

Consolidated financial statements of

# **The Regional Municipality of Waterloo**

December 31, 2016

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# The Regional Municipality of Waterloo

December 31, 2016

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## **Independent Auditor's Report**

To the Members of Council, Inhabitants and Ratepayers of  
The Regional Municipality of Waterloo

We have audited the accompanying consolidated financial statements of The Regional Municipality of Waterloo, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Regional Municipality of Waterloo as at December 31, 2016 and the results of its operations, its cash flows and change in net debt for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants  
Chartered Accountants  
Licensed Public Accountants

**The Regional Municipality of Waterloo**  
**Consolidated Statement of Financial Position**  
as at December 31, 2016 (in thousands of dollars)

	2016	2015
	(\$000s)	(\$000s)
<b>Financial assets</b>		
Cash	187,602	228,337
Accounts receivable	185,211	135,311
Other assets	5,951	4,911
Investments (Note 3)	172,781	165,269
Long-term receivables (Note 7)	189,240	200,883
<b>Total financial assets</b>	<b>740,785</b>	<b>734,711</b>
<b>Liabilities</b>		
Accounts payable	95,149	100,986
Other liabilities	108,039	68,255
Deferred revenue (Note 4)	89,488	81,156
Mortgages payable (Note 5)	4,048	4,311
Long-term liabilities (Note 7)	861,348	824,487
Employee future benefits liability (Note 11)	177,831	161,667
Landfill closure & post-closure liability (Note 12)	61,898	61,836
Contaminated sites liability (Note 13)	722	643
<b>Total liabilities</b>	<b>1,398,523</b>	<b>1,303,341</b>
Net Debt	<b>(657,738)</b>	<b>(568,630)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 16)	2,943,436	2,571,864
Inventory	6,249	6,076
Prepaid expenses	10,148	10,739
<b>Total non-financial assets</b>	<b>2,959,833</b>	<b>2,588,679</b>
<b>Accumulated surplus (Note 17)</b>	<b>2,302,095</b>	<b>2,020,049</b>

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

**The Regional Municipality of Waterloo**  
**Consolidated Statement of Operations and Accumulated Surplus**  
Year ended December 31, 2016 (in thousands of dollars)

	<b>2016</b>	<b>2016</b>	2015
	<b>Budget</b>	<b>Actual</b>	Actual
	<b>(Note 20)</b>	<b>(Actual)</b>	Actual
	<b>(\$000s)</b>	<b>(\$000s)</b>	(\$000s)
<b>Revenue</b>			
Property taxes	481,022	480,119	463,359
Government transfers			
Canada	130,035	131,607	136,958
Ontario	308,993	338,715	257,977
User fees, fines and service charges	213,765	227,379	218,346
Development charges earned	65,386	65,386	55,002
Investment income	7,534	7,507	8,467
Other	4,111	2,673	1,363
<b>Total revenue</b>	<b>1,210,846</b>	<b>1,253,386</b>	1,141,472
<b>Expense</b>			
General government	52,677	51,439	50,598
Police and other protective services	186,471	185,305	176,514
Transportation services	224,290	223,846	185,184
Environmental services	153,611	153,571	154,227
Health services	60,948	60,018	57,593
Social and family services	209,341	209,379	203,570
Housing	65,884	67,663	67,042
Planning and culture	20,259	20,119	19,359
<b>Total expense</b>	<b>973,481</b>	<b>971,340</b>	914,087
Annual surplus	237,365	282,046	227,385
Accumulated surplus, beginning of year		2,020,049	1,792,664
<b>Accumulated surplus, end of year (Note 17)</b>		<b>2,302,095</b>	2,020,049

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

**The Regional Municipality of Waterloo**  
**Consolidated Statement of Change in Net Debt**  
Year ended December 31, 2016 (in thousands of dollars)

	<b>2016</b>	2015
	<b>Actual</b>	Actual
	<b>(\$000s)</b>	(\$000s)
<b>Annual Surplus</b>	<b>282,046</b>	227,385
Acquisition of tangible capital assets	<b>(120,081)</b>	(213,578)
Decrease (increase) in assets under construction	<b>(357,886)</b>	(151,329)
Amortization of tangible capital assets	<b>103,007</b>	94,869
(Gain) loss on disposal of tangible capital assets	<b>3,233</b>	9,942
Proceeds (costs) on disposal of tangible capital assets	<b>155</b>	(7,150)
<b>Change due to tangible capital assets</b>	<b>(371,572)</b>	(267,246)
Decrease (increase) in inventory	<b>(173)</b>	(581)
Decrease (increase) in prepaid expenses	<b>591</b>	2,861
<b>Change in inventories and prepaid expenses</b>	<b>418</b>	2,280
Change in net debt	<b>(89,108)</b>	(37,581)
Net Debt beginning of year	<b>(568,630)</b>	(531,049)
<b>Net Debt end of year</b>	<b>(657,738)</b>	(568,630)

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

**The Regional Municipality of Waterloo**  
**Consolidated Statement of Cash Flows**  
Year ended December 31, 2016 (in thousands of dollars)

