

Media Release: Friday, May 8, 2015, 4:30 p.m.

## **Regional Municipality of Waterloo**

### **Audit Committee**

#### **Agenda**

Wednesday, May 13, 2015

2:00 p.m.

Room 217

150 Frederick Street, Kitchener, Ontario

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- 1. Declarations of Pecuniary Interest under the “Municipal Conflict of Interest Act”**
  - 2. Reports – Finance**
    - a) [COR-FSD-15-10](#), Annual Financial Statements 3
  - 3. Presentations**
    - a) Elaine Read, Deloitte LLP - Outline of 2014 [Audit Findings](#) 51
  - 4. Motion to Go Into Closed Session**

That a closed meeting of the Audit Committee be held on Wednesday, May 13, 2015 at 2:00 p.m. in Room 217 at 150 Frederick Street in accordance with Section 239 of the Municipal Act, 2001, for the purposes of considering the following subject matters:

    - a) the security of the property of the municipality
    - b) personal matters about an identifiable individual, including municipal employees
  - 5. Information/Correspondence**
  - 6. Other Business**
  - 7. Next Meeting**
  - 8. Adjourn**





**Report:** COR-FSD-15-10

**Region of Waterloo**  
**Corporate Services**  
**Financial Services and Development Financing**

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**To:** Chair Sean Strickland and Members of the Audit Committee

**Date:** May 13, 2015      **File Code:** F10-20

**Subject:** Annual Financial Statements

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**Recommendation:**

That the Regional Municipality of Waterloo approve the Consolidated Financial Statements, the Sinking Fund Financial Statements, and the Trust Fund Financial Statements, all for the fiscal year ending December 31, 2014.

**Summary:** Nil

**Report:**

Section 294.1 of the “Municipal Act, 2001” (the Act) provides that a municipality shall, for each fiscal year, prepare annual financial statements in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board.

The Region’s 2014 Consolidated Financial Statements, Sinking Fund Financial Statements and Trust Fund Financial Statements are attached for review and approval by the Audit Committee. Final signed versions of the statements will be produced following Regional Council approval on June 3, 2015.

Representatives from the Region’s auditing firm Deloitte LLP will be at the meeting to present their audit findings and answer questions relating to the statements. These statements mark the fourth year of the Region’s five year contract with Deloitte. In addition to the statements presented herein, Deloitte completes a number of special purpose audits, which relate to funding and service agreements with the provincial and federal governments.

## 1) Consolidated Financial Statements

The consolidated financial statements show the results of all regional operations and activities, including those of the Waterloo Regional Police Services and Library Boards. Noteworthy items included in this year's consolidated financial statements include:

- Financial statement and note disclosure (notes 6 and 18) relating to the Region's Light Rail Transit Project;
- New actuarial evaluations of the Region's employee future benefits and workplace safety and insurance liabilities, along with additional disclosure of such liabilities relating to Police and the Region (note 12);
- Increased landfill closure and post closure liabilities (note 13), largely related to a reduction in the discount rate used to calculate such liabilities; and
- Note disclosure (note 19) of a "subsequent event" relating to the acquisition by the Region of Waterloo Community Housing Corporation Inc. (wholly owned by the Region) of the two LaCapanna housing properties on January 1, 2015.

Similar to last year and the year before, a number of improvements to the note disclosure have been implemented to provide for a clearer understanding of various components of the Region's financial statements.

### Surplus Reconciliation

The Region's 2014 property tax surplus was \$3,012,000 (excluding police and library) and was reported to Administration and Finance Committee on April 14, 2015 (Report COR-TRY-15-35). The Region's consolidated surplus for 2014, as presented in these financial statements is \$87,284,000. Note 22 of the financial statements is a reconciliation of the 2014 operating surplus and the 2014 consolidated financial statement surplus. As outlined in the note, there are significant accounting adjustments required in order to comply with generally accepted accounting principles which have a dramatic impact on the presentation of municipal surplus.

The difference between the two figures is in part due to the audited financial statements being prepared on a consolidated basis (including water and wastewater for example), and in part due to the impact of different accounting practices utilized for financial reporting purposes and budgeting/tax levy purposes. For example, for financial statement purposes all transfers to Reserves and Reserve Funds are eliminated while amortization expense of tangible capital assets is included. In addition, in 2014 the difference was also due to the recording of \$33.7 million in provincial revenue for the Region's Rapid Transit project, which flows directly to the financial statement surplus. Large surpluses relating to this project will continue over the next three years as the Region receives provincial and federal funds during construction.

In the end, the two surplus presentations serve two different purposes, with the property tax surplus providing Council with a year-end position relative to the property tax levy and the consolidated financial statement surplus meeting reporting requirements of the Province of Ontario and the Public Sector Accounting Board.

## **2) Sinking Fund Financial Statements**

The Regional Sinking Fund is established to retire sinking fund debentures issued by the Region for its own purposes, for area municipality purposes, and up to 2007 for school board purposes. The defining characteristic of a sinking fund debenture is that the entire principal amount is repayable at the end of the term (usually 20 or 30 years).

Contributions are made to the sinking fund over the life of the debenture. These contributions, along with related investment income, are used to pay the principal at maturity.

The Sinking Fund balance has dropped significantly over the last two years as 20 year sinking fund debentures issued in 1992 and 1993 have matured. That being said, the Sinking Fund balance will increase in the coming years due to the following Regional sinking fund debenture issues:

1. \$9 m/20 year debenture issued in 2000, for which contributions will commence in 2016.
2. \$9.4 m/20 year debenture issued in 2001 for which contributions will continue through 2021;
3. \$18.6 m/20 year debenture issued in 2012 for which contributions will commence in 2023;
4. \$50 m/30 year debenture and \$95 m/20 year debenture issued in May 2013, for which contributions commenced in 2014;
5. \$50 m/30 year debenture issued in April 2014, for which contributions will commence in 2015.

The financial statements reflect the activity and position of the Sinking Fund for the period ending December 31, 2014.

## **3) Trust Fund Financial Statements**

The Region is required, under the provisions of the “Long-Term Care Homes Act, 2007”, to maintain and manage trust funds on behalf of the residents of Sunnyside Home. The financial statements reflect the activity and position of the Trust Fund for the period ending December 31, 2014. No significant changes are noted.

**Notice**

The Municipal Act requires that the Treasurer of a municipality publish in a newspaper of general circulation either a copy of the audited financial statements or a notice that the audited financial statements are available to the public at no cost. Staff will publish such notice; post the audited financial statements on the Region's website, and make available a printed copy upon request to comply with the provisions of the Act.

**2015 Financial Statements**

Accounting standards are changing for the 2015 fiscal year with respect to the reporting of liabilities for contaminated sites. The new standard requires the municipalities to identify all sites that are not in productive use and are contaminated or likely contaminated. Each contaminated site will need to be evaluated against specific recognition criteria and a corresponding financial liability developed. The Region has engaged Deloitte to assist in this process. The timeline is as follows:

February 2015 – Divisional and Finance staff receive training from Deloitte

April 2015 – Divisions determine regional sites that are contaminated and no longer in productive use

May/June 2015 – Review each contaminated site to determine if a liability should be estimated

July – Sept 2015 – Perform site evaluations and/or consulting estimates as required

November 2015 – Update to Audit Committee

Spring 2016 – Include liability for contaminated sites in December 31, 2015 consolidated financial statements

**Corporate Strategic Plan:**

This report supports Focus Area 5, Service Excellence of the 2011-2014 Corporate Strategic Plan and specifically objective 5.3 to ensure Regional programs and services are efficient and effective and demonstrate accountability to the public.

