

Financial Statements of

**THE CORPORATION OF THE
TOWNSHIP OF WELLESLEY**

Year Ended December 31, 2018

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Management Responsibility For Financial Reporting

December 31, 2018

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of The Corporation of the Township of Wellesley. The preparation of periodic financial statements involves the use of estimates and approximations because the precise determination of financial information frequently depends on future events. These financial statements have been prepared by management within the reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles for governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

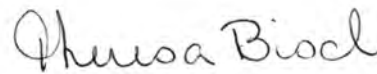
In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly accounted for and safeguarded, and that financial information produced is relevant and reliable.

Prior to their submission to Council, the financial statements are reviewed and approved by management. In addition, management meets periodically with the Township's external auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Graham Mathew Professional Corporation, Chartered Professional Accountants, as the Township's appointed external auditors, have audited the financial statements. The external auditors have full and free access to management and Council. The Independent Auditors' Report is dated June 11, 2019 and appears on the following pages. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to obtain reasonable assurance that the financial statements are free of material misstatements and present fairly the financial position and results of operations of the Township in accordance with Canadian public sector accounting standards.



Rik Louwagie, CBCO, CMMIII
Chief Administrative Officer



Theresa Bisch, Dipl. M.A.
Treasurer

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of
The Corporation of the Township of Wellesley

Opinion

We have audited the accompanying financial statements of **The Corporation of the Township of Wellesley** (the Township), which comprise the statement of financial position as at December 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Township as at December 31, 2018, and its financial performance 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Township in accordance with the ethical requirements that are relevant to our audit of the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Township'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 the Council either intends to liquidate the Township or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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 financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Township'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 Township's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Township to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

A handwritten signature in black ink that reads "Graham Mathew Professional Corporation". The signature is written in a cursive, flowing style.


Cambridge, Ontario
June 11, 2019


Chartered Professional Accountants, authorized to practise public
accounting by the Chartered Professional Accountants of Ontario

Statement of Financial Position
December 31, 2018

	2018 \$	2017 \$
Financial Assets		
Cash	6,258,439	5,379,872
Taxes receivable	385,962	617,469
Accounts receivable	691,831	682,089
Investment in Waterloo North Hydro (note 6)	9,185,875	8,954,810
	16,522,107	15,634,240
Liabilities		
Accounts payable and accrued liabilities	2,701,943	2,245,516
Deferred revenue - obligatory reserve funds (note 7)	2,428,734	2,031,193
Net long-term liabilities (note 8)	612,886	722,083
	5,743,563	4,998,792
Net Financial Assets	10,778,544	10,635,448
Non-Financial Assets		
Tangible capital assets (note 9)	40,175,531	40,273,031
Inventories of supplies	63,143	57,504
Prepaid expenses	78,960	77,076
	40,317,634	40,407,611
Accumulated surplus (note 14)	51,096,178	51,043,059

Approved on behalf of Council:





Statement of Operations and Accumulated Surplus
Year Ended December 31, 2018

	2018 Budget (note 11) \$	2018 Actual \$	2017 Actual \$
Revenues			
Residential and farm taxation	3,879,643	3,853,197	3,740,860
Commercial, industrial and business taxation	736,134	811,772	765,235
Taxation from other governments	21,880	23,238	21,795
User charges	1,396,367	1,520,538	1,333,511
Government transfers	805,400	843,532	826,931
Investment income	50,000	87,061	44,900
Interest and penalties on taxes	75,000	79,618	81,794
Fundraising		72,343	
Total revenues	6,964,424	7,291,299	6,815,026
Expenses			
General government	1,410,904	1,391,648	1,359,608
Protection to persons and property	1,281,323	1,302,363	1,186,857
Transportation services	4,470,211	4,506,504	5,957,688
Environmental and social services		56,655	31,879
Health services	2,556	819	3,230
Recreation and cultural services	1,505,793	1,562,721	1,594,112
Planning and development	177,460	173,908	191,221
Total expenses (note 10)	8,848,247	8,994,618	10,324,595
Net expenses before other revenue (expense)	(1,883,823)	(1,703,319)	(3,509,569)
Other revenue (expense)			
Grants and transfers related to capital			
Deferred revenue earned (note 7)	1,092,681	1,040,344	742,295
Donations, capital		52,453	33,509
Donated tangible capital assets		25,000	
Loss on disposal of tangible capital assets		(3,917)	(24,574)
Interest earned, Waterloo North Hydro (note 6)	135,938	135,943	135,942
Increase in equity in Waterloo North Hydro (note 6)	249,498	506,615	595,237
	1,478,117	1,756,438	1,482,409
Annual surplus (deficit)	(405,706)	53,119	(2,027,160)
Accumulated surplus, beginning of year		51,043,059	53,070,219
Accumulated surplus, end of year		51,096,178	51,043,059

