

Consolidated financial statements of

**The Regional Municipality
of Waterloo**

December 31, 2017

The Regional Municipality of Waterloo

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the The Regional Municipality of Waterloo, which comprise the consolidated statement of financial position as at December 31, 2017, 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 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.



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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, 2017 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada
May 9, 2018

The Regional Municipality of Waterloo
Consolidated Statement of Financial Position
as at December 31, 2017 (in thousands of dollars)

	2017	2016
	(\$000s)	(\$000s)
Financial assets		
Cash	111,207	187,602
Accounts receivable	196,014	185,211
Other assets	6,097	5,951
Investments (Note 3)	169,143	172,781
Long-term receivables (Note 7)	191,481	189,240
Total financial assets	673,942	740,785
Liabilities		
Accounts payable	128,626	95,149
Other liabilities	73,255	109,964
Deferred revenue (Note 4)	49,596	87,563
Mortgages payable (Note 5)	3,783	4,048
Long-term liabilities (Note 7)	882,792	861,348
Employee future benefits liability (Note 11)	194,118	177,831
Landfill closure & post-closure liability (Note 12)	64,470	61,898
Contaminated sites liability (Note 13)	722	722
Total liabilities	1,397,362	1,398,523
Net Debt	(723,420)	(657,738)
Non-financial assets		
Tangible capital assets (Note 16)	3,205,905	2,943,436
Inventory	7,076	6,249
Prepaid expenses	10,381	10,148
Total non-financial assets	3,223,362	2,959,833
Accumulated surplus (Note 17)	2,499,942	2,302,095

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, 2017 (in thousands of dollars)

	2017 Budget (Note 20) (\$000s)	2017 Actual (\$000s)	2016 Actual (\$000s)
Revenue			
Property taxes	505,823	510,287	487,189
Government transfers			
Canada	71,175	81,459	131,607
Ontario	294,512	299,324	312,883
User fees, fines and service charges	219,306	224,438	221,426
Development charges earned	76,971	76,971	65,386
Investment income	7,496	7,338	7,507
Other	3,700	918	2,673
Total revenue	1,178,983	1,200,735	1,228,671
Expense			
General government	58,253	59,764	58,509
Police and other protective services	193,866	194,231	185,305
Transportation services	215,203	206,831	192,061
Environmental services	164,817	160,279	153,571
Health services	64,459	62,272	60,018
Social and family services	205,136	207,992	198,116
Housing	86,865	91,585	78,926
Planning and culture	20,074	19,934	20,119
Total expense	1,008,673	1,002,888	946,625
Annual surplus	170,310	197,847	282,046
Accumulated surplus, beginning of year		2,302,095	2,020,049
Accumulated surplus, end of year (Note 17)		2,499,942	2,302,095

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, 2017 (in thousands of dollars)

	2017	2016
	Actual	Actual
	(\$000s)	(\$000s)
Annual Surplus	197,847	282,046
Acquisition of tangible capital assets	(369,104)	(477,967)
Amortization of tangible capital assets	103,313	103,007
Loss on disposal of tangible capital assets	2,710	3,233
Proceeds on disposal of tangible capital assets	612	155
Change due to tangible capital assets	(262,469)	(371,572)
Decrease (increase) in inventory	(827)	(173)
Decrease (increase) in prepaid expenses	(233)	591
Change in inventories and prepaid expenses	(1,060)	418
Change in net debt	(65,682)	(89,108)
Net Debt beginning of year	(657,738)	(568,630)
Net Debt end of year	(723,420)	(657,738)

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, 2017 (in thousands of dollars)

	2017	2016
	(\$000s)	(\$000s)
Operating Activities		
Annual Surplus	197,847	282,046
Non-cash charges to operations		
Amortization of tangible capital assets	103,313	103,007
Amortization of bond premium	(977)	(919)
Change in employee future benefits liability	16,287	16,164
Change in landfill closure and post-closure liability	2,572	62
Change in contaminated sites liability	-	79
Loss on sale of tangible capital assets	2,710	3,233
Change in non-cash assets and liabilities		
Accounts receivable	(10,802)	(49,900)
Other assets	(146)	(1,040)
Accounts payable	36,223	(5,837)
Other liabilities	(39,457)	39,784
Deferred revenue	(37,968)	8,332
Inventory	(827)	(173)
Prepaid expense	(233)	591
Net change in cash from operating activities	268,542	395,429
Capital Activities		
Acquisition of tangible capital assets	(369,104)	(477,967)
Proceeds on sale of tangible capital assets	612	155
Net change in cash from capital activities	(368,492)	(477,812)
Investing activities		
Proceeds from disposals and redemptions of investments	31,889	31,315
Acquisition of investments	(26,969)	(37,595)
Investment funds interest reinvested	(305)	(313)
Net change in cash from investing activities	4,615	(6,593)
Financing transactions		
Net long-term liabilities incurred	70,458	94,219
Net long-term liabilities repaid	(51,255)	(45,715)
Mortgage repaid	(263)	(263)
Net change in cash from financing transactions	18,940	48,241
Net change in cash and cash equivalents	(76,395)	(40,735)
Cash beginning of year	187,602	228,337
Cash end of year	111,207	187,602

