
Consolidated financial statements of City of Kawartha Lakes

December 31, 2018

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Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers
of the Corporation of the City of Kawartha Lakes

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Kawartha Lakes (the "City"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2018, and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants
June 11, 2019

City of Kawartha Lakes
Consolidated statement of financial position
As at December 31, 2018

	Notes	2018 \$	2017 \$
Assets			
Cash		9,320,701	17,510,990
Investments	3	63,666,886	68,720,897
Taxes receivable		4,893,273	4,707,683
Accounts receivable		40,307,026	34,913,240
Other current assets		16,768	21,323
		118,204,654	125,874,133
Liabilities			
Accounts payable and accrued liabilities		26,920,537	28,151,540
Deferred revenue	4	34,694,675	37,992,703
Other liabilities		4,025,684	3,603,686
Accrued interest on long-term liabilities		367,199	369,282
Employee future benefits	5	31,467,294	23,387,836
Landfill closure and post closure accrual	6	10,127,570	10,074,352
Municipal debt	7	116,889,083	115,455,070
		224,492,042	219,034,469
Net debt		(106,287,388)	(93,160,336)
Non-financial assets			
Tangible capital assets	15	509,648,303	473,835,530
Inventory and prepaid expenses		3,349,246	3,404,317
		512,997,549	477,239,847
Contingencies and commitments	9		
Accumulated surplus	8	406,710,161	384,079,511

The accompanying notes are an integral part of the consolidated financial statements.

Approved by Council

_____, Member

_____, Member

City of Kawartha Lakes
Consolidated statement of operations
Year ended December 31, 2018

	Budget	2018 Actual	2017 Actual
	\$	\$	\$
Notes			
	(Note 10)		
Revenue			
Taxes levied for own purposes	108,102,444	109,083,360	106,613,134
Payments in lieu from other governments	474,725	508,416	487,918
Taxation	108,577,169	109,591,776	107,101,052
User charges, licenses and fines	49,863,497	42,677,109	39,240,543
Grants			
Government of Canada	1,370,257	2,676,499	2,031,747
Province of Ontario	47,220,607	55,417,464	53,922,991
Other municipalities	1,793,889	1,747,010	2,092,319
Other			
Investment income	1,314,009	1,504,939	894,817
Gain on disposal of tangible capital assets	675,000	1,255,347	809,693
Penalties and interest on taxes	1,107,000	1,210,713	1,124,020
Restricted amounts earned	9,627,098	15,169,905	12,221,606
Donations and other	762,092	1,342,576	780,823
Contributed tangible capital assets	—	838,941	5,450,877
	222,310,618	233,432,279	225,670,488
Expenses			
General government	23,450,177	26,129,721	23,738,437
Protection to persons and property	32,091,199	31,901,727	31,349,459
Transportation services	33,195,839	41,042,414	39,986,245
Environmental services	24,593,851	27,179,064	23,520,443
Health services	12,169,314	13,117,927	12,342,507
Social services	43,846,624	42,121,104	41,975,567
Housing services	11,586,167	10,228,030	10,902,169
Recreational and cultural services	16,698,467	14,943,183	13,831,157
Planning and development	4,360,989	4,138,459	3,688,492
	201,992,627	210,801,629	201,334,476
Annual surplus	20,317,991	22,630,650	24,336,012
Accumulated surplus, beginning of year	384,079,511	384,079,511	359,743,499
Accumulated surplus, end of year	404,397,502	406,710,161	384,079,511

The accompanying notes are an integral part of the consolidated financial statements.

City of Kawartha Lakes**Consolidated statement of change in net debt**

Year ended December 31, 2018

	Budget	2018	2017
	\$	Actual	Actual
	(Note 10)	\$	\$
Annual surplus	20,317,991	22,630,650	24,336,012
Acquisition of tangible capital assets	(40,353,827)	(61,308,746)	(44,045,791)
Amortization of tangible capital assets	18,773,409	25,224,156	23,795,976
Gain on disposal of tangible capital assets	—	(1,255,347)	(809,693)
Proceeds on disposal of tangible capital assets	—	1,527,164	2,507,280
	(1,262,427)	(13,182,123)	5,783,784
Change in prepaid expenses	—	52,584	1,220,239
Change in inventory	—	2,487	89,221
	(1,262,427)	(13,127,052)	7,093,244
Net debt, beginning of year	(93,160,336)	(93,160,336)	(100,253,580)
Net debt, end of year	(94,422,763)	(106,287,388)	(93,160,336)

The accompanying notes are an integral part of the consolidated financial statements.