The explanatory financial notes form an integral part of these financial statements.



Statement of Change in Net Financial Assets

Year Ended December 31, 2018

	2018 Budget (note 11) \$	2018 Actual \$	2017 Actual \$
Annual surplus (deficit)		53,119	(2,027,160)
Amortization of tangible capital assets	2,779,568	2,779,568	4,543,199
Acquisition of tangible capital assets	(4,323,817)	(2,660,985)	(2,081,649)
Loss on disposal of tangible capital assets		3,917	24,574
Donated tangible capital assets		(25,000)	
Change in inventories of supplies		(5,639)	2,795
Change in prepaid expenses		(1,884)	(7,749)
Change in net financial assets	(1,544,249)	143,096	454,010
Net financial assets, beginning of year	10,635,448	10,635,448	10,181,438
Net financial assets, end of year	9,091,199	10,778,544	10,635,448

Statement of Cash Flows
Year Ended December 31, 2018

	2018 \$	2017 \$
Operating activities		
Annual deficit	53,119	(2,027,160)
Sources (uses)		
Taxes receivable	231,507	(183,830)
Accounts receivable	(9,742)	(112,206)
Accounts payable and accrued liabilities	456,427	32,628
Deferred revenue - obligatory reserve funds	397,541	538,663
Inventories of supplies	(5,639)	2,795
Prepaid expenses	(1,884)	(7,749)
	1,121,329	(1,756,859)
Non-cash charge to operations		
Amortization	2,779,568	4,543,199
Donated capital assets	(25,000)	
Loss on sale of tangible capital assets	3,917	24,574
	2,758,485	4,567,773
Cash provided from operations	3,879,814	2,810,914
Capital activities		
Acquisition of tangible capital assets	(2,660,985)	(2,081,649)
Investing activities		
Increase in investment in Waterloo North Hydro	(231,065)	(319,687)
Financing activities		
Change in net long-term liabilities	(109,197)	(107,571)
Net change in cash	878,567	302,007
Cash position, beginning of year	5,379,872	5,077,865
Cash position, end of year	6,258,439	5,379,872

1. Municipal Status

The Corporation of the Township of Wellesley was created on January 1, 1973 when the former municipalities of Wellesley and the Township of Wellesley were amalgamated into a single legal entity under the name, The Corporation of the Township of Wellesley. This amalgamation was implemented through the final approval of Bill 167, The Region of Waterloo Act by the Government of Ontario in 1973.

The Township of Wellesley operates as a lower tier government in the Regional Municipality of Waterloo, in the Province of Ontario, Canada. The Township provides services within the spheres of jurisdiction afforded to a lower tier municipality under the Ontario Municipal Act such as fire protection and related services; public works, not including sewers and water; appropriate land use planning for the municipality including rural and urban elements; recreation facilities; building permits and related functions including the approval of individual subsurface sewage treatment facilities; and, other general government services, such as municipal drains, animal control, parking regulations and property standards by-law enforcement.

The Township owns a 6.6% share of Waterloo North Hydro Holding Corporation and its affiliates.