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, 2017
(in thousands of dollars)

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 594,100 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 Waterloo Economic Development Corporation, 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 \$136 (2016 - \$129) 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, 2017
(in thousands of dollars)

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 55,378 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.

ix) Comparative Information

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

2. Contributions to non-consolidated entities

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

	2017	2016
	(\$000s)	(\$000s)
Grand River Conservation Authority	6,315	6,162
Waterloo Region Municipalities Insurance Pool	1,981	1,840
Waterloo Economic Development Corporation	900	900
Region of Waterloo Arts Fund	393	243
Waterloo Regional Heritage Foundation	106	106
	9,695	9,251

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

3. Investments

Investment activities are governed by the Municipal Act and the Region's consolidated investment policy. Investments of \$169,143 (2016 - \$172,781) are recorded at cost. The investments have a market value of \$170,184 (2016 - \$173,783) at the end of the year. The market value represents the realizable value of the investments if they were sold at December 31, 2017. Investments by type of issuer are listed below:

Issuer	2017 (\$000s)	2016 (\$000s)
Restricted Cash	60	44
Government Agencies	-	2,005
Provincial Governments	56,025	51,896
Canadian Municipalities	44,521	45,753
Schedule 1 Canadian Banks	54,359	59,211
Investment Funds	14,178	13,872
Total	169,143	172,781

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, 2016	Inflows	Revenue Recognized	Balance at December 31, 2017
Development Charges	66,408	55,947	(76,971)	45,384
Federal Gas Tax	21,155	16,833	(33,776)	4,212
Total	87,563	72,780	(110,747)	49,596

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 or made the related debt payment 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, 2017
(in thousands of dollars)

5. Mortgages payable

On January 1, 2015, two community housing properties were transferred to the Region of Waterloo Community Housing Inc., a wholly-owned Regional corporation. The associated mortgages outstanding are as follows:

	2017	2016
	(\$000s)	(\$000s)
199 Elmridge Dr., Kitchener - 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%	495	672
86 Elgin St., Cambridge - The mortgage payable is secured by certain assets of the corporation. The mortgage was renewed for a three year term effective October 1, 2017 and is repayable in blended monthly instalments of \$14 bearing interest at 2.68%	3,288	3,376
	3,783	4,048

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 2017 was \$32,521 (2016 - \$31,906) for current service of 4,173 eligible employees and is included as an expense on the consolidated statement of operations and accumulated surplus. Contributions were made in 2017 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 funded ratio of plan assets to pension obligations for 2017 is 94% (2016 - 93.4%).

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

7. Net long-term liabilities

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

	2017	2016
	(\$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	913,064	883,667
The total value of the Region's own sinking fund	(30,272)	(22,319)
Total long-term liabilities	882,792	861,348
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:	(191,471)	(189,224)
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:	(10)	(16)
Total long-term receivables	(191,481)	(189,240)
Net long-term liabilities, end of year	691,311	672,108

- 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)
2018-2022	245,279
2023-2027	163,743
2028-2032	108,802
2033-2037	74,145
2038-2042	54,851
2043 onwards	44,491
	691,311

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
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7. Net long-term liabilities (continued)

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

	2017	2016
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	474,627	486,542
Wastewater rate revenue	124,340	97,315
Development charge collections	89,756	83,261
Water rate revenue	2,588	4,990
	691,311	672,108

d) Long-term liabilities include sinking fund debentures issued in the amount of \$242,230 (2016 - \$242,230) of which \$237,099 (2016 - \$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 \$32,145 (2016 - \$23,249) of which \$30,272 (2016 - \$22,319) 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, 2017, the amount of the long term liability was \$130,254 (2016 - \$130,652) and is included in net long term liabilities.

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.

