452	19,523,862	49,177,727	133,101,553
Net revenue (expenditures)	\$ (1,075,329)	\$ (13,382,231)	\$ 1,702,819	\$ 1,432,971	\$ (5,846,478)	\$ 11,440,709	\$ (5,727,539)

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 21

Year ended December 31, 2009

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	9,638,834	10,549,914
	13,289,983	5,632,770	13,495,370	13,533,471	16,194,895	65,881,964	128,028,454
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	(5,452,222)	27,224,827
Debenture debt interest	111,094	27,361	-	82,967	4,106,946	548,550	4,876,918
Other	(288)	-	360,301	360,301	432,974	609,729	1,763,017
Employee future benefits	-	-	-	-	-	471,348	471,348
Grants to not for profit organizations	-	-	-	-	-	1,935,111	1,935,111
Amortization	381,833	6,499,200	1,500,849	1,141,969	2,675,994	5,159,319	17,359,164
Internal transfers	871,052	598,999	950,025	1,140,309	1,207,521	(4,767,906)	-
Total expenditures	12,448,531	17,075,530	13,034,521	12,787,524	19,355,437	27,768,502	102,470,045
Net revenue (expenditures)	\$ 841,452	\$ (11,442,760)	\$ 460,849	\$ 745,947	\$ (3,160,541)	\$ 38,113,462	\$ 25,558,409

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 22
(Unaudited)

Year ended December 31, 2009

17. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2009 operating and capital budgets approved by Council on January 10, 2009. 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	\$ 134,055,798
Capital budget	91,951,191
Reserve budget	22,278,347
Other entities	80,360
Less:	
Transfers from other funds	(83,126,792)
Proceeds on sale of assets	(-)
Proceeds on debt issue	(3,008,000)
Total revenue	162,230,904
Expenses:	
Operating budget	134,055,800
Capital budget	91,951,191
Reserve budget	45,632,290
Other entities	80,310
Less:	
Transfers to other funds	(78,486,384)
Capital expenses	(39,947,218)
Debt principal payments	(2,408,922)
Total expenses	150,877,067
Annual surplus	\$ 11,353,837