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
<b>Operating Activities</b>		
Annual Surplus	<b>282,046</b>	227,385
Non-cash charges to operations		
Amortization of tangible capital assets	<b>103,007</b>	94,869
Amortization of bond premium	<b>(919)</b>	(916)
Change in employee future benefits liability	<b>16,164</b>	12,494
Change in landfill closure and post-closure liability	<b>62</b>	1,327
Change in contaminated sites liability	<b>79</b>	643
(Gain) loss on sale of tangible capital assets	<b>3,233</b>	9,942
Change in non-cash assets and liabilities		
Accounts receivable	<b>(49,900)</b>	(51,013)
Other assets	<b>(1,040)</b>	194
Accounts payable	<b>(5,837)</b>	39,015
Other liabilities	<b>39,784</b>	15,189
Deferred revenue	<b>8,332</b>	(10,689)
Inventory	<b>(173)</b>	(581)
Prepaid expense	<b>591</b>	2,861
<b>Net change in cash from operating activities</b>	<b>395,429</b>	340,720
<b>Capital Activities</b>		
Acquisition of tangible capital assets	<b>(120,081)</b>	(213,578)
Increase in assets under construction	<b>(357,886)</b>	(151,329)
Proceeds (cost) on sale of tangible capital assets	<b>155</b>	(7,150)
<b>Net change in cash from capital activities</b>	<b>(477,812)</b>	(372,057)
<b>Investing activities</b>		
Proceeds from disposals and redemptions of investments	<b>31,315</b>	27,438
Acquisition of investments	<b>(37,595)</b>	(32,296)
Investment funds interest reinvested	<b>(313)</b>	(358)
<b>Net change in cash from investing activities</b>	<b>(6,593)</b>	(5,216)
<b>Financing transactions</b>		
Net long-term liabilities incurred	<b>94,219</b>	49,698
Net long-term liabilities repaid	<b>(45,715)</b>	(43,442)
Mortgage incurred	<b>-</b>	4,537
Mortgage repaid	<b>(263)</b>	(226)
<b>Net change in cash from financing transactions</b>	<b>48,241</b>	10,567
Net change in cash and cash equivalents	<b>(40,735)</b>	(25,986)
Cash beginning of year	<b>228,337</b>	254,323
<b>Cash end of year</b>	<b>187,602</b>	228,337

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



# The Regional Municipality of Waterloo

## Notes to the Consolidated Financial Statements

December 31, 2016  
(in thousands of dollars)

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The Regional Municipality of Waterloo (the "Region") is an upper-tier municipality in the Province of Ontario, Canada. Provincial statutes including the *Municipal Act*, the *Municipal Affairs Act* and related legislation guide its operations. The Region has a population of 581,000 and is comprised of the Cities of Cambridge, Kitchener and Waterloo and the Townships of North Dumfries, Wellesley, Wilmot and Woolwich.

### 1. Significant accounting policies

The consolidated financial statements of the Region are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada").

#### a) Basis of consolidation

- i) The consolidated financial statements reflect the financial assets, liabilities, revenue and expense and changes in investment in tangible capital assets of the Region. These statements comprise all services and enterprises accountable to the Region and which are owned or controlled by the Region. The following boards are consolidated: the Waterloo Regional Police Services Board ("WRPS"), Region of Waterloo Community Housing Inc., and the Region of Waterloo Library Board. All interfund assets, liabilities, sources of financing and expenses are eliminated.
- ii) The following entities are not consolidated: Grand River Conservation Authority, the Waterloo Regional Heritage Foundation, the Region of Waterloo Arts Fund, and the Waterloo Region Municipalities Insurance Pool.
- iii) Sinking funds held by the Region for the retirement of long-term liabilities are not consolidated and are shown as a reduction in the amount of long-term liabilities (see note 7).
- iv) Trust funds administered by the Region amounting to \$129 (2015 - \$137) are not consolidated and are reflected in the trust fund's statement of continuity and balance sheet.

#### b) Basis of accounting

- i) Accrual basis of accounting

The Region maintains its accounts on an accrual basis, whereby revenue is recognized in the period in which the transactions or events occurred that gave rise to the revenue, and expense is recognized in the period in which a liability is incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation for payment.

- ii) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement. Significant estimates include landfill closure and post closure liability, employee future benefits liability and the estimated useful life of tangible capital assets.

- iii) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of regional 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 of revenues over expenses, determines the change in net debt for the year

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

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**1. Significant accounting policies (continued)**

iv) Government transfers

Government transfers from the province or federal government are recognized in the financial statements as revenue in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made.

v) Reserves and reserve funds

The Region follows the practice of allocating funding to reserves and reserve funds that are retained for general and specific purposes. Reserves and reserve funds are established by Council resolution or by-law and are available for future uses. Amounts are expended in accordance with the terms and policies established by Council. Expenses in respect of items for which the reserves and reserve funds have been created are reported on the consolidated statement of operations and accumulated surplus. The ending reserve and reserve fund balances comprise a portion of the accumulated surplus.

vi) Cultural and Historic Assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements. The Region's museums include approximately 52,000 artifacts and archival documents which are considered to be historically significant. All artwork, artifacts, and archival documents are fully catalogued (most with appraised values) in the Region's collections database. The collection is maintained and stored at the Region of Waterloo Curatorial Centre, the Region of Waterloo History Museum, and Joseph Schneider Haus.

vii) Inventory

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

viii) Land held for resale

Land held for resale is recorded at the cost of acquisition. The proceeds of sale, net of cost, are treated as revenue.