	2017	2016
	(\$000s)	(\$000s)
City of Kitchener	77,889	84,859
Waterloo Region District School Board	40,561	45,008
City of Cambridge	39,801	26,179
City of Waterloo	15,945	13,879
Waterloo Catholic District School Board	10,274	11,685
Township of Woolwich	3,620	3,843
Township of North Dumfries	1,527	1,711
Township of Wilmot	1,132	1,230
Township of Wellesley	722	830
Property Owners (Tile Drainage)	10	16
Total debentures assumed by others	191,481	189,240

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

8. Payments for net long-term liabilities

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

	2017	2016
	(\$000s)	(\$000s)
Principal payments including contributions to the sinking fund	51,255	45,715
Interest	21,159	17,986
	72,414	63,701

The interest rates on debt outstanding at December 31, 2017 ranged from 1.05% to 7.10%.

The following revenues were collected to meet these payments:

	2017	2016
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	46,164	50,949
Development charge collections	16,733	6,749
Wastewater rate revenue	6,920	3,403
Water rate revenue	2,597	2,600
	72,414	63,701

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, 2017 is \$5,672 (2016 - \$7,436) and principal repayments are scheduled as follows:

	(\$000s)
2018 - 2022	4,832
2023 - 2026	840
	<u>5,672</u>

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 2017 of 2.7% (2016 - 2.2%) per annum. At December 31, 2017, the Region's bank indebtedness using the operating credit facility was \$0 (2016 - \$0).

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

11. Employee future benefits liability

Summary of employee future benefits

(\$000s)	Region (excluding WRPS)	WRPS	2017	2016
Future payments required for:				
Post employment benefits	18,735	101,247	119,982	109,716
Sick leave	22,343	37,085	59,428	54,005
Workplace Safety & Insurance Board	5,065	9,643	14,708	14,110
Total	46,143	147,975	194,118	177,831

Post employment benefits

The Region provides post employment benefits to qualifying employees up to the age of 65 consisting of Extended Health Care, Out-of-Province Travel Benefits, Dental, Life Insurance, and Accidental Death and Dismemberment. For WRPS retirees, Dental coverage, if so elected, is recovered from the member; Life Insurance and Accidental Death and Dismemberment are 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, 2017 and it was determined that the liability for present and future benefits is \$119,982 (2016 - \$109,716). The calculations were based on a discount rate of 3.4% (2016 – 3.4%) and an inflation rate for benefits of 2.0% (2016 – 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, 2017, 29% 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 \$59,428 (2016 - \$54,005). Approximately 45% of this amount is eligible to be paid in cash upon employee termination and the remaining 55% would be taken in the form of future year absences. The amount paid to employees who left the Region's employment in 2017 amounted to \$1,728 for the Regional portion (2016 - \$988) and \$1,433 for WRPS (2016 - \$741) totaling \$3,161 (2016 - \$1,729).

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 \$2,604 (2016 – \$2,619) to partially provide for the Regional portion of this liability is included in the accumulated surplus (note 17).

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

11. Employee future benefits liability (continued)

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

(\$000s)	Region		2017
	(excluding WRPS)	WRPS	
2018	4,091	3,388	7,479
2019	1,761	1,271	3,032
2020	2,058	2,153	4,211
2021	2,608	1,882	4,490
2022	2,467	1,408	3,875
	12,985	10,102	23,087

Workplace Safety & Insurance Board (WSIB)

The Region is responsible for any costs awarded under the Workers' Compensation Act. During 2017, the Region paid \$1,660 (2016 - \$1,242) in such costs for employees. The liability for present and future awards is \$14,708 (2016 - \$14,110). The calculations were based on a discount rate of 3.1% (2016 - 2.6%) and an inflation rate for benefits of up to 2.0% (2016 - 2.0%). An amount of \$12,439 (2016 - \$12,687) 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 active landfill site and owns and monitors five closed landfill sites. The active site has a remaining capacity of 35% or 5.78 million m³ and has an estimated life expectancy of 15-20 years. The present value of the expected closure and post-closure costs of the active 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 \$64,470 (2016 - \$61,898) 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 (2016 - \$722) 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.

The Regional Municipality of Waterloo

Notes to the Consolidated Financial Statements

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14. Public liability insurance

In 1998, the Region and the seven area municipalities comprising the Region formed 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, 2017 amounted to \$4,446 (2016 - \$4,454). The provision for the year of \$4,101 (2016 - \$3,987) was transferred to the insurance reserve.

During the year, 1,549 (2016 – 946) claims were settled for \$409 (2016 - \$559) 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, 2017 the Region has been named defendant, co-defendant or plaintiff in a number of outstanding legal actions. The Region has also received claims for additional costs on construction projects. 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.