2. Summary of Significant Accounting Policies

The financial statements of The Corporation of the Township of Wellesley (the "Township") are the representation of management, prepared in accordance with local government accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

(a) Basis of presentation

i) Financial Statements

These financial statements reflect the financial assets, liabilities, operating revenues and expenses, reserve funds and reserves, changes in investment in tangible capital assets and cash flows and include the activities of all governmental functions controlled and exercised by the Township Council. All interfund transfers have been eliminated.

ii) Government Business Enterprise

The Waterloo North Hydro Holding Corporation and its affiliates are accounted for on the modified equity basis which reflects the Township's investment in the enterprise and its share of net income or loss less dividends received since acquisition. Under the modified equity basis, the enterprise's accounting principles are not adjusted to conform with those of the Township and inter-organizational transactions and balances are not eliminated.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of presentation (continued)

iii) Accounting for Region and School Board Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the School Boards and the Regional Municipality of Waterloo, are not reflected in these financial statements (see note 3).

iv) Trust Funds

Trust funds and their related operations administered by the Township are not consolidated herein, but are reported separately (see note 4).

(b) Non-financial assets

Non-financial assets are not normally 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. The change in non-financial assets during the year, together with the excess revenues over expenses, provides the change in net financial assets for the year.

i) 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 of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not amortized
Buildings	25 to 50 years
Vehicles	
Fire trucks	15 to 25 years
Vehicles	10 years
Office furniture and equipment	5 to 20 years
Computer hardware and software	3 to 10 years
Transportation	
Roadway system	10 to 50 years
Bridges and structures	30 to 50 years
Water and waste water	45 to 75 years
Other	
Machinery and equipment	10 to 20 years
Land improvements	15 to 25 years
Trails	15 years

Assets under construction are not amortized until the asset is available for productive use.

2. Summary of Significant Accounting Policies (Continued)

(b) Non-financial assets (continued)

ii) Contributions of tangible capital assets (donated)

Tangible capital assets received as contributions, if any, are recorded at their fair value at the date of receipt and are recorded in income as 'donated tangible capital assets'.

iii) Interest capitalization

The Township does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

iv) Works of art and cultural and historic assets

These non-operational assets are not recorded in these financial statements.

v) Leases

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

vi) Inventories and prepaid expenses

Inventories held for consumption are recorded at the lower of cost and replacement cost.

Prepaid expenses relate to expenditures incurred in the current period which relate to and will be expensed in a future fiscal period.

(c) Investments

Investments generally consist of interest rate savings accounts and are recorded at the lower of cost and market value.

Investment income is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is considered deferred until the funds are applied.

(d) Revenue recognition

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Government transfers are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

2. Summary of Significant Accounting Policies (Continued)

(d) Revenue recognition (continued)

Government transfers, contributions and other amounts are received from third parties pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs, in the completion of specific work or the purchase of tangible capital assets. In addition, certain user charges and fees are collected for which the related services have yet to be performed. Revenue is recognized in the period when the related expenses are incurred, services performed or the tangible assets are acquired.

Tax revenue is recognized when it is authorized and in the period for which the tax is levied.

(e) Liability for contaminated sites

The Township adopted Public Sector Accounting Board Standard PS 3260 Liability for Contaminated Sites effective in 2014. Under PS 3260, contaminated sites are defined as the result of contamination being introduced in air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. This standard relates to sites that are not in productive use and sites in productive use where an unexpected event resulted in contamination. The Township adopted this standard on a retroactive basis and there were no adjustments as a result of the adoption of this standard.

(f) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. These estimates and assumptions, including taxation assessment appeals, legal claims provisions, the valuation of tangible capital assets and their related useful lives and amortization, are based on management's best information and judgement and may differ significantly from future actual results.

3. Operations of School Boards and the Region of Waterloo

Further to note 2(a)(iii), the taxation, other revenues, and requisitions levied on behalf of the School Boards and the Region of Waterloo are comprised of the following:

	School Boards \$	Region \$
Taxation and user charges	4,148,599	8,371,386
Share of payments in lieu of taxes		13,251
	4,148,599	8,384,637
Requisitions paid	4,148,599	8,384,637
Balance receivable, end of year	NIL	NIL



Explanatory Financial Notes
Year Ended December 31, 2018

4. Trust Funds

Further to note 2(a)(iv), trust funds administered by the Township amounting to **\$483,160** (\$487,742 in 2017) have not been included in the statement of financial position nor have their operations been included in the statement of operations and accumulated surplus. They are comprised of cemetery perpetual care funds amounting to **\$101,238** (\$99,340 in 2017) and other estate funds amounting to **\$381,922** (\$388,402 in 2017).

5. Ontario Municipal Employees' Retirement Fund

The Township makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of **35** (39 in 2017) 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.