**Financial Implications:**

The Region's 2014 consolidated financial statements include an accumulated surplus of \$1.8 billion. This surplus, presented in accordance with Public Sector Accounting Board requirements, is comprised of tangible capital assets (net of amortization) which will be utilized by the Region to deliver services to the public in the future, accumulated operational surplus and reserves and reserve funds, net of amounts to be recovered in the future.

**Other Department Consultations/Concurrence:**

All regional departments and services participate in the Region's year end process.

**Attachments:**

Appendix 1 – Draft Consolidated Financial Statements for the period ending Dec. 31/14

Appendix 2 – Draft Sinking Fund Financial Statements for the period ending Dec. 31/14

Appendix 3 – Draft Trust Fund Financial Statements for the period ending Dec. 31/14

**Prepared By:** Peter Holling, Manager, Financial Services

**Approved By:** Craig Dyer, Commissioner of Corporate Services/Chief Financial Officer

Appendix 1

Consolidated financial statements of

**The Regional Municipality of Waterloo**

December 31, 2014

DRAFT



**The Regional Municipality of Waterloo**

December 31, 2014

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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, 2014, 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, 2014 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, 2014 (in thousands of dollars)

	2014	2013
	(\$000s)	(\$000s)
<b>Financial assets</b>		
Cash	254,323	205,514
Accounts receivable	84,298	53,829
Other current assets	2,275	2,473
Investments (Note 3)	159,137	154,996
Long-term receivables (Note 6)	211,514	220,940
Loans receivable (Note 4)	2,830	2,908
<b>Total financial assets</b>	<b>714,377</b>	<b>640,660</b>
<b>Liabilities</b>		
Accounts payable	61,971	65,765
Other current liabilities	53,066	56,080
Deferred revenue (Note 5)	91,845	84,320
Long-term liabilities (Note 6)	828,862	649,064
Employee future benefits liability (Note 12)	149,173	133,662
Landfill closure and post-closure liability (Note 13)	60,509	47,535
<b>Total liabilities</b>	<b>1,245,426</b>	<b>1,036,426</b>
<b>Net Financial Debt</b>	<b>(531,049)</b>	<b>(395,766)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 16)	2,304,618	2,088,106
Inventory	5,495	4,704
Prepaid expenses	13,600	8,336
<b>Total non-financial assets</b>	<b>2,323,713</b>	<b>2,101,146</b>
<b>Accumulated surplus (Note 17)</b>	<b>1,792,664</b>	<b>1,705,380</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, 2014 (in thousands of dollars)**

	2014 Budget (Note 21) (\$000s)	2014 Actual (\$000s)	2013 Actual (\$000s)
<b>Revenue</b>			
Property taxes	442,791	446,376	430,701
Government transfers			
Canada	23,472	19,629	30,894
Ontario	231,322	237,871	191,361
User fees and service charges	193,332	200,954	189,779
Fines (Note 8)	8,380	6,573	7,861
Development charges earned	50,246	50,246	39,145
Investment income	8,960	8,978	9,092
Other	377	385	1,062
<b>Total revenue</b>	<b>958,880</b>	<b>971,012</b>	<b>899,895</b>
<b>Expense</b>			
General government	52,449	47,813	48,740
Protection to persons and property	176,674	173,603	159,793
Transportation services	177,907	179,404	181,348
Environmental services	153,613	150,428	134,617
Health services	57,140	55,506	65,416
Social and family services	191,532	195,843	191,215
Social housing	61,118	61,931	59,253
Planning and culture	16,790	19,200	23,921
<b>Total expense</b>	<b>887,223</b>	<b>883,728</b>	<b>864,303</b>
Annual surplus	71,657	87,284	35,592
Accumulated surplus, beginning of year		1,705,380	1,669,788
<b>Accumulated surplus, end of year (Note 17)</b>		<b>1,792,664</b>	<b>1,705,380</b>

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, 2014 (in thousands of dollars)**

	2014 Actual (\$000s)	2013 Actual (\$000s)
<b>Annual Surplus</b>	<b>87,284</b>	<b>35,592</b>
Acquisition of tangible capital assets	(124,146)	(218,455)
Decrease (increase) in assets under construction	(184,624)	14,385
Amortization of tangible capital assets	91,704	85,234
(Gain) loss on disposal of tangible capital assets	34	(606)
Proceeds on disposal of tangible capital assets	520	3,581
<b>Change due to tangible capital assets</b>	<b>(216,512)</b>	<b>(115,861)</b>
Increase in inventory	(791)	(379)
Decrease / (increase) in prepaid expenses	(5,264)	1,832
<b>Change in inventories and prepaid expenses</b>	<b>(6,055)</b>	<b>1,453</b>
Change in net debt	(135,283)	(78,816)
Net Debt beginning of year	(395,766)	(316,950)
<b>Net Debt end of year</b>	<b>(531,049)</b>	<b>(395,766)</b>

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, 2014 (in thousands of dollars)

	2014	2013
	(\$000s)	(\$000s)
<b>Operating Activities</b>		
Annual Surplus	87,284	35,592
Non-cash charges to operations		
Amortization of tangible capital assets	91,704	85,234
Amortization of bond premium	(1,107)	(1,365)
Change in employee future benefits liability	15,511	9,136
Change in landfill closure and post-closure liability	12,974	2,523
(Gain) loss on sale of tangible capital assets	34	(606)
Change in non-cash assets and liabilities		
Accounts receivable	(30,469)	10,067
Other current assets	198	(368)
Accounts payable	(3,794)	6,735
Other current liabilities	(3,014)	(12,634)
Deferred revenue	7,525	(9,117)
Inventory	(791)	(379)
Prepaid expense	(5,264)	1,832
<b>Net change in cash from operating activities</b>	<b>170,791</b>	<b>126,650</b>
<b>Capital Activities</b>		
Acquisition of tangible capital assets	(124,146)	(218,455)
Increase in assets under construction	(184,624)	14,385
Proceeds on sale of tangible capital assets	520	3,581
<b>Net change in cash from capital activities</b>	<b>(308,250)</b>	<b>(200,489)</b>
<b>Investing activities</b>		
Proceeds from disposals and redemptions of investments	29,683	31,366
Acquisition of investments	(32,679)	(9,303)
Decrease in notes receivable	78	-
Investment funds interest reinvested	(38)	(31)
<b>Net change in cash from investing activities</b>	<b>(2,956)</b>	<b>22,032</b>
<b>Financing transactions</b>		
Net long-term liabilities incurred	231,317	192,139
Net long-term liabilities repaid	(42,093)	(36,819)
<b>Net change in cash from financing transactions</b>	<b>189,224</b>	<b>155,320</b>
Net change in cash and cash equivalents	48,809	103,513
Cash beginning of year	205,514	102,001
<b>Cash end of year</b>	<b>254,323</b>	<b>205,514</b>

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, 2014  
 (in thousands of dollars)

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The Regional Municipality of Waterloo 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 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 Regional Municipality of Waterloo (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, operating 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") 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 6).
- iv) Trust funds administered by the Region amounting to \$127 (2013 - \$120) 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 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**  
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 (in thousands of dollars)

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

iv) Deferred revenue

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.

v) 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.

vi) 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.

vii) Investment income

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.

viii) Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of 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

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
 December 31, 2014  
 (in thousands of dollars)

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

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.

ix) 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.

x) Inventory

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

xi) 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.

xii) Loans receivable

Loans receivable are recorded at cost less any amount for valuation allowance. Valuation allowances are made when collection is in doubt. Interest is accrued on loans receivable to the extent it is deemed collectable.