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City of Kawartha Lakes
Consolidated statement of cash flows
Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Annual surplus	22,630,650	24,336,012
Items not involving cash		
Amortization	25,224,156	23,795,976
Gain on disposal of tangible capital assets	(1,255,347)	(809,693)
Contributed tangible capital assets recorded in revenue	(838,941)	(5,450,877)
Change in non-cash assets and liabilities		
Taxes receivable	(185,590)	1,392,455
Accounts receivable	(5,393,786)	(4,867,564)
Other current assets	4,555	3,458
Accounts payable and accrued liabilities	(1,231,003)	3,374,099
Deferred revenue	(3,298,028)	(2,213,282)
Other liabilities	421,998	(1,184,657)
Accrued interest on long-term liabilities	(2,083)	4,040
Employee future benefits	8,079,458	5,985,080
Landfill closure and post closure accrual	53,218	(3,072,710)
Inventory and prepaid expenses	55,071	1,309,460
	44,264,328	42,601,797
Capital activities		
Acquisition of tangible capital assets	(60,469,805)	(38,594,914)
Proceeds on disposal of tangible capital assets	1,527,164	2,507,280
	(58,942,641)	(36,087,634)
Investing activity		
Decrease (increase) in investments	5,054,011	(28,330,102)
Financing activities		
Municipal debt issued	12,707,677	25,011,000
Municipal debt repaid	(11,273,664)	(10,535,755)
	1,434,013	14,475,245
Change in cash	(8,190,289)	(7,340,694)
Cash, beginning of year	17,510,990	24,851,684
Cash, end of year	9,320,701	17,510,990

The accompanying notes are an integral part of the consolidated financial statements.

Nature of business

The City of Kawartha Lakes (the "City") was created on January 1, 2001 by a Restructuring Order under the Ontario Municipal Act. The City is a combination of the former County of Victoria and all 16 lower-tier municipalities along with their related local boards and police villages previously located within the county's boundaries.

1. Summary of significant accounting policies

The consolidated financial statements of the City are the representations of management prepared in accordance with accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

Significant accounting policies adopted by the City are as follows:

(a) (i) Reporting entity

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees controlled by the City, including the following:

Public Library Board
Police Services Board including municipal and OPP services
Lindsay Downtown Business Improvement Association
Waterworks and Sewer Systems
Cemetery Boards
Parks, Recreation and Heritage Boards and Committees
Community Centres
Kawartha Lakes Haliburton Housing Corporation (Note 14)

All material inter-entity transactions and balances are eliminated on consolidation.

(ii) Accounting for school board transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.

(iii) Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately.

(b) (i) Basis of accounting

Revenues and expenses are reported on the accrual basis of accounting with the exception of Provincial Offences Act fine revenues which are accounted for on a cash basis. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

Investments

Temporary investments are carried at the lower of cost and market value, at which time they are written down to recognize the loss in value. Discounts or premiums are amortized using the effective interest method.

1. Summary of significant accounting policies (continued)

(b) (i) Basis of accounting (continued)

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.

Tangible capital assets

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

	<u>Useful life-years</u>
Land improvements	10-20
Building and building improvements	10-50
Vehicles, machinery and equipment	5-20
Water and sewer systems	25-80
Road infrastructure	<u>10-50</u>

One half of the 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.

Contribution of tangible capital assets

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

Interest capitalization

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

Intangible assets

Intangible assets are not recognized as assets in the consolidated financial statements.

(ii) Deferred revenue

Under PSAB accounting principles, obligatory reserve funds and any other externally restricted contributions must be reported as deferred revenue. These amounts will be recognized as revenues in the fiscal year in which the qualifying expenditures are made.

2. Summary of significant accounting policies (continued)

(iii) Employee future benefits

The present value of the cost of providing employees with future benefits programs is expensed as employees earn these entitlements through service. The cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care and dental costs. Actuarial gains or losses are amortized on a straight line basis over the expected average remaining service life of all employees covered.

(iv) Government transfers

Government transfers are recognized as revenues by the City in the period during which the transfer is authorized and any eligibility criteria are met. Government transfers are deferred if they are restricted through stipulations that require specific actions or programs to be carried out in order to keep the transfer. For such transfers, revenue is recognized when the stipulation has been met.

Tax revenue is recognized on all taxable properties within the City that are included in the tax roll provided by the Municipal Property Assessment Corporation, using property values included in the tax roll or property values that can be reasonably estimated by the City as it relates to supplementary or omitted assessments, at tax rates authorized by Council for the City's own purposes in the period for which the tax is levied.

(v) Liability for Contaminated Sites

A liability for the remediation of a contaminated site is recognized as the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the City is either directly responsible or accepts responsibility, it is expected that the future economic benefit will be given up, and a reasonable estimate of the amount is determinable. If the likelihood of the City's obligation to incur these costs is either not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the consolidated financial statements. As at December 31, 2018 there is \$nil liability recorded in the consolidated financial statements (\$nil in 2017). The City will continue to review for potential contaminated sites on an annual basis.