Employee contributions for 2018 were at rates ranging from **9.0%** to **14.6%** based on member earnings and were matched by the Township on a dollar for dollar basis. The amount contributed to OMERS by the Township for 2018 was **\$221,618** (\$211,267 in 2017) for current service and is included as an expense on the statement of operations and accumulated surplus. Deficits, if any, in the plan will be financed by increases in future employee and employer contributions. There were no changes to contribution rates or benefits for 2018. The Township does not participate in any past service provisions of the OMERS agreement.

The OMERS pension plan has a deficit. The last available report for the OMERS plan was on December 31, 2018. At that time the plan reported a \$4.2 billion actuarial deficit (\$5.4 billion in 2017), based on actuarial liabilities of \$100.1 billion (\$94.4 billion in 2017) and actuarial assets of \$95.9 billion (\$89.0 billion in 2017). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

6. Investment in Waterloo North Hydro Holding Corporation

Further to note 2(a)(ii), the Township owns 6.6% of the class A special shares and common shares of Waterloo North Hydro Holding Corporation which in turn owns 100% of Waterloo North Hydro Inc., 100% of Lifetime Energy Inc. and 25% of Eyedro Green Solutions Inc. During 2016 the Company entered into a joint venture with Cambridge and North Dumfries Energy Solutions and Kitchener Power Corp. to create a new company called GRE Corporation that will focus on generation and renewable energy solutions. The Township has also invested in long-term Junior and Senior notes receivable from Waterloo North Hydro Holding Corporation. There are no specific terms of repayment. The investment in Waterloo North Hydro Holding Corporation is comprised of the following:

	2018	2017
	\$	\$
Cost of investment, beginning of year	8,954,810	8,635,123
Increase in equity for year:		
Share of net income for year	506,615	595,237
Dividends received during year	(275,550)	(275,550)
	231,065	319,687
Cost of investment, end of year	9,185,875	8,954,810



Explanatory Financial Notes
Year Ended December 31, 2018

	2018	2017
	\$	\$
6. Investment in Waterloo North Hydro Holding Corporation (Continued)		
Senior note receivable from Waterloo North Hydro Holding Corporation	1,436,033	1,436,033
Junior note receivable from Waterloo North Hydro Holding Corporation	1,096,413	1,096,413
132 common shares of Waterloo North Hydro Holding Corporation	1,661,119	1,661,119
14,397 Class A special shares of Waterloo North Hydro Holding Corporation	143,967	143,967
Share of net income since acquisition	4,848,343	4,617,278
	9,185,875	8,954,810

Interest earned on the unsecured Senior and Junior notes receivable totalling \$135,943 (\$135,942 in 2017) is included in the Statement of Operations and Accumulated Surplus. The notes bear annual interest at 1% over the approved Ontario Energy Board rate respectively (currently 4.54%).

The following table provides condensed financial information with respect to Waterloo North Hydro Holding Corporation for 2018 and 2017.

Current assets	232,503	1,209,596
Long-term assets	134,020,516	129,439,112
Total assets	134,253,019	130,648,708
Current liabilities	151,472	48,150
Long-term liabilities	33,292,001	33,292,001
Total liabilities	33,443,473	33,340,151
Net equity	100,809,546	97,308,557
Results of operations		
Revenue	9,649,093	11,110,762
Operating expenses	1,973,104	2,092,010
Net income for year	7,675,989	9,018,752



Explanatory Financial Notes
Year Ended December 31, 2018

	2018	2017
	\$	\$
6. Investment in Waterloo North Hydro Holding Corporation (Continued)		
The Township's share of earnings is as follows:		
Township's share of net income at 6.6%	506,615	595,237
Less dividend received	(275,550)	(275,550)
Net increase in equity	231,065	319,687

7. Deferred Revenue - Obligatory Reserve Funds

A requirement of the Public Sector Accounting Board 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 possibly be refunded.