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
 December 31, 2014  
 (in thousands of dollars)

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

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

	2014	2013
	(\$000s)	(\$000s)
Grand River Conservation Authority	5,867	5,695
Waterloo Region Municipalities Insurance Pool	1,929	1,822
Region of Waterloo Arts Fund	243	256
Waterloo Regional Heritage Foundation	106	112
	<b>8,145</b>	<b>7,885</b>

**3. Investments**

Investment activities are governed by the *Municipal Act* and the Region's consolidated investment policy. Investments of \$159,137 (2013 - \$154,996) are recorded at cost. The investments have a market value of \$164,049 (2013 - \$162,968) at the end of the year. The market value represents the realizable value of the investments if they were sold at December 31, 2014. Investments by type of issuer are listed below:

	2014	2013
	(\$000s)	(\$000s)
Issuer		
Government Agencies	3,167	3,136
Provincial Governments	50,225	43,362
Canadian Municipalities	47,074	56,341
Schedule 1 Canadian Banks	45,059	50,583
Investment Funds	13,612	1,574
	<b>159,137</b>	<b>154,996</b>

**4. Loans receivable**

The Region has issued interest free loans to non-profit and co-operative housing corporations which are secured through registration of a mortgage on title to the property owned by the Provider. Loans are due and payable when the corporations have stabilized and not later than five years after the maturity date of the first mortgage.

	2014	2013
	(\$000s)	(\$000s)
Loans receivable	2,830	2,908
	<b>2,830</b>	<b>2,908</b>

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
 December 31, 2014  
 (in thousands of dollars)

**5. 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, 2013	Inflows	Revenue Earned	Balance at December 31, 2014
Development Charges	67,890	48,576	(50,198)	66,268
Developers Deposits	753	566	(49)	1,270
Federal Gas Tax	15,677	15,576	(6,946)	24,307
<b>Total</b>	<b>84,320</b>	<b>64,718</b>	<b>(57,193)</b>	<b>91,845</b>

**6. Net long-term liabilities**

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

	2014 (\$000s)	2013 (\$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 amount to:	837,070	651,891
The total value of the Region's own sinking fund amounts to:	(8,208)	(2,827)
<b>Total long-term liabilities</b>	<b>828,862</b>	<b>649,064</b>
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:	(211,472)	(220,890)
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:	(42)	(50)
<b>Total long-term receivables</b>	<b>(211,514)</b>	<b>(220,940)</b>
<b>Net long-term liabilities, end of year</b>	<b>617,348</b>	<b>428,124</b>

**The Regional Municipality of Waterloo**  
**Notes to the Consolidated Financial Statements**  
December 31, 2014  
(in thousands of dollars)

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

- 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)
2015-2019	207,920
2020-2024	137,402
2025-2029	78,606
2030-2034	78,804
2035-2039	46,746
2040-2044	67,870
	<u>617,348</u>

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

	2014	2013
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	477,211	307,282
Development charge collections	90,438	70,000
Wastewater rate revenue	40,198	39,220
Water rate revenue	9,501	11,622
	<u>617,348</u>	<u>428,124</u>

- d) Long-term liabilities include sinking fund debentures issued in the amount of \$242,230 (2013 - \$192,230) of which \$237,099 (2013 - \$187,099) is the Region's share. Annual payments to the sinking fund will be made to finance the repayment of the debentures as they mature. During 2014, surplus funding of \$214 related to sinking fund debentures which were retired in 2012 and 2013 was distributed to participants. New sinking fund debentures of \$50,000 were issued in 2014 for which contributions will commence in 2015. Accumulated contributions to and earnings of the sinking fund total \$8,208 (2013 - \$3,178) of which \$8,208 (2013 - \$2,827) 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. The Region will make annual long term financing payments to GrandLinq GP of \$10,628 during the 30 year operations and maintenance term. As at December 31, 2014, the amount of capital costs incurred was \$114,437 (2013 - \$0) and is reported on the consolidated statement of financial position as a long term liability.



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

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.

	2014	2013
	(\$000s)	(\$000s)
City of Kitchener	102,999	112,039
Waterloo Region District School Board	54,098	58,711
City of Cambridge	14,175	15,591
Waterloo Catholic District School Board	14,288	15,487
City of Waterloo	17,823	10,331
Township of Woolwich	4,268	4,470
Township of North Dumfries	2,060	2,226
Township of Wilmot	1,414	1,560
Township of Wellesley	347	475
Property Owners (Tile Drainage)	42	50
<b>Total debentures assumed by others</b>	<b>211,514</b>	<b>220,940</b>

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

**7. 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:

	2014	2013
	(\$000s)	(\$000s)
Principal payments including contributions to the sinking fund	42,093	36,819
Interest	17,079	12,733
	<b>59,172</b>	<b>49,552</b>

The interest rates on debt outstanding at December 31, 2014 ranged from 1.15% to 6.7%.

The following revenues were collected to meet these payments:

	2014	2013
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	48,519	43,134
Development charge collections	5,266	1,660
Water rate revenue	2,599	2,597
Wastewater rate revenue	2,788	2,161
	<b>59,172</b>	<b>49,552</b>

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**8. Provincial offences administration**

The Region is responsible for the administration of fines arising under *the Provincial Offences Act* ("POA"). The Region performs court support, administration and collection functions for all related fines and fees and prosecutes matters under the POA. The POA is a procedural law for administering and prosecuting provincial offences, including those committed under *the Highway Traffic Act*, *Compulsory Automobile Insurance Act*, *Trespass to Property Act*, *Liquor Licence Act*, municipal by-laws and minor federal offences. Offenders may pay their fines at any Provincial Offences court office in Ontario, at which time the receipts are recorded in the Integrated Courts Operation Network system ("ICON"). The Region recognizes fine revenue when the receipt of funds is recorded in ICON. Gross revenue for 2014 totals \$6,573 (2013 - \$7,861).

**9. 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 2014 of 2.5% (2013 - 2.5%) per annum. At December 31, 2014, the Region's bank indebtedness using the operating credit facility was \$0 (2013 - \$0).

**10. Waterloo Region Housing debt obligations**

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, 2014 is \$11,005 and principal repayments are scheduled as follows:

	(\$000s)
2015 - 2019	8,191
2020 - 2024	2,524
2025 onwards	290
	11,005

**11. 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 2014 was \$30,248 (2013 - \$29,910) for current service of 4,091 eligible employees and is included as an expense on the consolidated statement of operations and accumulated surplus. Contributions were made in 2014 at rates ranging from 9.0% to 15.9% of member earnings, depending on the member's designated retirement age and level of earnings. The OMERS funding ratio for 2014 is 90.8% (2013 - 88.2%), with the goal of being fully funded by 2025.

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**12. Employee future benefits liability**

*Summary of employee future benefits*

(\$000s)	Region		2014	2013
	(excluding WRPS)	WRPS		
Future payments required for:				
Post retirement benefits	15,912	75,306	91,218	82,730
Sick leave	19,861	27,811	47,672	38,366
Workplace Safety & Insurance Board	3,252	7,031	10,283	12,566
<b>Total</b>	<b>39,025</b>	<b>110,148</b>	<b>149,173</b>	<b>133,662</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 evaluation was completed for December 2014 and it was determined that the liability for present and future benefits is \$91,218 (2013 - \$82,730). The calculations were based on a discount rate of 3.6% (2013 - 4.75%) and an inflation rate for benefits of 2.0% (2013 - 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. At the end of December 2014, 37% of employees are entitled to this benefit. An actuarial evaluation was completed in December 2014. The actuarial liability at the end of the year for these accumulated days, assuming a 3.6% discount rate, 2.0% inflation and to the extent that they have vested was \$47,672 (2013 - \$38,366). Approximately 60% of this amount is eligible to be paid in cash upon employee termination and the remaining 40% would be in the form of future year absences.

The cost of benefits paid is provided from a sick leave reserve fund, which is funded through annual payroll charges to operations. A reserve fund of \$1,742 (2013 - \$2,244) 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 2014 amounted to \$3,188 (2013 - \$1,968).