**2. Contributions to non-consolidated entities**

Further to Note 1, the following contributions were made by the Region to non-consolidated entities:

	<b>2016</b>	<b>2015</b>
	(\$000s)	(\$000s)
Grand River Conservation Authority	6,162	6,005
Waterloo Region Municipalities Insurance Pool	1,840	1,936
Region of Waterloo Arts Fund	243	243
Waterloo Regional Heritage Foundation	106	106
	<b>8,351</b>	<b>8,290</b>

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

**3. Investments**

Investment activities are governed by the Municipal Act and the Region's consolidated investment policy. Investments of \$172,781 (2015 - \$165,269) are recorded at cost. The investments have a market value of \$173,783 (2015 - \$169,278) at the end of the year. The market value represents the realizable value of the investments if they were sold at December 31, 2016. Investments by type of issuer are listed below:

Issuer	2016 (\$000s)	2015 (\$000s)
Restricted Cash	44	44
Government Agencies	2,005	3,197
Provincial Governments	51,896	44,550
Canadian Municipalities	45,753	47,899
Schedule 1 Canadian Banks	59,211	56,000
Investment Funds	13,872	13,579
<b>Total</b>	<b>172,781</b>	<b>165,269</b>

Investment income earned on available funds and accumulated surplus is reported as revenue in the period earned. Investment income earned on development charges is added to the fund balance and forms part of the deferred revenue balance.

**4. Deferred revenue**

Deferred revenue set aside for specific purposes by legislation, regulation or agreement as at December 31, is comprised of the following:

(\$000s)	Balance at December 31, 2015	Inflows	Revenue Earned	Balance at December 31, 2016
Development Charges	52,327	79,467	(65,386)	<b>66,408</b>
Developer Deposits	1,381	544		<b>1,925</b>
Federal Gas Tax	27,448	15,928	(22,221)	<b>21,155</b>
<b>Total</b>	<b>81,156</b>	<b>95,939</b>	<b>(87,607)</b>	<b>89,488</b>

In accordance with PSAB requirements, obligatory reserve funds are reported as a component of deferred revenue. Development charge collections have been segregated, as required by the Development Charges Act, to finance a portion of the cost of growth-related capital projects. Revenue recognition occurs when the Region has incurred the expenditure for the capital works for which the development charges were collected.

Other funds received for specific purposes are accounted for as deferred revenue until the Region discharges the obligation which led to the receipt of the funds.

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

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**5. Mortgages payable**

On January 1, 2015, La Capanna Homes (Non-Profit) Inc. and La Capanna II Homes (Non-Profit) Inc. transferred two community housing properties to the Region of Waterloo through Region of Waterloo Community Housing Inc., a wholly-owned Regional corporation. The mortgages outstanding are as follows:

	<b>2016</b>	2015
	( <b>\$000s</b> )	(\$000s)
<b>199 Elmridge Dr., Kitchener</b> - The mortgage payable is secured by certain assets of the corporation. The mortgage was renewed for a five year term effective February 1, 2016 and is repayable in blended monthly instalments of \$15 bearing interest at 1.01%	<b>672</b>	846
<b>86 Elgin St., Cambridge</b> - The mortgage payable is secured by certain assets of the corporation. The mortgage was renewed for a two year term effective October 1, 2015 and is repayable in blended monthly instalments of \$12 bearing interest at 1.76%	<b>3,376</b>	3465
	<b>4,048</b>	4,311

**6. Pension contributions**

The Region makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan. OMERS is a defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2016 was \$31,906 (2015 - \$31,646) for current service of 4,152 eligible employees and is included as an expense on the consolidated statement of operations and accumulated surplus. Contributions were made in 2016 at rates ranging from 9.0% to 15.8% of member earnings, depending on the member's designated retirement age and level of earnings. The OMERS funding ratio for 2016 is 93.4% (2015 - 91.5%) with the goal of being fully funded by 2025.

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

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**7. Net long-term liabilities**

- a) Long-term liabilities reported on the consolidated statement of financial position are comprised of the following:

	<b>2016</b>	2015
	(\$000s)	(\$000s)
Total long-term liabilities incurred by the Region, including those incurred on behalf of School Boards and other Municipalities, outstanding at the end of the year	<b>883,667</b>	839,224
The total value of the Region's own sinking fund	<b>(22,319)</b>	(14,737)
<b>Total long-term liabilities</b>	<b>861,348</b>	824,487
Other Municipalities and School Boards have assumed responsibility for the payment of principal and interest charged on certain long-term liabilities issued by the Region above. At the end of the year, the outstanding principal amount of this liability is:	<b>(189,224)</b>	(200,862)
Individuals have assumed responsibility for paying principal and interest charges for tile drainage loans. At the end of the year, the outstanding principal amount of this liability is:	<b>(16)</b>	(21)
<b>Total long-term receivables</b>	<b>(189,240)</b>	(200,883)
<b>Net long-term liabilities, end of year</b>	<b>672,108</b>	623,604

- b) The principal repayments, including contributions to the sinking fund, of net long-term liabilities reported in (a) of this note, are scheduled as follows:

	(\$000s)
2017-2021	232,927
2022-2026	148,954
2027-2031	100,166
2032-2036	81,117
2037-2041	51,974
2042 onwards	56,970
	<b>672,108</b>

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

**7. Net long-term liabilities (continued)**

c) Net long-term liabilities are planned to be recovered from the following sources of revenue:

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
Property taxes and general municipal revenue	<b>486,542</b>	<b>491,470</b>
Wastewater rate revenue	<b>97,315</b>	<b>37,919</b>
Development charge collections	<b>83,261</b>	<b>86,923</b>
Water rate revenue	<b>4,990</b>	<b>7,292</b>
	<b>672,108</b>	623,604

d) Long-term liabilities include sinking fund debentures issued in the amount of \$242,230 (2015 - \$242,230) of which \$237,099 (2015 - \$237,099) is the Region's share. Annual payments to the sinking fund are made to finance the repayment of the debentures as they mature. Accumulated contributions to and earnings of the sinking fund total \$23,249 (2015 - \$14,737) of which \$22,319 (2015 - \$14,737) is the Region's share.

e) In 2014, the Region entered into a contract with GrandLinq GP for the construction, operation and maintenance of the Region's Stage1 Light Rail Transit project. The contract requires GrandLinq GP to provide long term financing for the first \$130,652 of capital costs incurred. As at December 31, 2016, the amount of the long term liability was \$130,652 (2015 - \$130,652) and is included in net long term liabilities. Payment of this liability will occur over the 30 year operations and maintenance term.

f) Long-term liabilities assumed by others

The Region has issued debentures in its name on behalf of area municipalities and school boards, and has issued tile drainage loans to property owners. The Region is contingently liable for these long-term liabilities for which the responsibility for payment of principal and interest has been assumed by those bodies. These amounts have been included as long-term receivables on the consolidated statement of financial position.

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
City of Kitchener	<b>84,859</b>	93,536
Waterloo Region District School Board	<b>45,008</b>	49,230
City of Cambridge	<b>26,179</b>	21,710
City of Waterloo	<b>13,879</b>	15,880
Waterloo Catholic District School Board	<b>11,685</b>	13,021
Township of Woolwich	<b>3,843</b>	4,060
Township of North Dumfries	<b>1,711</b>	1,888
Township of Wilmot	<b>1,230</b>	1,325
Township of Wellesley	<b>830</b>	212
Property Owners (Tile Drainage)	<b>16</b>	21
<b>Total debentures assumed by others</b>	<b>189,240</b>	200,883

Effective 2007, the Region no longer has responsibility to issue debenture debt for school boards.

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

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**8. Payments for net long-term liabilities**

Total payments for the net long-term liabilities which are reported on the consolidated financial statements were as follows:

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
Principal payments including contributions to the sinking fund	<b>45,715</b>	43,442
Interest	<b>17,986</b>	17,996
	<b>63,701</b>	61,438

The interest rates on debt outstanding at December 31, 2016 ranged from 1.05% to 7.10%.

The following revenues were collected to meet these payments:

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
Property taxes and general municipal revenue	<b>50,949</b>	49,062
Development charge collections	<b>6,749</b>	6,689
Wastewater rate revenue	<b>3,403</b>	3,087
Water rate revenue	<b>2,600</b>	2,600
	<b>63,701</b>	61,438

**9. Debt obligations for provincial housing**

On January 1, 2000, the Province transferred ownership of 2,557 housing units to the Region. Prior to 2000, the Province issued debentures related to housing properties now owned by the Region. The debt obligation for these debentures remains with the Province and has varying maturity dates. The outstanding debt at December 31, 2016 is \$7,436 (2015 - \$9,197) and principal repayments are scheduled as follows:

	(\$000s)
2017 - 2021	6,218
2022 - 2026	1,218
2027 onwards	-
	<b>7,436</b>

**10. Credit facility**

The Region has an operating credit facility of \$40,000 with the Bank of Nova Scotia bearing interest at the bank's prime rate minus 0.50% per annum with an effective rate during 2016 of 2.2% (2015 - 2.2%) per annum. At December 31, 2016, the Region's bank indebtedness using the operating credit facility was \$0 (2015 - \$0).

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2016  
(in thousands of dollars)

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**11. Employee future benefits liability**

Summary of employee future benefits

(\$000s)	Region (excluding WRPS)	WRPS	2016	2015
Future payments required for:				
Post retirement benefits	17,694	92,022	109,716	100,413
Sick leave	21,850	32,155	54,005	49,369
Workplace Safety & Insurance Board	4,718	9,392	14,110	11,885
<b>Total</b>	<b>44,262</b>	<b>133,569</b>	<b>177,831</b>	<b>161,667</b>

Post retirement benefits

The Region provides post-retirement benefits consisting of Extended Health Care, Out-of-Province Travel Benefits, Dental, Life Insurance, and Accidental Death and Dismemberment to qualifying retirees. These benefits are provided to age 65 for Regional retirees. For WRPS retirees, Dental coverage, if so elected, is recovered from the member; Life Insurance, and Accidental Death and Dismemberment is funded by WRPS and provided to age 65, and Health Care and Out-of Province Travel Benefits are funded by WRPS and are provided for life.

An actuarial valuation was completed as at December 31, 2016 and it was determined that the liability for present and future benefits is \$109,716 (2015 - \$100,413). The calculations were based on a discount rate of 3.4% (2015 – 3.6%) and an inflation rate for benefits of 2.0% (2015 – 2.0%).

Sick leave

The Region provides sick leave benefits to its employees and unused sick leave accumulates during employees' service. Eligible employees become entitled to receive a cash payment of up to six months of the accumulated sick leave balance upon leaving the Region's employment. As a result of negotiated changes to collective agreements, new employees are not eligible for a sick leave payout. As of December 31, 2016, 32% of employees are entitled to this benefit. The actuarial liability at the end of the year for these accumulated days, assuming a 3.4% discount rate, 2.0% inflation and to the extent that they have vested was \$54,005 (2015 - \$49,369). Approximately 50% of this amount is eligible to be paid in cash upon employee termination and the remaining 50% would be taken in the form of future year absences.