(a) The balances in the obligatory reserve funds are summarized as follows:

Recreation parkland	286,160	214,485
Development charges and sub-dividers contributions	1,168,689	993,784
Building department (Bill 124)	853,090	709,492
Main Street revitalization	25,297	
OCIF funding	(153)	280
Healthy Kids Community Challenge	5,415	2,291
Gas tax funding	90,236	110,861
	2,428,734	2,031,193

(b) Continuity schedule

Contributions from developers	515,065	559,220
Interest earned	46,510	21,405
Canada Gas Tax Funding	341,219	331,475
Ontario Community Infrastructure Fund	343,279	242,708
Contribution from operations (Bill 124)	137,555	114,643
Healthy Kids Community Challenge	6,650	
Main Street Revitalization	47,607	
Source Protection Municipal Implementation Fund		11,507
	1,437,885	1,280,958
Deferred revenue recognized	(1,040,344)	(742,295)
	397,541	538,663
Balance, beginning of year	2,031,193	1,492,530
Balance, end of year	2,428,734	2,031,193

Explanatory Financial Notes
Year Ended December 31, 2018

8. Net Long-Term Liabilities

The balance of net long-term liabilities reported on the statement of financial position is comprised of the following:

	2018 \$	2017 \$
The Township 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 these liabilities are	613,950	727,201
	613,950	727,201
Of the long-term liabilities shown above, the responsibility for payment of principal and interest charges for tile drainage has been assumed by individuals. At the end of the year, the outstanding principal amount of these liabilities are	(1,064)	(5,118)
	612,886	722,083

(a) For the long-term liabilities reported above, future principal payments are summarized as follows:

	2019 to 2023 \$	2024 and Thereafter \$	Total \$
From general municipal revenues	389,886	223,000	612,886
From benefiting landowners	1,064		1,064
	390,950	223,000	613,950

(b) The long-term liabilities included above, issued in the name of the Township, have been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual limit prescribed by the Ministry of Municipal Affairs and Housing. The Township is contingently liable for the long-term liability with respect to tile drainage loans. The total amount of this contingent liability outstanding is **\$1,064** (\$5,118 in 2017).

(c) Interest charges for 2018 on net long-term liabilities amounted to **\$14,286** (\$16,396 in 2017). The long-term debt rates of interest range from 1.15% to 3.91% per annum on debentures issued by the Region of Waterloo.

(d) The Township has assumed the responsibility for payment of principal and interest charges on debt issued in 2016 by the Region of Waterloo which amounted to **\$700,000**.



**EXPLANATORY FINANCIAL NOTES
YEAR ENDED DECEMBER 31, 2018**

9. Tangible Capital Assets

	Land \$	Trails \$	Buildings \$	Infrastructure \$	Machinery and equipment \$	Vehicles \$	2018 Total \$
Cost							
Balance, beginning of year	4,425,610	134,715	10,835,219	116,200,855	4,831,521	3,443,037	139,870,957
Additions	25,000		111,963	2,088,551	527,658	77,220	2,830,392
Disposals			(6,251)		(67,423)	(102,860)	(176,534)
Cost, end of year	4,450,610	134,715	10,940,931	118,289,406	5,291,756	3,417,397	142,524,815
Accumulated Amortization							
Balance, beginning of year		9,866	4,087,698	91,334,923	3,009,531	1,737,393	100,179,411
Disposals			(4,001)		(67,421)	(101,193)	(172,615)
Amortization expense		8,981	356,512	1,751,292	515,184	147,599	2,779,568
Accumulated amortization, end of year		18,847	4,440,209	93,086,215	3,457,294	1,783,799	102,786,364
Assets under construction							437,080
Net book value, end of year	4,450,610	115,868	6,500,722	25,203,191	1,834,462	1,633,598	40,175,531



**EXPLANATORY FINANCIAL NOTES
YEAR ENDED DECEMBER 31, 2018**

9. Tangible Capital Assets (Continued)

	Land \$	Trails \$	Buildings \$	Infrastructure \$	Machinery and equipment \$	Vehicles \$	2017 Total \$
Cost							
Balance, beginning of year	4,427,610	80,634	10,642,391	115,516,997	4,600,652	3,138,321	138,406,605
Additions		54,081	192,828	730,720	230,869	358,303	1,566,801
Disposals	(2,000)			(46,862)		(53,587)	(102,449)
Cost, end of year	4,425,610	134,715	10,835,219	116,200,855	4,831,521	3,443,037	139,870,957
Accumulated Amortization							
Balance, beginning of year		2,688	3,830,061	87,564,780	2,772,628	1,543,926	95,714,083
Disposals				(35,564)		(42,307)	(77,871)
Amortization expense		7,178	257,637	3,805,707	236,903	235,774	4,543,199
Accumulated amortization, end of year		9,866	4,087,698	91,334,923	3,009,531	1,737,393	100,179,411
Assets under construction							581,485
Net book value, end of year	4,425,610	124,849	6,747,521	24,865,932	1,821,990	1,705,644	40,273,031