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

(\$000s)	Region		2014
	(excluding WRPS)	WRPS	
2015	2,389	1,832	4,221
2016	784	648	1,432
2017	1,287	958	2,245
2018	1,072	1,297	2,369
2019	1,240	839	2,079
	<b>6,772</b>	<b>5,574</b>	<b>12,346</b>



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**12. Employee future benefits liability (continued)**

*Workplace Safety & Insurance Board (WSIB)*

The Region has assumed the liability for any costs awarded under the *Workers' Compensation Act*. During 2014, the Region paid \$863 (2013 - \$726) in such costs for employees. An actuarial evaluation for the future liability for WSIB was completed in December 2014 and it was determined that the liability for present and future awards is \$10,283 (2013 - \$12,566). The calculations were based on a discount rate of 3.25% and an inflation rate for benefits of up to 2.0%. An amount of \$12,221 (2013 - \$11,407) has been provided for current and future awards and is included in the Workplace Safety and Insurance Board reserve fund (Note 17).

**13. 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 41% or 6.6 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 3.5%. The closure costs and post-closure costs are based on capital and operating budget estimates. A 25 year estimate of the post-closure costs for the landfill has been included. Any change in the liability is reported as an expense on the consolidated statement of operations and accumulated surplus. A liability of \$60,509 (2013 - \$47,535) 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.

**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 pre-fund expected losses. External coverage through insurance companies is in place for claims in excess of deductibles.

The Region has made provision for a reserve fund for general insurance which as at December 31, 2014 amounted to \$4,620 (2013 - \$4,609). The provision for the year of \$3,547 (2013 - \$3,294) was transferred to the insurance reserve.

During the year, 1,273 (2013 - 1,240) claims were settled for \$968 (2013 - \$563) 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, 2014 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, 2013</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at December 31, 2014</b>
Land	90,713	-	-	90,713
Land improvements	110,801	10,927	-	121,728
Buildings	416,215	18,499	298	434,416
Vehicles	154,071	8,706	10,869	151,908
Machinery and equipment	119,972	7,059	159	126,872
Roads	1,094,082	14,951	21,323	1,087,710
Water and wastewater	967,041	64,004	453	1,030,592
<b>Total Cost</b>	<b>2,952,895</b>	<b>124,146</b>	<b>33,102</b>	<b>3,043,939</b>

<b>Accumulated Amortization</b>	<b>Balance at December 31, 2013</b>	<b>Disposals</b>	<b>Amortization Expense</b>	<b>Balance at December 31, 2014</b>
Land improvements	50,460	-	3,899	54,359
Buildings	167,294	270	14,245	181,269
Vehicles	83,441	10,739	14,107	86,809
Machinery and equipment	61,555	132	9,006	70,429
Roads	382,518	21,036	30,587	392,069
Water and wastewater	475,633	371	19,860	495,122
<b>Total Accumulated amortization</b>	<b>1,220,901</b>	<b>32,548</b>	<b>91,704</b>	<b>1,280,057</b>

<b>Net Book Value</b>	<b>Net Book Value December 31, 2013</b>	<b>Net Book Value December 31, 2014</b>
Land	90,713	90,713
Land improvements	60,341	67,369
Buildings	248,921	253,147
Vehicles	70,630	65,099
Machinery and equipment	58,417	56,443
Roads	711,564	695,641
Water and wastewater	491,408	535,470
<b>Total net book value</b>	<b>1,731,994</b>	<b>1,763,882</b>
Construction work in progress	284,004	302,488
Construction work in progress - stage 1 LRT	72,108	238,248
<b>Total tangible capital assets</b>	<b>2,088,106</b>	<b>2,304,618</b>

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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	2014	2013
	(\$000s)	(\$000s)
<b>Surplus:</b>		
Invested in tangible capital assets	2,304,618	2,088,104
Accumulated surplus on operations	290,360	229,464
Amounts to be Recovered		
From future revenue		
Net long term liabilities	(617,348)	(428,124)
Landfill closure and post closure liability	(60,509)	(47,535)
Employee future benefits	(137,148)	(121,028)
From other municipalities and school boards		
Net long term liabilities	(211,514)	(220,940)
From Reserve Funds		
Employee future benefits	(1,742)	(2,244)
Workplace safety and insurance	(10,283)	(11,407)
Total Surplus	1,556,434	1,486,290
<b>Reserves set aside by Council for:</b>		
Capital	110,612	97,827
Equipment replacement	21,841	19,966
Contingencies and stabilization	18,045	17,739
Benefits and insurance	6,361	6,852
Program specific	442	307
Total Reserves	157,301	142,691
<b>Reserve Funds set aside for specific purposes by Council for:</b>		
Community Housing	51,230	50,257
Workplace safety and insurance	12,221	11,407
Waterloo Regional Police Services	7,181	3,762
Regional Transportation Master Plan	3,911	6,789
Brownfield financial incentives	2,771	2,699
Library	981	878
Public art	456	453
Heritage resources	178	154
Total Reserve Funds	78,929	76,399
<b>Accumulated Surplus</b>	<b>1,792,664</b>	<b>1,705,380</b>

**The Regional Municipality of Waterloo**  
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**18. Commitments and Contractual Obligations**

**Lease commitments**

At the end of 2014, the Region is responsible for total lease commitments of approximately \$6,880 (2013 - \$7,089) relating to equipment and buildings.

		Maturity Date	Amount (\$000s)
Office space	Varying maturities to	2020	5,442
Other	Varying maturities to	2040	1,438
<b>Total commitments</b>			<b>6,880</b>

**Contractual obligations**

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. Under the terms of the agreement, OCWA will operate the Region's wastewater treatment plants at an average annual cost of \$7,183, subject to possible adjustments for significant changes to the system or underlying costs. Included in the consolidated statement of operations and accumulated surplus is \$8,915 (2013 - \$8,705) paid to OCWA.

**Rapid Transit**

In May 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, with construction from 2014-2017 and operations and maintenance from 2017 to 2047. Under the terms of the agreement, 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. The Region will make annual financing payments to GrandLinq of \$10,628 during the operations and maintenance term. GrandLinq will operate the system for an initial period of 10 years, with options to renew at 5-year intervals to 30 years at an average annual cost of \$4,036 subject to annual inflation adjustments. GrandLinq will maintain and renew the system for a period of 30 years at an average annual cost of \$15,000 subject to annual inflation adjustments. The contract provides for fixed-price potential service level increases over the term of the contract, subject to Regional approval at that time.

The capital cost of the rapid transit project will be financed in part by the Province of Ontario and the Government of Canada. The Region entered into a Transfer Payment Agreement with Ontario in March 2014 which provides for funding of \$300,000 towards the costs of the project. In January 2015, the Region entered into a Contribution Agreement with Canada which will provide for funding of one-third of all eligible costs, to a maximum of \$265,000.

**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 a number of TIGs that will be funded from reserves and future property tax revenue.

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**19. Subsequent event**

Early in 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 2015 value of these properties as assessed by the Municipal Property Assessment Corporation is \$9,770 and outstanding mortgages on the properties total \$4,524 as of January 1, 2015. The financial effect of this transaction is not known at this time, as decisions have yet to be made regarding the future operations of these properties.

**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 they are not directly comparable with current year actual amounts in all cases, they have been restated to conform with public sector accounting standards on the consolidated statement of operations. No budgets were set for items appearing on the consolidated statement of changes in net debt.