The cost of benefits paid for non-WRPS employees is provided from a sick leave reserve fund, which is funded through annual payroll charges to operations. A reserve fund of \$2,619 (2015 – \$1,984) to partially provide for the Regional portion of this liability is included in the accumulated surplus (note 17). The amount paid to employees who left the Region's employment in 2016 amounted to \$988 for the Regional portion (2015 - \$1,248) and \$741 for WRPS (2015 - \$960) totaling \$1,729 (2015 - \$2,208).



**The Regional Municipality of Waterloo**  
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**11. Employee future benefits liability (continued)**

Amounts payable for employees who become eligible for a sick pay payout in the next five years are:

(\$000s)	Region (excluding WRPS)	WRPS	<b>2016</b>
2017	2,561	2,844	<b>5,405</b>
2018	1,087	1,351	<b>2,438</b>
2019	1,115	1,521	<b>2,636</b>
2020	1,460	2,081	<b>3,541</b>
2021	2,415	1,811	<b>4,226</b>
	<u>8,638</u>	<u>9,608</u>	<b>18,246</b>

Workplace Safety & Insurance Board (WSIB)

The Region is responsible for any costs awarded under the Workers' Compensation Act. During 2016, the Region paid \$1,242 (2015 - \$815) in such costs for employees. The liability for present and future awards is \$14,110 (2015 - \$11,885). The calculations were based on a discount rate of 2.6% and an inflation rate for benefits of up to 2.0%. An amount of \$12,687 (2015 - \$12,696) has been provided for current and future awards and is included in the Workplace Safety and Insurance Board reserve fund (Note 17).

**12. Landfill closure and post-closure liability**

The Region owns and operates one open landfill site and owns and monitors five closed landfill sites. The open site has a remaining capacity of 37% or 6.0 million m<sup>3</sup> and has an estimated life expectancy of 15-20 years. The present value of the expected closure and post-closure costs of the open landfill site and the present value of expected monitoring and capital rehabilitation costs of the closed landfill sites have been reported as a liability on the consolidated statement of financial position. The liability was estimated using a discount factor of 3.4%. The closure costs and post-closure costs are based on capital and operating budget estimates over 25 years. Any change in the liability is reported as an expense on the consolidated statement of operations and accumulated surplus. A liability of \$61,898 (2015 - \$61,836) has been reported on the consolidated statement of financial position. Solid waste landfill closure and post-closure costs are funded through the Region's annual budget.

**13. Contaminated sites liability**

The Region has recorded a liability for remediation of regional sites not in active use which contained contamination as defined in the public sector accounting standard for contaminated sites. The liability estimate of \$722 (2015 - \$643) for the sites identified was based on environmental assessments, or estimates for those sites where an assessment has not been conducted. Estimated recoveries are expected to be \$0.

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**14. Public liability insurance**

In 1998, the Region entered into an agreement with the seven area municipalities comprising the Region to form the Waterloo Region Municipalities Insurance Pool (WRMIP). The WRMIP purchases property damage and public liability insurance on a group basis and each member shares a retained level of risk. The members pay an annual levy to fund insurance premiums and prefund expected losses. External coverage through insurance companies is in place for claims in excess of deductibles.

The Region has a reserve fund for general insurance which as at December 31, 2016 amounted to \$4,454 (2015 - \$3,922). The provision for the year of \$3,987 (2015 - \$3,742) was transferred to the insurance reserve.

During the year, 946 (2015 – 1,439) claims were settled for \$559 (2015 - \$518) and have been provided for from the General Insurance Reserve Fund, and accordingly, reported as an expense on the consolidated statement of operations and accumulated surplus.

**15. Contingent liabilities**

Legal claims

As of December 31, 2016 the Region has been named defendant, co-defendant or plaintiff in a number of outstanding legal actions. No provision has been made for any claims that are expected to be covered by insurance or where the consequences are indeterminable. Liabilities for non-insured claims are recorded in the year in which they are settled.

Expropriations

The Region is involved in a number of expropriation matters typically related to roads and public transit. Expenditures associated with these expropriations are recorded in the year in which settlements are reached.

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**16. Tangible capital assets**

The continuity of cost, amortization and net book value of tangible capital assets is shown on the following table.

<b>Cost</b>	<b>Balance at December 31, 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at December 31, 2016</b>
Land	92,620			92,620
Land improvements	135,436	7,912	2,252	141,096
Buildings	480,251	15,996		496,247
Vehicles	160,321	4,698	5,741	159,278
Machinery and equipment	138,096	7,276	6,562	138,810
Roads and bridges	1,154,678	70,271	32,405	1,192,544
Water and wastewater	1,054,952	13,928	573	1,068,307
<b>Total Cost</b>	<b>3,216,354</b>	<b>120,081</b>	<b>47,533</b>	<b>3,288,902</b>

<b>Accumulated Amortization</b>	<b>Balance at December 31, 2015</b>	<b>Disposals</b>	<b>Amortization Expense</b>	<b>Balance at December 31, 2016</b>
Land improvements	60,171	2,137	8,284	66,318
Buildings	199,777		16,065	215,842
Vehicles	91,197	5,555	13,508	99,150
Machinery and equipment	77,701	6,417	9,921	81,205
Roads and bridges	393,051	29,720	31,593	394,924
Water and wastewater	514,658	315	23,636	537,979
<b>Total Accumulated amortization</b>	<b>1,336,555</b>	<b>44,144</b>	<b>103,007</b>	<b>1,395,418</b>