During the year, the Township added **\$2,660,987** (\$2,081,649 in 2017) in tangible capital assets. Contributed capital assets amounted to \$25,000 during the year (contributed capital assets totalled \$NIL in 2017). Amortization for the year amounted to **\$2,779,568** (\$4,543,199 in 2017).



Explanatory Financial Notes
Year Ended December 31, 2018

10. Expenditures by Object	2018	2017
	\$	\$
The following is a summary of the total expenditures on the Statement of Operations and Accumulated Surplus by the object of expenditure:		
Salaries, wages and employee benefits	3,612,000	3,482,073
Materials	2,553,761	2,280,927
Contracted services	35,310	
Transfers to others		2,000
Long-term debt interest	13,979	16,396
Amortization	2,779,568	4,543,199
	8,994,618	10,324,595

11. Budget Figures - Unaudited

The unaudited budget figures reported on the Statement of Operations and Accumulated Surplus are based on the 2018 municipal operating and capital budgets as approved by Council. Approved budget figures have been reclassified and adjusted for the purposes of these financial statements to comply with Public Sector Accounting Board ("PSAB") reporting requirements. The Township has provided the following reconciliation of the PSAB reported surplus to the approved Council budget.

	Budget Amount
	\$
Approved operating budget revenues	7,745,203
Approved capital budget revenues	4,323,817
Total approved revenues	12,069,020
PSAB reporting adjustments:	
Dividends from Waterloo North Hydro	(249,498)
Interest earned from Waterloo North Hydro	(135,938)
Contributions from reserves and reserve funds	(4,719,160)
Net operating budget revenues	6,964,424
Approved operating budget expenses	7,745,203
Approved capital budget expenses	4,323,817
Total approved expenses	12,069,020
PSAB reporting adjustments:	
Amortization of tangible capital assets	2,779,568
Capital expenses	(4,323,817)
Profit/loss on disposal of TCA's	(3,917)
Contribution to reserves and reserve funds	(1,563,410)
Debt principal repayments	(109,197)
Net operating budget expenses	8,848,247
Net expenses before other income	(1,883,823)

12. Commitments and Obligations

- (a) The Township has entered into an arrangement whereby the City of Kitchener will provide fire dispatch service to Wellesley on a fee for service basis.

The amount paid pursuant to this service agreement for 2018 was **\$22,115** (\$20,755 in 2017).

- (b) Under the sick leave benefit plan, unused sick leave can accumulate; however, employees are not entitled to receive a cash payment when they leave the Township's employment for these accumulated sick leave days.

13. Self Insurance Coverage

The Township has an agreement with other 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 coverage, 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.

In order to decrease insurance premium costs, the Township has assumed a portion of the risk by assuming deductibles. The Township is self insured up to **\$5,000** (2018 and 2017). Insurance coverage is in place for claims in excess of this deductible limit.

During the year, claims amounting to **\$Nil** (\$7,742 in 2017) were settled and insurance premiums of **\$154,013** (\$131,943 in 2017) were paid. Both amounts are reported as expenditures on the Statement of Operations and Accumulated Surplus.

The Township is, from time to time, involved in legal suits of varying dollar amounts for which no provision for possible liability has been recorded in these financial statements. In the event that the Township is found liable, any amounts not recoverable from the Township insurers will be adjusted against future revenues.