**21. Expenses by object**

The consolidated statement of operations and accumulated surplus presents expense by function. The following table classifies expense by object:

	2014	2013
	(\$000s)	(\$000s)
Salaries, wages and employee benefits	405,514	387,633
Materials, goods, supplies and utilities	92,057	101,270
Contracted services	145,123	135,365
Interest	16,971	13,201
Amortization	91,704	85,234
Transfers to persons and organizations	132,359	141,600
	<b>883,728</b>	<b>864,303</b>



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

	2014	2013
	(\$000s)	(\$000s)
Operating Surplus		
Regional Tax Supported Surplus	3,012	1,861
Region of Waterloo Library Board	58	93
Waterloo Regional Police Services Board	3,428	1,765
Regional User Rate Surplus	3,759	3,591
Total Operating Surplus	<u>10,257</u>	<u>7,310</u>
<b>Add:</b> Revenues Not included In Operating Surplus		
Development Charges	50,246	39,145
Deferred Federal Gas Tax Revenue	6,946	16,219
Capital Grants (Federal and Provincial)	43,600	7,575
Other	-	885
<b>Add:</b> Expenses Included in Operating Surplus, but not in Consolidated Statements		
Transfers to Reserves and Reserve funds	87,055	85,244
Principal Repayments	41,915	36,715
<b>Less:</b> Expenses not Included in Operating Surplus:		
Amortization of Tangible Capital Assets	(91,704)	(85,234)
Operating Expenses in Capital	(27,204)	(56,374)
Change in Actuarial Estimates	(15,501)	(9,137)
Change in Landfill Closure & Post Closure Estimate	(12,975)	(2,522)
Operating expenses in Reserves & Reserve Funds	(5,351)	(4,232)
Consolidated Financial Statement Surplus/(Deficit)	<u>87,284</u>	<u>35,592</u>

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**23. 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.

Protection to persons and property is 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 includes 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 includes 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 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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**23. Segment disclosure**

(\$000s)	2014						Total	
	General Government	Protection	Transportation	Environmental	Health	Social Services		Housing
Revenue								
Property taxes	31,153	140,176	125,458	35,757	19,367	40,808	31,595	22,062
Government transfers	3,083	6,980	51,147	-	37,155	143,256	15,608	271
User fees & service charges	2,650	17,922	42,348	119,859	411	9,881	13,608	1,148
Development Charges	728	706	29,116	19,670	(31)	-	-	57
Other	333	464	(406)	(158)	51	4	-	97
Investment income	1,388	48	3,398	2,779	(2)	-	1,327	40
	<b>39,335</b>	<b>165,996</b>	<b>251,061</b>	<b>177,907</b>	<b>56,951</b>	<b>193,949</b>	<b>62,138</b>	<b>23,675</b>
Expense								
Salaries and benefits	37,660	146,188	79,283	22,056	46,939	59,597	4,143	9,648
Goods and services	19,791	17,288	51,067	88,826	5,830	35,603	14,955	3,820
Interest	1,562	694	6,596	5,614	68	1,266	225	926
Amortization	5,511	5,518	46,055	24,761	1,322	1,989	4,983	1,565
Transfers and other	(16,731)	3,915	(3,597)	9,171	1,347	97,388	37,625	3,241
	<b>47,813</b>	<b>173,603</b>	<b>179,404</b>	<b>150,428</b>	<b>55,506</b>	<b>195,843</b>	<b>61,931</b>	<b>19,200</b>
Net surplus (deficit)	<b>(8,478)</b>	<b>(7,607)</b>	<b>71,657</b>	<b>27,479</b>	<b>1,445</b>	<b>(1,894)</b>	<b>207</b>	<b>4,475</b>
								<b>87,284</b>



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**23. Segment disclosure (continued)**

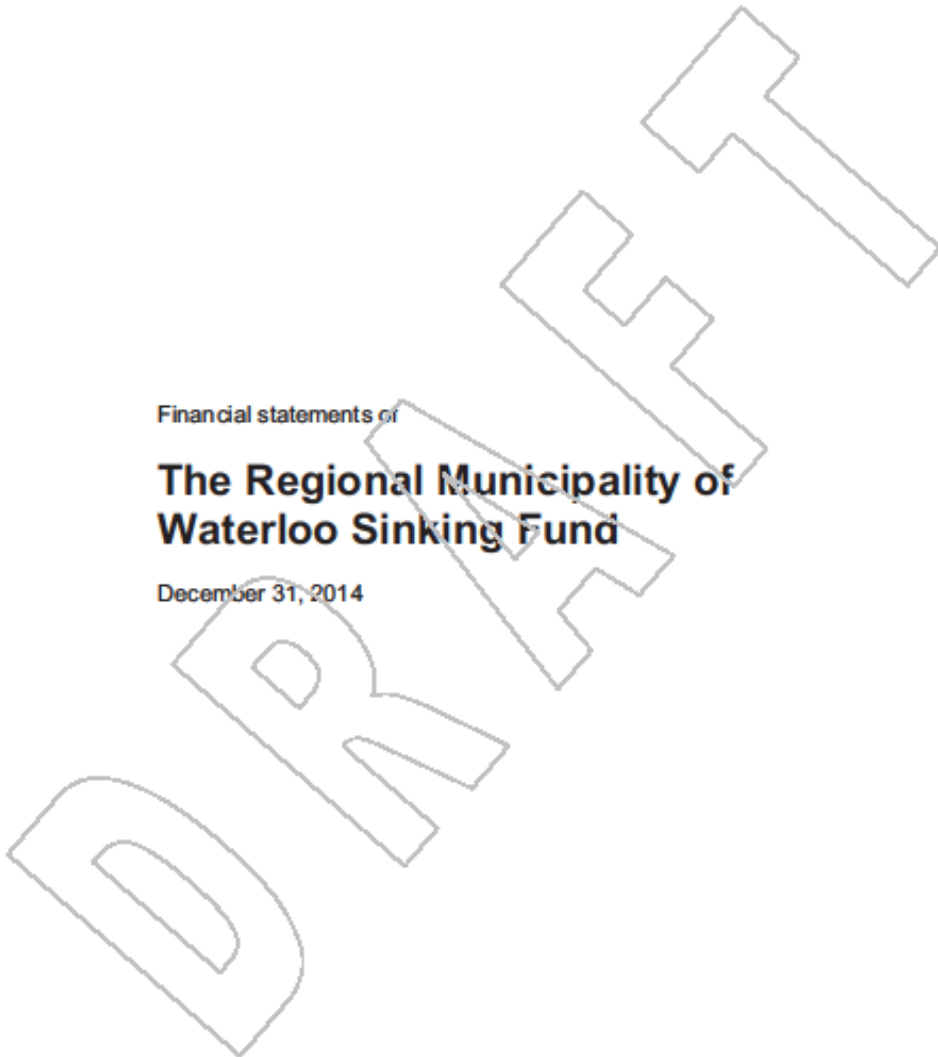
	2013								
(\$000s)	General Government	Protection	Transportation	Environmental	Health	Social Services	Housing	Planning and Culture	Total
Revenue									
Property taxes	33,929	133,379	119,041	31,218	19,871	43,641	31,447	18,175	430,701
Government transfers	3,091	6,592	29,343	1,451	36,018	132,886	12,596	278	222,255
User fees & service charges	2,992	17,345	36,977	114,888	684	10,270	13,337	1,147	197,640
Development Charges	510	-	28,717	9,653	194	-	-	71	39,145
Other	462	2,122	(1,783)	158	15	4	-	84	1,062
Investment income	1,703	17	3,490	2,103	252	-	1,490	37	9,092
	<b>42,687</b>	<b>159,455</b>	<b>215,785</b>	<b>159,471</b>	<b>57,034</b>	<b>185,801</b>	<b>58,870</b>	<b>19,792</b>	<b>899,895</b>
Expense									
Salaries and benefits	35,358	132,013	76,780	22,072	45,270	60,885	4,112	11,143	387,633
Goods and services	20,526	17,289	62,517	77,457	6,454	33,834	14,809	3,749	236,635
Interest	1,981	745	4,063	4,031	245	1,305	240	591	13,201
Amortization	5,659	4,983	42,420	22,551	1,053	1,992	5,018	1,558	85,234
Transfers and other	(14,784)	4,763	(4,432)	8,506	12,394	93,199	35,074	6,880	141,600
	<b>48,740</b>	<b>159,793</b>	<b>181,348</b>	<b>134,517</b>	<b>65,416</b>	<b>191,215</b>	<b>59,253</b>	<b>23,921</b>	<b>864,303</b>
Net surplus (deficit)	(6,053)	(338)	34,437	24,854	(8,382)	(4,414)	(383)	(4,129)	35,592