<b>Net Book Value</b>	<b>Net Book Value December 31, 2015</b>	<b>Net Book Value December 31, 2016</b>
Land	92,620	92,620
Land improvements	75,265	74,778
Buildings	280,475	280,405
Vehicles	69,123	60,128
Machinery and equipment	60,396	57,606
Roads and bridges	761,625	797,620
Water and wastewater	540,295	530,328
<b>Total net book value</b>	<b>1,879,799</b>	<b>1,893,485</b>
Construction work in progress	256,708	366,273
Construction work in progress for Stage 1 Rapid Transit	435,357	683,678
<b>Total tangible capital assets</b>	<b>2,571,864</b>	<b>2,943,436</b>

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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 tangible capital assets is amortized on a straight-line basis over estimated lives as follows:

Land Improvements	10 to 75 years
Buildings	15 to 60 years
Vehicles	3 to 15 years
Machinery and Equipment	3 to 40 years
Water and wastewater plants and networks:	
Plants/stations/reservoirs	20 to 60 years
Underground Networks	60 to 110 years
Transportation:	
Roads	16 to 100 years
Bridges	40 to 80 years
Other roads assets	16 to 75 years
Leasehold improvements	Over life of lease

For assets with shorter lives (e.g. vehicles, laptop and desktop computers), 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 use. Landfill cells are amortized annually on the basis of tonnage filled as a percentage of the estimated total capacity of the facility. For all other assets, amortization begins in the first month of the year following their readiness for use.

The Region has various capitalization thresholds, such that individual tangible capital assets of lesser value are expensed, unless the assets have significant value collectively (pooled assets). Examples of pooled assets are desktop and laptop computers, police vehicles, traffic signals, streetlights, and annual road resurfacing.

Land purchased for service delivery purposes is recorded as a tangible capital asset at the lower of cost or market value. Any land cost premium incurred related to expropriation will be included as part of the asset to be constructed and amortized over its useful life.

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that value is also recorded as revenue. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.

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 expense as incurred.

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**17. Accumulated surplus**

Accumulated surplus shown on the Consolidated Statement of Financial Position is analyzed as follows:

<b>As at December 31</b>	<b>2016</b>	<b>2015</b>
	(\$000s)	(\$000s)
<b>Surplus:</b>		
Invested in tangible capital assets	<b>2,943,436</b>	2,571,864
Accumulated surplus on operations	<b>172,399</b>	248,811
Amounts to be Recovered		
From future revenue		
Net long term liabilities	<b>(672,108)</b>	(623,604)
Employee future benefits	<b>(162,525)</b>	(147,798)
Landfill closure and post closure liability	<b>(61,898)</b>	(61,836)
Contaminated sites liability	<b>(722)</b>	(643)
From other municipalities and school boards		
Net long term liabilities	<b>(189,240)</b>	(200,883)
From Reserve Funds		
Employee future benefits	<b>(2,619)</b>	(1,984)
Workplace safety and insurance	<b>(12,687)</b>	(11,885)
<b>Total Surplus</b>	<b>2,014,036</b>	1,772,042
<b>Reserves set aside by Council for:</b>		
Capital	<b>118,191</b>	107,275
Community Housing	<b>53,068</b>	52,436
Equipment replacement	<b>31,771</b>	22,258
Contingencies and stabilization	<b>29,186</b>	20,832
Waterloo Regional Police Services	<b>11,886</b>	9,795
Library	<b>1,114</b>	997
Public art	<b>382</b>	451
Heritage resources	<b>233</b>	164
Program specific	<b>1,287</b>	751
<b>Total Reserves</b>	<b>247,118</b>	<b>214,959</b>
<b>Reserve Funds set aside for specific purposes by Council for:</b>		
Workplace Safety and Insurance	<b>12,687</b>	12,696
Benefits and Insurance	<b>11,962</b>	5,906
Regional Transportation Master Plan	<b>10,840</b>	8,708
Brownfield Financial Incentives	<b>2,902</b>	2,837
Provincial Gas Tax	<b>2,550</b>	2,901
<b>Total Reserve Funds</b>	<b>40,941</b>	33,048
<b>Accumulated Surplus</b>	<b>2,302,095</b>	2,020,049

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**18. Commitments and Contractual Obligations**

**Lease commitments**

At the end of 2016, the Region is responsible for total lease commitments of approximately \$4,778 (2015 - \$5,500) relating to equipment and buildings.

		Maturity Date	Amount (\$000s)
Office space	Varying maturities to	2020	2,881
Other	Varying maturities to	2040	1,897
<b>Total commitments</b>			<b>4,778</b>

**Contractual obligations**

**a) Ontario Clean Water Agency**

The Region has entered into a service agreement with the Ontario Clean Water Agency (“OCWA”) to operate the Region’s wastewater treatment plants, which expires on December 31, 2020. Included in the consolidated statement of operations and accumulated surplus is \$9,711 (2015 - \$9,071) paid to OCWA.

**b) Rapid Transit**

In 2014 the Region entered into a public-private partnership construction and service agreement with GrandLinq GP (“GrandLinq”) to construct, operate and maintain a Light Rail Transit (“LRT”) system. GrandLinq will construct the LRT system at a cost of \$580,674 and will provide long term financing for the first \$130,652 of capital costs incurred. GrandLinq will operate the system for an initial period of 10 years at which point the Region has the option to renew for successive 5 year periods. GrandLinq will maintain the system for a period of 30 years. The contract provides for potential fixed-price service level increases over the term of the contract, subject to Regional Council approval at that time.