(vi) Use of estimates

The preparation of the periodic financial statements in conformity with Canadian public sector accounting standards 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 consolidated financial statements and the reported amount of revenues and expenses during the period. Significant estimates relate to taxes receivable, accounts receivable, accrued liabilities, employee future benefits, landfill closure and post-closure accrual, contaminated sites, and tangible capital assets. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

2. Taxation raised on behalf of others

Further to Note 1(a)(ii), requisitions were made by the School Boards requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized as follows:

	2018	2017
	\$	\$
Requisitions of School Boards		
English public	23,374,925	23,243,811
French public	53,729	50,836
English separate	2,260,612	2,251,856
French separate	41,561	39,358
	25,730,827	25,585,861

3. Investments

Investments are marketable securities which are comprised of corporate and government debt securities and investment certificates from chartered banks with effective interest rates from 1.15% to 6.00% (1.15% to 6.25% in 2017). The costs presented approximate fair value.

4. Deferred revenue

	2018	2017
	\$	\$
Obligatory reserve funds		
Recreational land (Planning Act)	558,340	340,870
Development Charges Act	(2,421,713)	451,539
Federal and Provincial Gas Tax Reserves	2,278,727	3,896,191
Other	2,023,906	2,087,746
Reserve funds restricted for specified purposes to benefit residents in geographic areas of former municipalities (Restructuring Order and City of Kawartha Lakes Act)	22,773,593	22,894,866
	25,212,853	29,671,212
Restricted reserves		
Reserves restricted for specific purposes to benefit residents in geographic areas of former municipalities (Restructuring Order)	8,447	8,353
	25,221,300	29,679,565
Other deferred revenue		
Unearned grants	3,109,714	956,240
Other unearned revenue	6,363,661	7,356,898
	34,694,675	37,992,703

4. Deferred revenue (continued)

The net change during the year in the legislatively restricted deferred revenue balances is as follows:

	2018			2017
	Parkland levies and development charges	Gas tax reserves and other	Amounts restricted by amalgamation legislation	Total
	\$	\$	\$	\$
Balance, beginning of year	792,410	5,983,936	22,903,219	32,292,565
Restricted funds received	5,209,464	5,267,662	304,842	9,511,880
Interest earned	(103,022)	32,584	110	96,726
Revenue recognized	(7,762,225)	(6,981,549)	(426,131)	(12,221,606)
Balance, end of year	(1,863,373)	4,302,633	22,782,040	29,679,565

The City of Kawartha Lakes Act, 2001 required proceeds of sale of the six former municipal hydro systems to be set aside and used only for the benefit of residents in geographic areas served by each of the hydro systems. The net proceeds are included in restricted deferred revenue and will only be recognized as revenue in the consolidated statement of operations when qualifying expenses are incurred.

5. Employee future benefits

The City provides certain employee benefits which will require funding in future periods.

	2018	2017
	\$	\$
Accrued payroll	2,957,328	2,226,533
Vacation and overtime payable	1,044,682	983,709
WSIB self-insured claims (Note 9)	21,253,784	14,878,994
Post-employment benefits	6,211,500	5,298,600
Employee future benefits payable	31,467,294	23,387,836

Vacation pay and overtime liability

The City budgets for payrolls and vacation and overtime banks based on timing of payment. The above liabilities for payrolls, vacation and overtime represent amounts earned by employees but not paid prior to year-end. The accrued balances will require funding in future periods, and are segregated in the accumulated surplus balance as disclosed in Note 8.

5. Employee future benefits (continued)

Post-employment benefit liability

The City sponsors a defined benefit plan for post employment benefits other than pensions for substantially all of its employees. The plan provides extended health and life insurance coverage to age 64 for full-time employees. The plan is unfunded and requires no contribution from employees. Total benefit payments to retirees during the year were \$207,628 (\$259,996 in 2017).

An actuarial valuation for accounting purposes is performed triennially using the projected benefit method prorated on service. The most recent actuarial valuation was completed as of December 31, 2017, with an extrapolation to December 31, 2018. The post-employment benefit liability at December 31 includes the following components:

	2018	2017
	\$	\$
Accrued benefit obligation	7,346,700	6,727,900
Actuarial loss	(1,135,200)	(1,429,300)
Post-employment benefits liability	6,211,500	5,298,600

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect management's best estimates. The main actuarial assumptions employed for the valuation are as follows:

Expected inflation rate		2.5%
Discount rate	<ul style="list-style-type: none"> • beginning of year • end of year 	3.20%
		3.20%
Medical cost increases	<ul style="list-style-type: none"> • first year • second year • decreasing over 10 years to 	6.80%
		6.66%
	4.00% plus CPI (assumed to be	2.5%)
Expected annual rate of dental cost increase	4.00% plus CPI (assumed to be	2.5%)

The post-employment benefit expense is reported as a component of expenses on the consolidated statement of operations. Composition of the amount is as follows:

	2018	2017
	\$	\$
Current service cost	413,400	405,200
Amortization of actuarial gains	294,100	509,600
Interest on post-employment benefit liability	228,100	205,000
Total expense related to post-employment benefits	935,600	1,119,800

5. Employee future benefits (continued)

Pension agreement

The City makes contributions to the Ontario Municipal Employees' Retirement Fund 'OMERS', which is a multi-employer plan, on behalf of 660 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. The amount the City contributed to OMERS for 2018 was \$4,852,186 (\$4,643,068 in 2017) for current service which is included as an expense in the consolidated statement of operations.