Appendix 2

Financial statements of

**The Regional Municipality of  
Waterloo Sinking Fund**

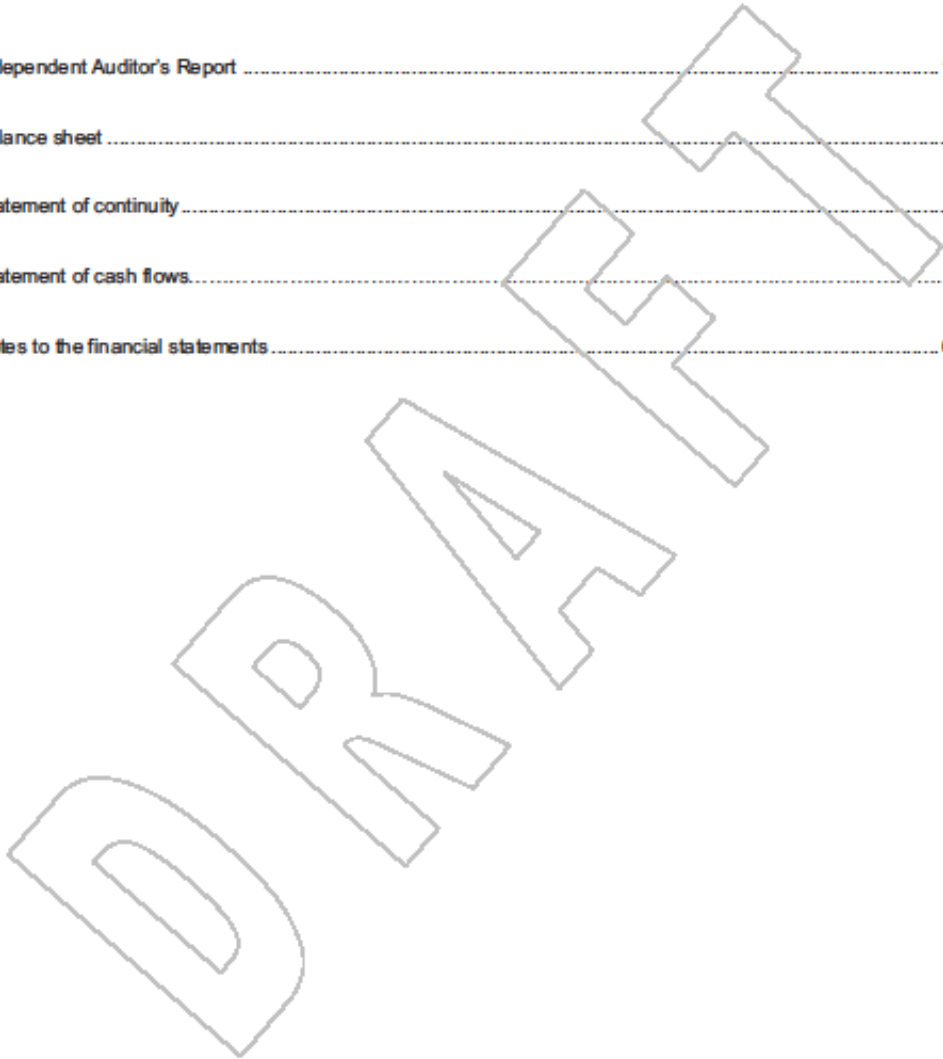
December 31, 2014



**The Regional Municipality of Waterloo Sinking Fund**  
December 31, 2014

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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 financial statements of The Regional Municipality of Waterloo Sinking Fund, which comprise the balance sheet as at December 31, 2014, and the statements of continuity 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.

### Auditor's 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 the auditor's 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, the auditor considers 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.

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 financial statements present fairly, in all material respects, the financial position of The Regional Municipality of Waterloo Sinking Fund as at December 31, 2014 and its continuity and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
June 3, 2015

DRAFT

**The Regional Municipality of Waterloo Sinking Fund**  
**Balance sheet**  
**as at December 31, 2014**

	2014	2013
	\$	\$
<b>Assets</b>		
Cash	2,622,817	982,532
Interest receivable	6,071	6,021
Investments (Note 4)	5,716,596	2,189,423
Debt payments receivable (Note 5)	114,383,247	98,512,037
	<b>122,728,651</b>	<b>101,690,013</b>
<b>Liability</b>		
Actuarial requirement for retirement of debentures	121,196,271	100,045,129
<b>Excess over actuarial requirements</b>	<b>1,532,410</b>	<b>1,644,884</b>
	<b>122,728,651</b>	<b>101,690,013</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

Page 3

**The Regional Municipality of Waterloo Sinking Fund**  
**Statement of continuity**  
**year ended December 31, 2014**

	2014	2013
	\$	\$
<b>Revenue</b>		
Contributions from current revenue	5,203,285	1,713,815
Gain on sale of investment	-	128,462
Investment revenue	177,925	380,340
	<b>5,381,210</b>	<b>2,222,617</b>
<b>Expenditure</b>		
Maturity - Issue 93-30, April 7, 2013	-	4,750,000
Maturity - Issue 93-31, November 4, 2013	-	7,250,000
Surplus payment (Note 6)	213,752	-
Change in net actuarial requirement	5,279,932	(9,723,366)
	<b>5,493,684</b>	<b>2,276,634</b>
Excess of expenditure over revenue for the year	(112,474)	(54,017)
Excess over actuarial requirements, beginning of year	1,644,884	1,698,901
<b>Excess over actuarial requirements, end of year</b>	<b>1,532,410</b>	<b>1,644,884</b>
<b>Summarized as follows</b>		
Regional Municipality of Waterloo	1,532,410	1,431,132
City of Waterloo	-	134,478
Township of Wilmot	-	79,274
	<b>1,532,410</b>	<b>1,644,884</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

Page 4

**The Regional Municipality of Waterloo Sinking Fund**  
**Statement of cash flows**  
 year ended December 31, 2014

	2014	2013
	\$	\$
<b>Operating activities</b>		
Excess of expenditure over revenue for the year	(112,474)	(54,017)
Adjustment for:		
Amortization of premiums on bond investments	(55,873)	(75,937)
Change in non-cash assets and liabilities		
Interest receivable	-	32,751
Debit payments receivable	(15,871,210)	(68,603,882)
Actuarial requirement for retirement of debentures	21,151,142	58,880,517
<b>Cash provided (used) by operating activities</b>	<b>5,111,585</b>	<b>(9,520,568)</b>
<b>Investing activity</b>		
(Purchases) proceeds from disposals and redemptions of investments	(3,471,300)	8,695,501
Net increase (decrease) in cash	1,640,285	(1,125,067)
Cash, beginning of year	922,532	2,107,599
<b>Cash, end of year</b>	<b>2,622,317</b>	<b>982,532</b>

The accompanying notes to the financial statements are an integral part of this financial statement.