Explanatory Financial Notes
Year Ended December 31, 2018

14. Accumulated Surplus	2018	2017
	\$	\$
Reserve and Reserve Funds		
Tax rate stabilization	813,966	838,948
Working capital	120,000	120,000
General government	307,067	297,984
Fire	1,229,301	1,136,834
Infrastructure - roads, equipment and structures	1,133,928	1,715,343
Recreation	670,289	377,718
Planning	122,965	100,331
Total Reserves and Reserve Funds	4,397,516	4,587,158
Surplus (deficit)		
Invested in tangible capital assets	40,175,531	40,273,031
Invested in Government Business Enterprise	9,185,875	8,954,810
Operating Fund	(2,662,744)	(2,771,940)
Total Surplus	46,698,662	46,455,901
Accumulated Surplus	51,096,178	51,043,059

15. Segmented Information

The Township of Wellesley is a diversified municipal government institution that provides a wide range of services to its citizens, including fire, road, water distribution, sewer collection/conveyance, storm sewer, libraries and community services.

Segmented information has been prepared by major functional classification of activities provided, consistent with the Statement of Operations and Accumulated Surplus and provincially legislated requirements.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The accounting policies used in these segments are consistent with those followed in the preparation of the financial statements as disclosed in note 2.

15. Segmented Information (Continued)

	General Government \$	Protection Services \$	Transportation Services \$	Environmental Services \$	Health Services \$	Recreation and Cultural Services \$	Development Services \$	2018 Total \$
Revenue								
Taxation	738,699	679,267	2,347,363	16,686	427	815,061	90,704	4,688,207
User fees and charges	68,653	635,040	185,010		819	574,541	56,475	1,520,538
Government transfers								
Canada						1,680		1,680
Ontario	122,928	139,422	391,355	2,777	71	148,082	37,217	841,852
Investment income	13,705	12,602	43,631	310	8	15,122	1,683	87,061
Interest and penalty on taxes	79,618							79,618
Fundraising						72,343		72,343
Total revenue	1,023,603	1,466,331	2,967,359	19,773	1,325	1,626,829	186,079	7,291,299
Operating expenses								
Salaries, wages and benefits	884,356	755,410	1,046,913			776,622	148,699	3,612,000
Materials and services	518,361	392,628	1,090,072	31,993	819	517,989	25,209	2,577,071
Debt interest	2,052					11,927		13,979
Grants to organizations	10,000					2,000		12,000
Amortization	1,543	154,325	2,369,515			254,185		2,779,568
Total expenses	1,416,312	1,302,363	4,506,500	31,993	819	1,562,723	173,908	8,994,618
Annual surplus (deficit) before other income	(392,709)	163,968	(1,539,141)	(12,220)	506	64,106	12,171	(1,703,319)

**EXPLANATORY FINANCIAL NOTES
YEAR ENDED DECEMBER 31, 2018**

15. Segmented Information (Continued)

	General Government \$	Protection Services \$	Transportation Services \$	Environmental Services \$	Health Services \$	Recreation and Cultural Services \$	Development Services \$	2017 Total \$
Revenue								
Taxation	596,848	521,013	2,610,880	13,995	1,419	699,792	83,943	4,527,890
User fees and charges	43,820	562,400	118,936		3,150	569,393	35,812	1,333,511
Government transfers								
Canada						9,517		9,517
Ontario	104,179	104,319	417,269	2,115	214	176,633	12,685	817,414
Investment income	5,919	5,167	25,890	139	14	6,939	832	44,900
Interest and penalty on taxes	81,794							81,794
Total revenue	832,560	1,192,899	3,172,975	16,249	4,797	1,462,274	133,272	6,815,026
Operating expenses								
Salaries, wages and benefits	835,893	720,263	995,438			784,816	145,663	3,482,073
Materials and services	471,125	286,112	981,501	31,879	3,230	461,522	45,558	2,280,927
Debt interest	3,361					13,035		16,396
Grants to organizations						2,000		2,000
Amortization	49,229	180,482	3,980,749			332,739		4,543,199
Total expenses	1,359,608	1,186,857	5,957,688	31,879	3,230	1,594,112	191,221	10,324,595
Annual surplus (deficit) before other income	(527,048)	6,042	(2,784,713)	(15,630)	1,567	(131,838)	(57,949)	(3,509,569)