6. Landfill closure and post-closure liability

The City is required to account for the solid waste landfill closure and post-closure liabilities as the landfill sites are used. The City currently has 13 closed sites and 5 active solid waste sites. Details of the active sites are as follows:

	Estimated years to closure	Remaining capacity tonnes 2018
Eldon	40	71,996
Fenelon	8	60,204
Laxton/Digby/Longford	4	7,472
Somerville	18	117,564
Lindsay-Operations	18	593,305

Engineering consultants were engaged to prepare estimates of closure and post closure costs as at December 31, 2017, with an extrapolation prepared to December 31, 2018. The estimates include 50 years of post-closure monitoring and maintenance for sites with less than five metres thickness of waste, and 100 years for sites with greater than 5 metres thickness of waste.

Following is a summary of the liability recognized.

	2018 \$	2017 \$
Estimated total closure and post-closure costs	43,601,327	43,862,140
Discount rate	3.20%	3.20%
Estimated present value of costs at end of year	14,932,835	14,730,616
Less		
Portion related to remaining available capacity	(4,805,265)	(4,656,264)
Expenses paid	—	—
Liability for capacity already used	10,127,570	10,074,352
Net expenses recognized in the year	53,218	(3,072,710)

7. Municipal debt

The balance of net municipal debt reported on the consolidated statement of financial position is made up of the following:

	2018	2017
	\$	\$
Total debt incurred and outstanding at December 31, 2018 to be financed from		
General tax rates	45,639,603	45,474,955
Water and sewer	54,183,540	51,277,529
Northwest Trunk Developer Debt	11,337,385	12,004,485
Benefiting landowners for local improvements and tile loans	192,282	239,963
Kawartha Lakes Haliburton Housing	5,536,273	6,458,138
Net municipal debt	116,889,083	115,455,070

- (a) The municipal debt issued in the City's name and the names of amalgamated former municipalities have been approved by the Ontario Municipal Board or by-law as required and the annual principal and interest payments required are within the annual debt repayment limit prescribed by the Ministry of Housing.
- (b) The City entered into an agreement with Infrastructure Ontario to debenture funds to offset future developer contributions for the Northwest Trunk capital project in the amount of \$14,139,897 plus \$4,540,300 in interest for a twenty year period. These funds are to be recovered as they are received for development.

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7. Municipal debt (continued)

(c) Interest rates vary from 0.96% to 5.83%. Total future payments over the next 5 years and thereafter are summarized as follows:

	2019	2020	2021	2022	2023	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Principal							
Municipal	6,099,899	5,852,408	5,503,207	5,374,662	5,004,457	17,804,970	45,639,603
Water and sewer	4,111,633	3,927,835	3,958,440	4,044,091	3,758,013	34,383,528	54,183,540
Northwest Trunk Developer Debt	667,100	667,100	667,100	667,100	667,100	8,001,885	11,337,385
Tile Drain	27,414	29,059	26,577	28,171	24,929	56,132	192,282
Kawartha Lakes Haliburton Housing	942,179	951,022	925,963	846,060	701,451	1,169,598	5,536,273
	<u>11,848,225</u>	<u>11,427,424</u>	<u>11,081,287</u>	<u>10,960,084</u>	<u>10,155,950</u>	<u>61,416,113</u>	<u>116,889,083</u>
Interest							
Municipal	1,234,790	1,056,386	904,439	762,527	617,654	1,756,605	6,332,401
Water and sewer	1,962,297	1,811,409	1,652,455	1,494,322	1,341,155	6,738,504	15,000,142
Northwest Trunk Developer Debt	348,227	319,488	309,900	285,801	265,013	1,799,780	3,328,209
Tile Drain	11,512	9,867	8,124	6,529	4,869	8,475	49,376
Kawartha Lakes Haliburton Housing	278,149	233,779	187,844	153,654	108,535	180,898	1,142,859
	<u>15,683,200</u>	<u>14,858,353</u>	<u>14,144,049</u>	<u>13,662,917</u>	<u>12,493,176</u>	<u>71,900,375</u>	<u>142,742,070</u>

(d) Total gross payments for the year to service municipal debt are as follows:

						2018
	Municipal	Water and sewer	Tile drain	Kawartha Lakes Haliburton Housing	Northwest Trunk Developer Debt	Total
	\$	\$	\$	\$	\$	\$
Principal	5,870,532	3,746,486	67,681	921,865	667,100	11,273,664
Interest	1,239,707	1,848,608	14,712	140,552	365,857	3,609,436
	<u>7,110,239</u>	<u>5,595,094</u>	<u>82,393</u>	<u>1,062,417</u>	<u>1,032,957</u>	<u>14,883,100</u>

(e) Kawartha Lakes Haliburton Housing debentures in the amount of \$2,442,570 (\$2,845,133 in 2017) are paid for by the Provincial government on behalf of the Housing corporation. The Province recovers this outlay by reducing subsidy payment cash flows.