**The Regional Municipality of Waterloo Sinking Fund**  
**Notes to the financial statements**  
**December 31, 2014**

**1. Nature of business**

The Regional Municipality of Waterloo Sinking Fund is a separate fund maintained for the purpose of providing for repayments on Regional Debentures to be retired by means of sinking funds.

**2. Significant accounting policies**

The financial statements of The Regional Municipality of Waterloo Sinking Fund are prepared by management in accordance with Canadian public sector accounting standards. Significant aspects of the accounting policies adopted by the Region are as follows:

*Basis of accounting*

The Regional Municipality of Waterloo Sinking Fund follows the accrual method of accounting for revenue and expenditures.

*Investments*

All investments are generally purchased with the intention of holding them until maturity and are recorded at cost adjusted annually for amortization of discount or premium with the amount of such amortization included in investment income in the statement of continuity.

*Actuarial requirements*

The actuarial requirements of the sinking fund represent the amount required which, together with interest compounded annually, will be sufficient to retire the related debentures at maturity. Interest is calculated at a rate of 5% for issues 00-42 and 01-44, issue 12-74 has interest calculated at a rate of 2.5%, issues 13-75 and 13-76 interest is calculated at 3.25% and issue 14-79 interest is calculated at 3.50%.

*Excess (deficiency) over actuarial requirements*

To the extent that, in any year, earnings of the sinking fund exceed the amount required to meet the actuarial requirements, such excess earnings are transferred to excess over actuarial requirements. A deficiency in a given year would conversely be deducted from the accumulated excess.

*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 amounts reported in the financial statements and accompanying notes. Significant estimates are required with respect to debt payments receivable and actuarial requirements for retirement of debentures. These estimates are based on management's best information and judgment, and accordingly, actual results could differ from these estimates.

**3. Sinking fund debentures**

The Sinking Fund is structured to finance the following Regional debentures:

Issue #	Maturity Date	Region of	Other	Total issue
		Waterloo	participants	
		\$	\$	\$
Issue 00-42	November 17, 2020	3,731,790	5,131,210	8,863,000
Issue 01-44	November 19, 2021	9,405,000	-	9,405,000
Issue 12-74	November 26, 2032	28,962,000	-	28,962,000
Issue 13-75	May 13, 2033	95,000,000	-	95,000,000
Issue 13-76	May 13, 2043	50,000,000	-	50,000,000
Issue 14-79	April 4, 2044	50,000,000	-	50,000,000
		<u>237,098,790</u>	<u>5,131,210</u>	<u>242,230,000</u>

**The Regional Municipality of Waterloo Sinking Fund**  
**Notes to the financial statements**  
**December 31, 2014**

**4. Investments**

The Sinking Fund investments are governed by the Municipal Act and the Region's Consolidated Investment Policy. The investment practice of the Sinking Fund administration is to generally hold investments until maturity. At the end of 2014, investments totaled \$5,716,596 (2013 - \$2,189,423) which are recorded at cost. The investments have a market value of \$5,914,743 (2013 - \$2,439,492) at the end of the year. The market value represents the realizable value of the investments if they were sold at December 31, 2014.

	2014	2013
	\$	\$
Provincial Bonds	3,475,128	-
Municipal Debentures	1,366,980	1,366,639
Schedule I Banks	874,488	822,784
Amortized cost	<u>5,716,596</u>	<u>2,189,423</u>

**5. Debt payments receivable**

Debt payments receivable are determined on a net present value basis using a 5% interest rate for issues 00-42 and 01-44, a 2.5% interest rate for issue 12-74, a 3.25% interest rate for issues 13-75 and 13-76 and a 3.50% interest rate for 14-79.

	2014	2013
	\$	\$
The Regional Municipality of Waterloo	110,554,259	94,865,382
Waterloo Region District School Board	3,828,988	3,646,655
Amortized cost	<u>114,383,247</u>	<u>98,512,037</u>

**6. Maturities**

No Sinking Fund debentures matured in 2014. The following Sinking Fund debentures matured in 2013:

Issue #	Maturity Date	Region of Waterloo	Other participants	Total issue
		\$	\$	\$
Issue 93-30	April 7, 2013	2,073,000	2,677,000	4,750,000
Issue 93-31	November 4, 2013	4,653,950	2,596,050	7,250,000
		<u>6,726,950</u>	<u>5,273,050</u>	<u>12,000,000</u>

During 2014, the following Surplus payments were disbursed with respect to the 2013 maturities representing contributions over the life of the sinking fund debentures in excess of the requirements to retire the Sinking Fund debentures.

	\$
City of Waterloo	134,478
Township of Wilmot	79,274
	<u>213,752</u>

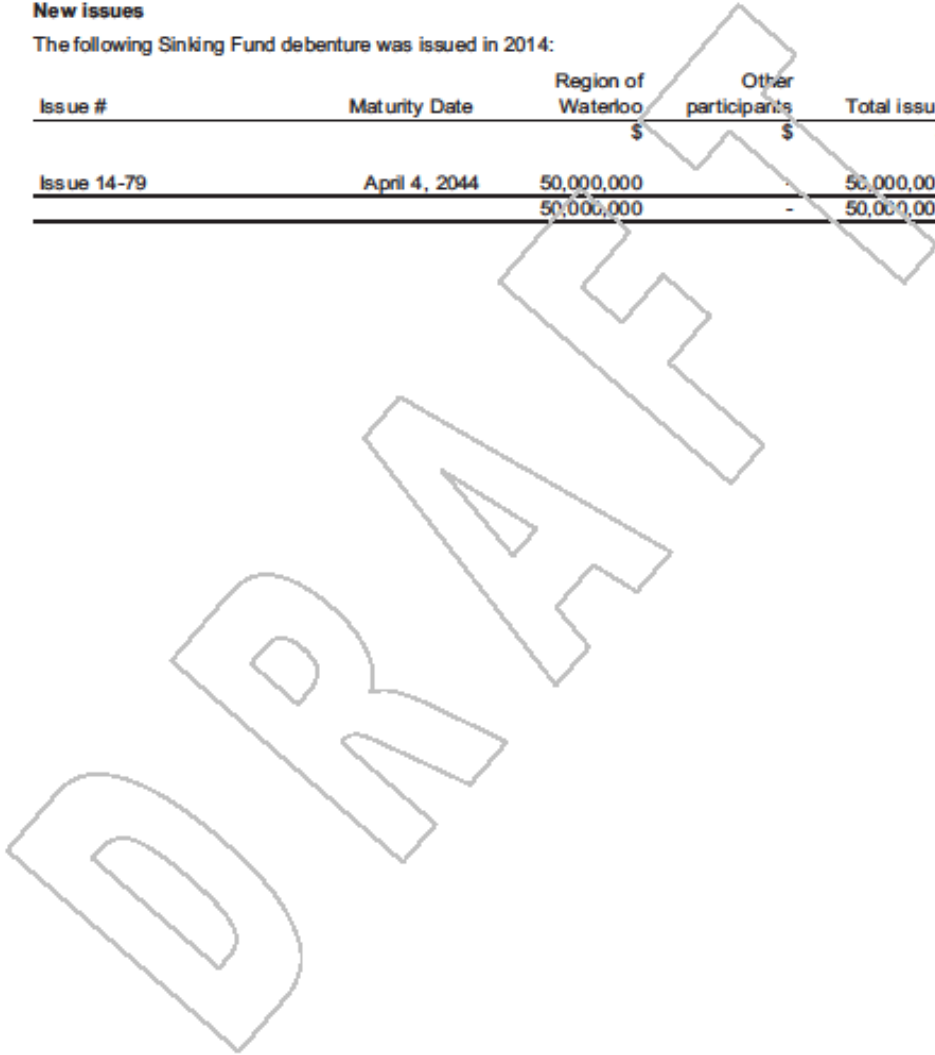
**The Regional Municipality of Waterloo Sinking Fund**  
**Notes to the financial statements**  
**December 31, 2014**