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2017
(in thousands of dollars)

16. Tangible capital assets

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

Cost	Balance at December 31, 2016	Additions	Disposals	Balance at December 31, 2017
Land	92,620	14,417		107,037
Land improvements	141,096	13,128		154,224
Buildings	496,247	81,946	153	578,040
Vehicles	159,278	27,750	9,193	177,835
Machinery and equipment	138,810	35,169	2,152	171,827
Roads and bridges	1,224,506	73,441	19,145	1,278,802
Water and wastewater	1,068,307	114,605		1,182,912
Transit rail line	-	583,716		583,716
Total Cost	3,320,864	944,172	30,643	4,234,393

Accumulated Amortization	Balance at December 31, 2016	Disposals	Amortization Expense	Balance at December 31, 2017
Land improvements	66,318	-	7,432	73,750
Buildings	215,842	12	16,491	232,321
Vehicles	99,150	9,193	13,630	103,587
Machinery and equipment	81,204	2,128	10,083	89,159
Roads and bridges	394,924	15,987	32,261	411,198
Water and wastewater	537,979	-	23,416	561,395
Transit rail line	-	-	-	-
Total Accumulated amortization	1,395,417	27,320	103,313	1,471,410

Net Book Value	Net Book Value December 31, 2016	Net Book Value December 31, 2017
Land	92,620	107,037
Land improvements	74,778	80,474
Buildings	280,405	345,719
Vehicles	60,128	74,248
Machinery and equipment	57,606	82,668
Roads and bridges	829,582	867,604
Water and wastewater	530,328	621,517
Transit rail line	-	583,716
Total net book value	1,925,447	2,762,983
Construction work in progress	334,311	377,512
Construction work in progress -LRT	683,678	65,410
Total tangible capital assets	2,943,436	3,205,905

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16. Tangible capital assets (continued)

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
Transit rail lines	50 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:

As at December 31	2017	2016
	(\$000s)	(\$000s)
Surplus:		
Invested in tangible capital assets	3,205,905	2,943,436
Accumulated surplus on operations	134,908	172,399
Amounts to be Recovered		
From future revenue		
Net long term liabilities	(691,311)	(672,108)
Employee future benefits	(179,075)	(162,525)
Landfill closure and post closure liability	(64,470)	(61,898)
Contaminated sites liability	(722)	(722)
From other municipalities and school boards		
Net long term liabilities	(191,481)	(189,240)
From Reserve Funds		
Employee future benefits	(2,604)	(2,619)
Workplace safety and insurance	(12,439)	(12,687)
Total Surplus	2,198,711	2,014,036
Reserves set aside by Council for:		
Capital	128,103	118,191
Community Housing	44,435	53,068
Equipment replacement	33,773	31,771
Contingencies and stabilization	26,782	29,186
Waterloo Regional Police Services	10,873	11,886
Library	885	1,114
Public art	855	382
Heritage resources	161	233
Program specific	1,503	1,287
Total Reserves	247,370	247,118
Reserve Funds set aside for specific purposes by Council for:		
Regional Transportation Master Plan	23,503	10,840
Workplace Safety and Insurance Board	12,439	12,687
Benefits and Insurance	12,696	11,962
Brownfield Financial Incentives	2,973	2,902
Provincial Gas Tax	2,250	2,550
Total Reserve Funds	53,861	40,941
Accumulated Surplus	2,499,942	2,302,095

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18. Commitments and Contractual Obligations

Lease commitments

At the end of 2017, the Region is responsible for total lease commitments of approximately \$6,666 (2016 - \$4,778) relating to equipment and buildings.

		Maturity Date	Amount (\$000s)
Office space	Varying maturities to	2020	4,816
Other	Varying maturities to	2040	1,850
Total commitments			6,666

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 \$10,303 (2016 - \$9,711) 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 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. 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 Increment Grants (“TIGs”), which are one of the components of the BFIP, provide eligible developers with a grant to offset the cost of remediation. Council approved TIGs totaling \$13,539 will be funded from the reserve fund and future property tax revenue. The Brownfield Incentive Reserve Fund balance is \$2,973 (2016 - \$2,902).

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19. Related party transactions

Included in the Sinking Fund investments is a bond investment transfer on December 1, 2017 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, 2017 of \$731.