**c) Brownfield Financial Incentive Program**

The Region has a Brownfield Financial Incentive Program (BFIP) to facilitate the remediation and redevelopment of brownfields throughout the Region. Tax Incentive Grants (TIGs), which are one of the components of the BFIP, provide eligible developers with a grant to offset the cost of remediation. Council has approved 10 TIGs totaling \$13,668 to be funded from the reserve fund and future property tax revenue. The Brownfield Incentive reserve fund balance is \$2,902 (2015 - \$2,837).

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**19. Related party transactions**

Included in the Sinking Fund investments is a bond investment transfer on December 1, 2016 from the General Account of The Regional Municipality of Waterloo. The transfer pertains to Sinking Fund Issue 01-44 in which the Regional Municipality of Waterloo is the only participant. The Regional Municipality of Waterloo is the manager of the Sinking Fund. The transaction has been recorded at the carrying value at December 1, 2016 of \$765. At December 31, 2016 the Sinking Fund financial statements include a Due to the Regional Municipality of Waterloo of \$766 pertaining to the transaction.

**20. Budget figures**

Budgets are established to set property tax rates and user rates and to finance projects which may be carried out over one or more years. Although not directly comparable with current year actual amounts in all cases, budgets have been restated to conform to public sector accounting standards on the consolidated statement of operations. Budgets were not set for items appearing on the consolidated statement of changes in net debt.

**Reconciliation of Operating Budget to Financial Statement Budget**

	<b>2016</b>	2015
	(\$000s)	(\$000s)
Budgeted Operating Surplus/(Deficit)	-	-
<b>Add:</b> Revenues not included in Budgeted Operating Surplus		
Development Charges	<b>65,386</b>	55,002
Deferred Federal Gas Tax Revenue	<b>22,221</b>	12,109
Capital Grants (Federal and Provincial)	<b>196,523</b>	167,040
Interest Revenue for Reserves and Reserve Funds	<b>7,062</b>	8,266
<b>Less:</b> Revenues not included in PSAB		
Internal Transfers to Reserves	<b>(61,948)</b>	(57,448)
<b>Add:</b> Operating Expenses not in PSAB		
Sick Leave, Insurance and Other Transfers	<b>152,232</b>	133,933
Principal Repayments	<b>44,853</b>	43,814
<b>Less:</b> Expenses not included in Budgeted Operating Surplus:		
Amortization of Tangible Capital Assets	<b>(103,007)</b>	(94,869)
Operating Expenses in Capital	<b>(64,379)</b>	(33,842)
Change in Actuarial Estimates	<b>(16,164)</b>	(12,494)
Change in Landfill Post Closure	<b>(62)</b>	(1,327)
Change in Contaminated Sites	<b>(79)</b>	(643)
Operating expenses in Reserves & Reserve Funds	<b>(5,273)</b>	(5,865)
Consolidated Financial Statement Budget Surplus/(Deficit)	<b>237,365</b>	213,676

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**21. Reconciliation of Regional Operating Tax Surplus and Consolidated Financial Statement Annual Surplus**

	<b>2016</b>	2015
	<b>(\$000s)</b>	(\$000s)
Operating Surplus/(Deficit)		
Regional tax supported programs	<b>2,732</b>	7,177
Region of Waterloo Library Board	<b>83</b>	145
Region of Waterloo Community Housing Inc.	<b>120</b>	(90)
Waterloo Regional Police Services Board	<b>1,742</b>	2,224
Regional water and wastewater programs	<b>(4,565)</b>	(3,850)
Total Operating Surplus	<b>112</b>	5,606
<b>Add:</b> Revenues Not included In Operating Surplus		
Development Charges	<b>65,386</b>	55,002
Federal Gas Tax Revenue	<b>22,221</b>	12,109
Capital Grants (Federal and Provincial)	<b>196,523</b>	167,040
<b>Add:</b> Expenses Included in Operating Surplus, but not in Consolidated Statements		
Transfers to Reserves and Reserve funds	<b>141,788</b>	93,583
Principal Repayments	<b>44,980</b>	43,085
<b>Less:</b> Expenses not Included in Operating Surplus:		
Amortization of Tangible Capital Assets	<b>(103,007)</b>	(94,869)
Operating Expenses in Capital	<b>(64,379)</b>	(33,842)
Change in Actuarial Estimates	<b>(16,164)</b>	(12,494)
Change in Landfill Closure & Post Closure Estimate	<b>(62)</b>	(1,327)
Change in Contaminated Sites Estimate	<b>(79)</b>	(643)
Operating expenses in Reserves & Reserve Funds	<b>(5,273)</b>	(5,865)
Consolidated Financial Statement Surplus/(Deficit)	<b>282,046</b>	227,385



# The Regional Municipality of Waterloo

## Notes to the Consolidated Financial Statements

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### 22. Segmented disclosure

General government is comprised of Council, administration and amounts paid to the Municipal Property Assessment Corporation. These areas are responsible for corporate governance and administration, by-laws and administrative policies, acquiring and managing assets, financial management and human resources management.

Police and other protective services are comprised of the Waterloo Regional Police Service ("WRPS"), Provincial Offences and the contribution to the Grand River Conservation Authority ("GRCA") for flood control. WRPS maintains the safety and security of all citizens by reducing or eliminating loss of life and property, maintaining law enforcements, and preserving peace and good order. Protection to persons and property also includes flood control from GRCA.