Five-Year Financial Review (Unaudited)
Year Ended December 31, 2018

	2018	2017	2016	2015	2014
Population at the end of the year	11,260	11,260	11,260	10,713	10,713
Area in acres at the end of the year	67,247	67,247	67,247	67,247	67,247
Employees - continuous F/T	32	32	30	31	30
Number of Households	3,372	3,368	3,351	3,302	3,302
Assessment - Taxable assessment upon which the years rates of taxation were set					
Residential, multi-residential, farm and Managed Forests					
Forests	1,857,647,539	1,706,876,923	1,567,233,564	1,494,125,900	1,414,717,758
Commercial - all classes	47,173,980	45,117,380	42,911,662	41,290,704	37,511,339
Industrial - all classes	87,541,270	77,328,327	73,550,413	68,674,439	64,054,785
Pipeline	4,053,500	3,880,500	2,873,000	2,732,349	2,631,500
Total	1,996,416,289	1,833,203,130	1,686,568,639	1,606,823,392	1,518,915,382
Per Capita	\$ 177,302	\$ 162,807	\$ 149,784	\$ 149,988	\$ 141,782
Commercial and industrial, as a percentage of taxable assessment	6.748 %	6.679 %	6.905 %	6.844 %	6.687 %
Exempt Assessment	62,902,782	47,439,680	50,603,470	47,323,466	44,983,168
Tax Arrears -	\$ 385,962	\$ 617,469	\$ 433,639	\$ 482,235	\$ 580,277
- per capita	\$ 34.28	\$ 54.84	\$ 38.51	\$ 45.01	\$ 54.17
percentage of current levy	8.27 %	13.70 %	10.08 %	11.67 %	14.49 %
Expenditures - general municipal purposes	\$ 8,994,618	\$ 10,324,595	\$ 10,374,086	\$ 10,147,406	\$ 10,320,410
Transfers to the Region	\$ 8,384,637	\$ 8,048,470	\$ 7,710,729	\$ 7,458,199	\$ 7,301,175
Transfers to the School Boards	\$ 4,148,599	\$ 4,059,415	\$ 3,986,440	\$ 3,889,027	\$ 3,887,932



Five-Year Financial Review (Unaudited)
Year Ended December 31, 2018

	2018	2017	2016	2015	2014
Revenue for General Municipal Services					
Taxation	4,664,969	4,506,095	4,300,437	4,133,094	4,003,300
Taxation from other governments	23,238	21,795	22,948	22,812	22,663
Fees and Service Charges	1,520,538	1,333,511	1,433,510	1,331,802	1,496,872
Government Transfers	843,532	826,931	621,651	545,685	512,889
Investment Income	87,061	44,900	38,435	45,439	61,228
Interest and Penalties on Taxes	79,618	81,794	93,332	94,217	97,439
Other	72,343			5,816	6,209
Total	\$ 7,291,299 \$	6,815,026 \$	6,510,313 \$	6,178,865 \$	6,200,600
Net Long Term Liabilities					
General Municipal Activities	\$ 612,886 \$	722,083 \$	829,654 \$	263,293 \$	405,032
-per capita	\$ 54 \$	64 \$	74 \$	25 \$	38
-percentage of taxable assessment	13.14 %	16.02 %	19.29 %	6.37 %	10.12 %
Charges for Net Long Term Liabilities					
General Municipal Activities	\$ 14,286 \$	16,396 \$	8,445 \$	18,984 \$	26,416
-per capita	\$ 1 \$	1 \$	1 \$	2 \$	2
-as a tax rate	0.00000716 %	0.00000894 %	0.00000501 %	0.00001181 %	0.00001739 %
Accumulated Surplus					
- Operating Fund	-2,662,744	-2,771,940	-2,036,322	-1,740,711	-1,502,020
- Tangible Capital Assets	40,175,531	40,273,031	50,463,070	53,746,778	56,777,682
- Reserves and Reserve Funds	4,397,516	4,587,158	4,460,173	3,956,988	3,614,084
- Waterloo North Hydro	9,185,875	8,954,810	8,635,123	8,271,003	8,131,371
Total Accumulated Surplus	\$ 51,096,178 \$	51,043,059 \$	61,522,044 \$	64,234,058 \$	67,021,117
Deferred Revenue - Obligatory Reserve Funds					
	\$ 2,428,734 \$	2,031,193 \$	1,492,530 \$	1,239,343 \$	1,148,499