(f) The City has a revolving credit facility agreement with its main financial institution. The amount available at any time is limited to \$15 million via an overdraft or demand note. Any balance borrowed will bear interest at prime less .60% per year. Council authorized the temporary borrowing limit for 2018 in By-Law 2018-001. As at December 31, 2018, there was a balance outstanding of \$nil (\$nil in 2017).

8. Accumulated surplus

Accumulated surplus consists of the following:

	2018	2017
	\$	\$
Operating fund surplus (deficit)	3,181,380	(88,899)
Capital fund deficit - projects to be debentured	(9,545,400)	(6,326,518)
Capital fund deficit - municipal drain project	(585,974)	(530,803)
Capital fund surplus - all other projects	10,358,257	7,502,181
Unfunded employee future benefits	(31,467,294)	(23,387,836)
Post closure landfill costs	(10,127,570)	(10,074,352)
Accrued interest on long term debt	(367,199)	(369,282)
Long term debt	(105,551,697)	(103,450,585)
Reserve and reserve funds	41,167,355	46,970,075
Tangible capital assets	509,648,303	473,835,530
	406,710,161	384,079,511

9. Contingencies and commitments

Workplace Safety Insurance Board Self Insured – Schedule 2

Following restructuring, the Workplace Safety Insurance Board ('WSIB') required the City to convert all operations to Schedule 2 to become one self-insured entity.

Outside coverage is in place for certain types of claims to limit any loss to \$250,000. Claims paid out during the year amounted to \$2,695,692 (\$2,061,507 in 2017). The WSIB has estimated liability for future benefit costs as at December 31, 2018 to be \$21,253,784 (\$14,878,994 in 2017) and this liability has been included in employee future benefits payable (Note 5). The City has \$nil set aside in a reserve for WSIB self insurance as at December 31, 2018 (\$525,000 in 2017).

Other contingencies

Various legal actions and claims have been initiated against the City, some of which cannot be quantified. No provision has been made for any uninsured claims. It is management's opinion there will be no material uninsured liability arising from these claims. An expense will be recorded in the fiscal period in which a settlement becomes likely and measurable.

Commitment – water and sewer system operating agreements

The City is committed to an agreement with the Ontario Clean Water Agency ('OCWA') for the operation of twenty Drinking Water Systems and six Wastewater Systems. In addition to the current agreement there is room for inflationary adjustments and other service items that are unusual and outside of the current agreement. The agreement with OCWA is for the period of March 1, 2014 to February 28, 2021.

Commitment – garbage and recycling collection contract

On September 26, 2011, the City contracted out garbage and recycling collection services. The contract is for a seven year term with the option for two additional one year renewal terms. The contract requires the City to pay a base fee of \$3,585,963 for 2019 plus an annual fuel surcharge as well as an increase for new homes.

9. Contingencies and commitments (continued)

Commitments – capital projects

The City has committed to many capital projects expected to be completed over several years including upgrades to the water and sewer treatment plants and the expansion of the Lindsay/Operations landfill site. As at December 31, 2018, the City had awarded contracts in the amount of \$36,180,020 (\$31,574,644 in 2017) and has recorded \$26,333,961 of those awarded amounts. Therefore, the remaining contractual commitments will be recorded in future years as the projects are completed.

Funding for the completion costs is expected to include the use of capital surplus carried forward, grants, debt proceeds and use of funds from various discretionary and obligatory reserve funds.

Commitments – Leases

Under the terms of various operating leases in existence at December 31, 2018, the City is committed to future minimum annual payments as follows:

	\$
2019	468,958
2020	514,047
2021	429,000
2022	344,831
2023	271,476
Thereafter	519,663
	<u>2,547,975</u>

10. Budget amounts

The operating and tax rate supported capital budgets were approved by Council on December 13, 2017 to establish the tax rates for the year. In addition, the water and sewer operating and capital budgets were also approved by Council on October 31, 2017.

The budgets for Kawartha Lakes-Haliburton Housing Corporation were approved by the board individually, and only the net transfers to this entity were approved by Council. These budgets were not prepared on the same basis as these consolidated financial statements, and have been restated to conform to the requirements under PSAB accounting standards.

An amount for amortization expense has been added and is based on management's best estimate of amortization expense determined at the beginning of the year. Amortization expense was not included in the original council approved budget.

Amounts for the cost of contributed tangible capital assets and the related revenue have been added and are based on management's best estimate of the value of contributed tangible capital assets determined at the beginning of the year. Neither the cost of the contributed tangible capital assets nor the revenue was included in the original council approved budget.