Transportation services include roads, traffic, public transit and Region of Waterloo International Airport. Other transportation services provide planning, development, and maintenance of roads, traffic operations, winter control and street lighting. Grand River Transit provides local public transportation within the Region.

Environmental services include water supply and distribution, wastewater treatment, and waste diversion and disposal. These services provide clean drinking water to residents, collect and treat wastewater, and collect and properly process waste and recycling items.

Health services include paramedic and public health services. Public health services promote and maintain health programs that optimize the health of residents. Paramedic services deliver timely and effective pre-hospital emergency care, along with medically required inter-hospital transportation.

Social and family services include social assistance, long-term care and child care services. Social assistance services determine, issue, and monitor clients' eligibility for financial, social and employment assistance. Senior services provide secure and supervised health services for seniors who can no longer live at home through long term care facilities and community programs. Child care services provide subsidized child care spaces, wage subsidies and resources for children with special needs.

Housing delivers programs to provide housing for low and moderate income individuals and families.

Planning and Culture includes community planning services, historic sites at Waterloo Region Museum, Joseph Schneider Haus and McDougall Cottage, and library services provided through branches in the four townships.

The basis of identifying segments is based on Ministry of Municipal Affairs guidelines. The method of allocation for actuarial adjustments and insurance is current year budget or current year actual.

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**22. Segmented disclosure (continued)**

									2016
(\$000s)	General Government	Protection	Transportation	Environmental	Health	Social Services	Housing	Planning and Culture	Total
Revenue									
Property taxes	35,130	150,186	140,984	38,929	21,547	36,742	38,013	18,588	480,119
Government transfers	3,701	9,004	244,628		39,589	158,175	3,407	11,818	470,322
User fees & service charges	8,310	20,086	43,506	128,522	340	11,356	13,979	1,280	227,379
Development Charges	607	624	45,246	18,876	(17)			50	65,386
Other	869	11				4	1,714	75	2,673
Investment income	930	31	2,626	2,626	46	9	1,201	38	7,507
	<b>49,547</b>	<b>179,942</b>	<b>476,990</b>	<b>188,953</b>	<b>61,505</b>	<b>206,286</b>	<b>58,314</b>	<b>31,849</b>	<b>1,253,386</b>
Expense									
Salaries and Benefits	41,367	156,101	86,344	23,406	50,971	62,055	3,853	10,008	434,105
Goods and Services	21,480	16,421	80,942	81,426	5,946	35,322	19,523	4,237	265,297
Interest	1,681	573	7,028	6,470	77	1,161	189	807	17,986
Amortization	6,935	5,414	47,856	32,533	1,503	2,046	5,073	1,647	103,007
Transfers and Other	(20,024)	6,796	1,676	9,736	1,521	108,795	39,025	3,420	150,945
	<b>51,439</b>	<b>185,305</b>	<b>223,846</b>	<b>153,571</b>	<b>60,018</b>	<b>209,379</b>	<b>67,663</b>	<b>20,119</b>	<b>971,340</b>
Net surplus (deficit)	<b>(1,892)</b>	<b>(5,363)</b>	<b>253,144</b>	<b>35,382</b>	<b>1,487</b>	<b>(3,093)</b>	<b>(9,349)</b>	<b>11,730</b>	<b>282,046</b>

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**22. Segmented disclosure (continued)**

									2015
(\$000s)	General Government	Protection	Transportation	Environmental	Health	Social Services	Housing	Planning and Culture	Total
<b>Revenue</b>									
Property taxes	32,570	146,144	132,856	37,396	20,559	37,409	35,016	21,409	463,359
Government transfers	4,088	8,715	179,696	-	38,644	150,312	13,187	293	394,935
User fees & service charges	2,619	19,400	50,149	119,900	351	10,627	14,240	1,060	218,346
Development Charges	459	358	39,059	14,935	112	-	-	79	55,002
Other	336	19	-	-	-	4	912	92	1,363
Investment income	1,028	15	3,766	2,377	3	-	1,242	36	8,467
	<b>41,100</b>	<b>174,651</b>	<b>405,526</b>	<b>174,608</b>	<b>59,669</b>	<b>198,352</b>	<b>64,597</b>	<b>22,969</b>	<b>1,141,472</b>
<b>Expense</b>									
Salaries and Benefits	38,676	147,412	82,135	22,739	48,894	60,922	4,352	9,627	414,757
Goods and Services	39,676	18,493	54,836	86,834	5,581	36,262	4,662	3,767	250,111
Interest	1,971	658	6,992	6,197	82	1,225	9	862	17,996
Amortization	5,444	5,634	44,962	28,891	1,218	2,008	5,140	1,572	94,869
Transfers and Other	(35,169)	4,317	(3,741)	9,566	1,818	103,153	52,879	3,531	136,354
	<b>50,598</b>	<b>176,514</b>	<b>185,184</b>	<b>154,227</b>	<b>57,593</b>	<b>203,570</b>	<b>67,042</b>	<b>19,359</b>	<b>914,087</b>
Net surplus (deficit)	<b>(9,498)</b>	<b>(1,863)</b>	<b>220,342</b>	<b>20,381</b>	<b>2,076</b>	<b>(5,218)</b>	<b>(2,445)</b>	<b>3,610</b>	<b>227,385</b>