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

	2017	2016
	(\$000s)	(\$000s)
Budgeted Operating Surplus/(Deficit)	-	-
Add: Revenues not included in Budgeted Operating Surplus		
Development Charges	76,971	65,386
Deferred Federal Gas Tax Revenue	33,776	22,221
Capital Grants (Federal and Provincial)	75,528	196,523
Interest Revenue for Reserves and Reserve Funds	7,024	7,062
Less: Revenues not included in PSAB		
Internal Transfers to Reserves	(58,050)	(61,948)
Add: Operating Expenses not in PSAB		
Sick Leave, Insurance and Other Transfers	158,400	152,232
Principal Repayments	49,668	44,853
Less: Expenses not included in Budgeted Operating Surplus		
Amortization of Tangible Capital Assets	(103,313)	(103,007)
Operating Expenses in Capital	(50,835)	(64,379)
Change in Actuarial Estimates	(16,287)	(16,163)
Change in Landfill Post Closure	(2,572)	(62)
Change in Contaminated Sites	-	(80)
Operating Expenses in Reserves & Reserve Funds	-	(5,273)
Consolidated Financial Statement Budget Surplus	170,310	237,365

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

	2017	2016
	(\$000s)	(\$000s)
Operating Surplus/(Deficit)		
Regional tax supported programs	5,994	2,732
Region of Waterloo Library Board	77	83
Region of Waterloo Community Housing Inc.	143	120
Waterloo Regional Police Services Board	1,705	1,742
Regional water and wastewater programs	(2,404)	(4,565)
Total Operating Surplus	5,515	112
Add: Revenues not included in Operating Surplus		
Development Charges	76,971	65,386
Federal Gas Tax Revenue	33,776	22,221
Capital Grants (Federal and Provincial)	75,528	196,523
Add: Expenses included in Operating Surplus, but not in Consolidated Statements		
Transfers to Reserves and Reserve funds	129,312	141,788
Principal Repayments	49,752	44,980
Less: Expenses not included in Operating Surplus		
Amortization of Tangible Capital Assets	(103,313)	(103,007)
Operating Expenses in Capital	(50,835)	(64,379)
Change in Actuarial Estimates	(16,287)	(16,164)
Change in Landfill Closure & Post Closure Estimate	(2,572)	(62)
Change in Contaminated Sites Estimate	-	(79)
Operating Expenses in Reserves & Reserve Funds	-	(5,273)
Consolidated Financial Statement Surplus	197,847	282,046

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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)

									2017
(\$000s)	General Government	Protection	Transportation	Environmental	Health	Social Services	Housing	Planning and Culture	Total
Revenue									
Property taxes	37,656	157,843	155,675	38,735	23,890	37,474	40,550	18,464	510,287
Government transfers	6,397	9,604	129,622	4	40,127	161,682	32,867	480	380,783
User fees & service charges	16,700	14,979	35,403	132,009	333	9,980	13,752	1,282	224,438
Development charges	1,077	1,380	47,790	26,357	301	-	-	66	76,971
Other	81	12	-	-	-	8	715	102	918
Investment income	1,235	311	1,764	2,787	65	8	1,130	38	7,338
	63,146	184,129	370,254	199,892	64,716	209,152	89,014	20,432	1,200,735
Expense									
Salaries and Benefits	43,294	163,619	87,184	24,018	52,947	61,661	4,968	9,927	447,618
Goods and Services	22,433	17,321	62,030	87,319	5,839	33,509	19,457	4,206	252,114
Interest	1,938	626	9,199	7,617	71	1,178	167	363	21,159
Amortization	7,114	4,891	49,142	31,564	1,561	2,345	5,118	1,578	103,313
Transfers and Other	(15,015)	7,774	(724)	9,761	1,854	109,299	61,875	3,860	178,684
	59,764	194,231	206,831	160,279	62,272	207,992	91,585	19,934	1,002,888
Net surplus (deficit)	3,382	(10,102)	163,423	39,613	2,444	1,160	(2,571)	498	197,847

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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	42,200	150,186	140,984	38,929	21,547	36,742	38,013	18,588	487,189
Government transfers	3,701	9,004	218,796	-	39,589	158,175	3,407	11,818	444,490
User fees & service charges	8,310	20,086	37,553	128,522	340	11,356	13,979	1,280	221,426
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
	56,617	179,942	445,205	188,953	61,505	206,286	58,314	31,849	1,228,671
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	49,157	81,426	5,946	35,322	19,523	4,237	233,512
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	(12,954)	6,796	1,676	9,736	1,521	97,532	50,288	3,420	158,015
	58,509	185,305	192,061	153,571	60,018	198,116	78,926	20,119	946,625
Net surplus (deficit)	(1,892)	(5,363)	253,144	35,382	1,487	8,170	(20,612)	11,730	282,046