Amounts included in the original council approved capital budget which are not recognized as tangible capital assets are included in consolidated statement of operations under the appropriate functional expense category, while those recognized as tangible capital assets are included in the consolidated statement of change in net debt.

11. Expenses by object

	2018	2017
	\$	\$
Salaries and wages	80,888,300	76,372,332
Materials, supplies and services	21,201,012	17,541,137
Contracted services	33,346,528	32,362,417
Rents and financial	4,836,501	5,324,784
Transfers to other entities	41,048,497	41,756,749
Tile drain loans and advanced to landowners	20,000	11,000
Interest on net municipal debt	3,243,579	3,152,923
Amortization expense	25,224,156	23,795,976
Other	993,056	1,017,158
	210,801,629	201,334,476

12. Trust funds

Trust funds administered by the City amounting to \$1,261,009 (\$1,253,279 in 2017) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations.

13. Provincial Offences Act

Under an operating agreement with the Province of Ontario, the City of Kawartha Lakes is responsible for operation of the Provincial Offences Office in Lindsay on behalf of the City and Haliburton County. Net revenues are to be allocated between the City and the County on a per capita basis. Revenues and expenses related to these operations have been reported as follows:

	2018	2017
	\$	\$
Gross revenues	1,926,659	2,131,733
Operating costs	(1,323,093)	(1,371,055)
Amount transferred to Haliburton County	(120,076)	(150,012)
Net City revenue	483,490	610,666

Revenue comprises payments received for certain types of fines and penalties resulting from charges laid in the Lindsay Court area. Since revenue has been recognized on a cash basis, accounts receivable balances for fines levied but not paid are not included as revenue.

14. Supplementary information

Social Housing downloading

As part of Provincial local services realignment programs, the City assumed control and funding responsibility from the Province for the following housing corporations on January 1, 2001:

- Lindsay Non-Profit Housing Corporation 'LNPHC'
- Kawartha Lakes Haliburton Housing Corporation 'KLHHC'

Under the provisions of transfer orders prepared under authority of the Social Housing Reform Act, the Kawartha Lakes Haliburton Housing Corporation was the recipient on January 1, 2001 of assets, liabilities, rights and obligations previously owned by the Ontario Housing Corporation 'OHC' and located in the City of Kawartha Lakes and County of Haliburton.

On December 15, 2005, KLHHC entered into an amalgamation agreement with Lindsay Non-Profit Housing Corporation 'LNPHC'. Under the terms of the agreement KLHHC and LNPHC amalgamated to form a new corporation (also known as Kawartha Lakes-Haliburton Housing Corporation) which commenced operations on January 1, 2006. KLHHC is exempt from income taxes under the Income Tax Act. The City is the sole shareholder and KLHHC is engaged in the business of providing housing primarily for persons of low or modest income at rentals below the median current rental market in the area of the City and the County of Haliburton.

Effective January 1, 2016 the structure of the KLHHC was revised to combine three different divisions consisting of Local Housing Corporation ("LHC"), Non Profit ("NP") and Affordable Housing Project ("AHP") into one overall division with the base year subsidy established by taking the 2015 subsidy level and then year over year applying budget directions set by the City. The surplus and capital reserves have been merged into one surplus reserve to fund projects with the City.

The net assets now under control of the City were financed by assumption of debt, and the effect of the downloading and consolidation of these two entities in these consolidated financial statements is summarized below.

	2018	2017
	\$	\$
Effect on municipal position		
Unrestricted financial assets	6,043,832	5,578,783
Current liabilities	6,517,225	3,293,445
Debt and accrued interest on debt	(5,547,463)	(6,470,133)
Municipal position, end of year	7,013,594	2,402,095
Amounts to be recovered from future revenues	5,547,463	6,470,133
Fund balances, end of year	12,561,057	8,872,228
Effect on operations for the year		
Revenues	6,003,326	6,145,656
Operating expenditures	(4,004,597)	(3,813,548)
Non-tangible capital asset capital expenses	155,592	410,274
Net revenues	2,154,321	2,742,382
Decrease in amounts to be recovered from future revenues	(922,670)	(990,931)
Net increase in accumulated surplus	1,231,651	1,751,451

15. Tangible capital assets

Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value of one Canadian dollar, because of the difficulty of determining a tenable valuation and/or the assets were older than their estimated expected useful lives, and therefore were fully amortized.

Works of art and historical treasures

The City applies efforts to protect and preserve a number of owned historical buildings, collections of equipment, artifacts, documents and exhibits and works of art. These assets are not held for financial gain or to provide service but rather for public exhibition, education or research in furtherance of public service. These historical treasures and works of art are not recognized as tangible capital assets in the consolidated financial statements. The acquisition or betterment of such assets is recognized in the consolidated financial statements as an operating expense.

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15. Tangible capital assets (continued)

							2018
	Land and land improvements \$	Building and building improvements \$	Vehicles, machinery and equipment \$	Water and sewer \$	Road infrastructure \$	Work in progress \$	Total \$
Cost							
Balance, beginning of year	34,206,497	142,786,982	79,642,048	222,796,757	366,459,235	53,105,558	898,997,077
Additions	4,088,641	25,013,249	1,810,394	35,304,612	55,636,631	61,308,746	183,162,273
Work in progress completed	(2,261,472)	(18,752,539)	(632,233)	(32,278,386)	(46,878,709)	—	(100,803,339)
Disposals/transfers	(8,094)	(151,744)	(2,254,047)	—	(2,217,156)	(21,050,188)	(25,681,229)
Balance, end of year	36,025,572	148,895,948	78,566,162	225,822,983	373,000,001	93,364,116	955,674,782
Accumulated amortization							
Balance, of year beginning	6,125,765	64,140,025	43,740,870	86,973,945	224,180,941	—	425,161,546
Disposals	—	(140,492)	(2,063,385)	—	(2,155,346)	—	(4,359,223)
Amortization expense	261,990	2,889,787	4,476,997	5,144,541	12,450,841	—	25,224,156
Balance, end of year	6,387,755	66,889,320	46,154,482	92,118,486	234,476,436	—	446,026,479
Net book value, end of year	29,637,817	82,006,628	32,411,680	133,704,497	138,523,565	93,364,116	509,648,303

City of Kawartha Lakes
Notes to the consolidated financial statements
December 31, 2018

15. Tangible capital assets (continued)

							2017
	Land and land improvements	Building and building improvements	Vehicles, machinery and equipment	Water and sewer	Road infrastructure	Work in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, beginning of year	33,505,481	139,861,669	77,940,748	216,303,989	356,899,115	37,411,857	861,922,859
Additions	2,570,007	36,220,689	7,105,878	36,294,275	64,811,048	44,045,791	191,047,688
Work in progress completed	(1,572,172)	(32,985,276)	(3,372,798)	(29,580,506)	(51,139,055)	—	(118,649,807)
Disposals/transfers	(296,819)	(310,100)	(2,031,780)	(221,001)	(4,111,873)	(28,352,090)	(35,323,663)
Balance, end of year	<u>34,206,497</u>	<u>142,786,982</u>	<u>79,642,048</u>	<u>222,796,757</u>	<u>366,459,235</u>	<u>53,105,558</u>	<u>898,997,077</u>
Accumulated amortization							
Balance, of year beginning	6,305,212	61,641,417	40,979,318	82,109,007	215,604,603	—	406,639,557
Disposals	(6,835)	(232,526)	(880,526)	(185,857)	(3,968,242)	—	(5,273,986)
Amortization expense	(172,612)	2,731,134	3,642,078	5,050,795	12,544,581	—	23,795,976
Balance, end of year	<u>6,125,765</u>	<u>64,140,025</u>	<u>43,740,870</u>	<u>86,973,945</u>	<u>224,180,942</u>	<u>—</u>	<u>425,161,547</u>
Net book value, end of year	<u>28,080,732</u>	<u>78,646,957</u>	<u>35,901,178</u>	<u>135,822,812</u>	<u>142,278,293</u>	<u>53,105,558</u>	<u>473,835,530</u>

16. Segmented information

The City provides a wide range of services to its residents.

Segmented information has been provided in Schedule 1 for the following City Services:

- General Government
- Protection to persons and property
- Transportation Services
- Environmental Services
- Health and Social Services
- Recreation and culture
- Planning and Development

Revenues and expenses directly attributable to each segment are reported by segment. Typically general government expenses are incurred in support of all services. Similarly general government revenues including taxes are used to finance all activities of the City. For purposes of segmented reporting general government revenues and expenses have not been allocated to the other services but rather are shown separately.

17. Comparative figures

Certain prior year figures have been reclassified to conform to the consolidated financial statement presentation adopted in the current year.

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City of Kawartha Lakes

Schedule 1 – Consolidated schedule of segmented disclosure

Year ended December 31, 2018

	General government	Protection to persons and property	Transportation services	Environmental services	Health and social services	Recreation and culture	Planning and development	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses								
Salaries and wages	16,661,512	16,455,463	10,519,823	2,921,048	24,471,260	7,033,513	2,825,681	80,888,300
Minor capital	(52,584)	(37,678)	882,996	—	51,418	170,934	—	1,015,086
Interest costs	1,351,765	—	—	1,673,283	203,819	—	14,712	3,243,579
Other expenses	7,797,534	13,740,068	14,980,732	17,256,728	38,737,447	6,619,933	1,298,066	100,430,508
Amortization expense	371,494	1,743,874	14,658,863	5,328,005	2,003,117	1,118,803	—	25,224,156
	26,129,721	31,901,727	41,042,414	27,179,064	65,467,061	14,943,183	4,138,459	210,801,629
External tax revenues	(86,812,538)	(21,050,402)	(1,228,801)	(131,355)	—	(286,287)	(82,393)	(109,591,776)
External non-tax revenues	(20,382,933)	(4,431,300)	(1,280,748)	(24,486,027)	(51,586,530)	(4,181,586)	(1,066,127)	(107,415,251)
Restricted amounts earned	(12,943,903)	(163,623)	(541,598)	(924,556)	(106,167)	(490,058)	—	(15,169,905)
Loss (gain) on disposal of tangible capital assets	252,471	(13,680)	(59,371)	—	(950,052)	—	(484,715)	(1,255,347)
	(119,886,903)	(25,659,005)	(3,110,518)	(25,541,938)	(52,642,749)	(4,957,931)	(1,633,235)	(233,432,279)
Annual (surplus) deficit	(93,757,182)	6,242,722	37,931,896	1,637,126	12,824,312	9,985,252	2,505,224	(22,630,650)

The accompanying notes are an integral part of the consolidated financial statements.

City of Kawartha Lakes

Schedule 1 – Consolidated schedule of segmented disclosure (continued)

Year ended December 31, 2017

	General government \$	Protection to persons and property \$	Transportation services \$	Environmental services \$	Health and social services \$	Recreation and culture \$	Planning and development \$	Consolidated \$
Expenses								
Salaries and wages	16,144,958	15,890,308	10,169,981	2,828,287	22,495,170	6,171,814	2,671,814	76,372,332
Minor capital	(14,922)	246,272	27,015	4,631	410,200	62,931	(5,608)	730,519
Interest costs	1,150,973	—	—	1,818,058	172,220	—	11,672	3,152,923
Other expenses	6,100,432	13,624,473	15,265,558	13,785,859	40,927,778	6,568,199	1,010,427	97,282,726
Amortization expense	356,996	1,588,406	14,523,691	5,083,608	1,214,875	1,028,213	187	23,795,976
	<u>23,738,437</u>	<u>31,349,459</u>	<u>39,986,245</u>	<u>23,520,443</u>	<u>65,220,243</u>	<u>13,831,157</u>	<u>3,688,492</u>	<u>201,334,476</u>
External tax revenues	(83,121,464)	(20,446,278)	(1,198,606)	(2,066,177)	—	(210,603)	(57,924)	(107,101,052)
External non-tax revenues	(18,659,921)	(5,397,412)	(1,430,769)	(21,511,058)	(52,105,127)	(4,202,144)	(2,231,706)	(105,538,137)
Restricted amounts earned	(9,984,649)	(145,956)	(764,328)	(581,133)	(115,176)	(595,552)	(34,812)	(12,221,606)
Loss (gain) on disposal of tangible capital assets	231,561	—	—	—	(1,041,254)	—	—	(809,693)
	<u>(111,534,473)</u>	<u>(25,989,646)</u>	<u>(3,393,703)</u>	<u>(24,158,368)</u>	<u>(53,261,557)</u>	<u>(5,008,299)</u>	<u>(2,324,442)</u>	<u>(225,670,488)</u>
Annual (surplus) deficit	<u>(87,796,036)</u>	<u>5,359,813</u>	<u>36,592,542</u>	<u>(637,925)</u>	<u>11,958,686</u>	<u>8,822,858</u>	<u>1,364,050</u>	<u>(24,336,012)</u>

The accompanying notes are an integral part of the consolidated financial statements.

City of Kawartha Lakes

Schedule 2 – Schedule of operations of the Public Library Board

Year ended December 31, 2018

	Budget	2018	2017
	\$	Actual	Actual
		\$	\$
Revenue			
Contribution from municipal tax revenues	1,853,131	1,853,131	1,753,390
Grants – Province of Ontario	214,133	214,877	247,958
Grants – Federal	–		1,197
User fees	200	2,495	1,552
Fines and penalties	18,500	20,631	18,322
Transfer from Reserves	63,000	63,000	63,000
Donations and other	21,020	36,405	34,193
	2,169,984	2,190,539	2,119,612
Expenses			
Administration and Board			
Salaries and benefits	501,534	460,575	423,131
Office and general	17,330	36,154	19,898
Equipment maintenance and rental	57,450	42,547	37,384
Training and development	25,100	18,973	22,548
Vehicle and travel	6,700	6,028	4,575
Advertising and promotion	29,300	30,870	5,905
Transfer to reserves	–	190,771	167,118
Books, periodicals purchases and processing	505,300	462,996	487,626
Library branches			
Wages and benefits	904,720	817,828	845,718
Building maintenance and utilities	56,000	75,538	43,503
Equipment maintenance and rental	14,370	3,844	7,381
Office and telephone	52,180	44,415	54,825
	2,169,984	2,190,539	2,119,612
Net revenue	–	–	–