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**7. New issues**

The following Sinking Fund debenture was issued in 2014:

Issue #	Maturity Date	Region of Waterloo	Other participants	Total issue
		\$	\$	\$
Issue 14-79	April 4, 2044	50,000,000		50,000,000
		50,000,000	-	50,000,000

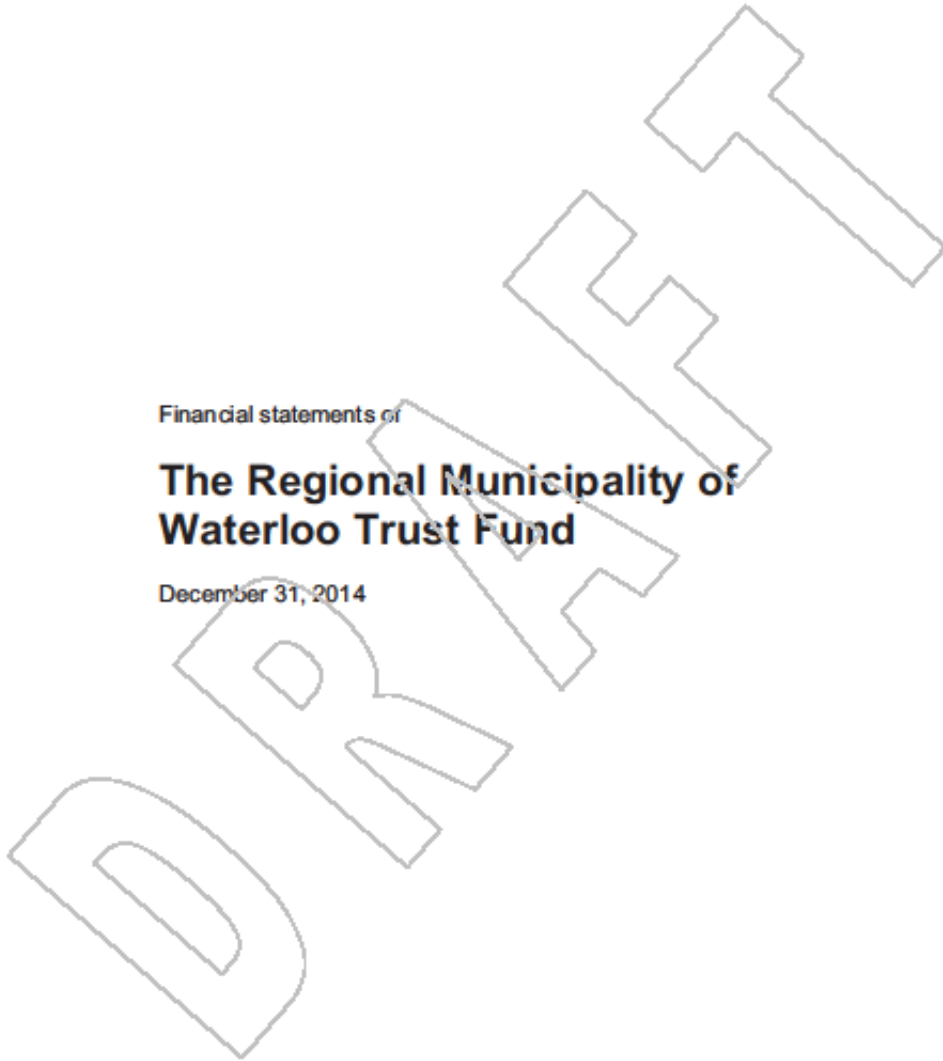


Appendix 3

Financial statements of

**The Regional Municipality of  
Waterloo Trust Fund**

December 31, 2014



**The Regional Municipality of Waterloo Trust Fund**  
December 31, 2014

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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 financial statements of The Regional Municipality of Waterloo Trust Fund, which comprise the balance sheet as at December 31, 2014 and the statement of continuity 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.

### Auditor's 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 the auditor's 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, the auditor considers 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.

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, these financial statements present fairly, in all material respects, the financial position of The Regional Municipality of Waterloo Trust Fund as at December 31, 2014 and the continuity of the trust fund for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
June 3, 2015

DRAFT



**The Regional Municipality of Waterloo Trust Fund**  
**Statement of continuity**  
**year ended December 31, 2014**

	2014	2013
	\$	\$
<b>Balance, beginning of year</b>	<b>87,966</b>	<b>116,603</b>
Revenue		
Residents' receipts	445,503	439,569
Disbursements	437,970	468,206
Net revenue (disbursements)	7,533	(28,637)
<b>Balance, end of year</b>	<b>95,499</b>	<b>87,966</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

Page 3

**The Regional Municipality of Waterloo Trust Fund**

**Balance sheet**

as at December 31, 2014

	2014	2013
	\$	\$
<b>Assets</b>		
Cash	85,278	72,469
Accounts receivable	6,221	15,497
	<u>91,499</u>	<u>87,966</u>
<b>Due to residents</b>	<u>\$ 5,499</u>	87,966

The accompanying notes to the financial statements are an integral part of this financial statement.

Page 4

**The Regional Municipality of Waterloo Trust Fund**  
**Notes to the financial statements**  
**December 31, 2014**

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**1. Trust fund purpose**

These financial statements relate to funds held in trust by the Regional Municipality of Waterloo for residents of the Sunnyside Home. The use and operation of the fund is governed by the Long-Term Care Homes Act, 2007.

**2. Significant accounting policies**

The financial statements of The Regional Municipality of Waterloo Trust Fund are prepared by management in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of CPA Canada.

**3. Statement of cash flows**

A statement of cash flows is not presented as the operating, financing, and investing information is readily apparent from the financial statements presented.

DRAFT



# The Regional Municipality of Waterloo

## Audit results

For the year ended December 31, 2014  
Presented to the Audit Committee  
May 13, 2015

Instilling  
confidence



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May 13, 2015

**Private and confidential**

To the Chairman and members of the Audit Committee of  
The Regional Municipality of Waterloo

Dear Audit Committee Members:

**Report on audited annual financial statements**

We are pleased to submit this report on the status of our audit of The Regional Municipality of Waterloo ("The Region of Waterloo") for the 2014 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you.

As agreed in our engagement letter dated March 10, 2015, we have performed an audit of the financial statements of The Regional Municipality of Waterloo as of and for the year ended December 31, 2014, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon dated June 3, 2015.

This report summarizes our findings during the audit. Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee members at the meeting on February 3, 2015.

The results of our audit are explained in further detail in this report.

**Use of our report**

This report is intended solely for the information and use of the Audit Committee, management and others within The Region of Waterloo and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We would like to express our appreciation for the cooperation we received from the officers and employees of The Region of Waterloo with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours very truly,

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

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# At a glance

This report summarizes the main findings arising from our audit.

	Status/findings	Comments
<b>Status and outstanding matters</b>	●	<p>We expect to be in a position to render our audit opinion dated June 3, 2015 on the Financial Statements of The Region of Waterloo following approval of the Financial Statements by Council and the completion of the following outstanding procedures:</p> <ul style="list-style-type: none"> <li>• Receipt of signed management representation letter</li> <li>• Minor documentation items</li> <li>• Completion of the Engagement Quality Control review</li> </ul>
<b>Going concern</b>	✓	<p>Management has completed its assessment of the ability of The Region of Waterloo to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon The Region of Waterloo's ability to continue as a going concern. We agree with management's assessment.</p>
<b>Uncorrected and corrected misstatements</b>	✓	<p>In accordance with Canadian GAAS, we request that all misstatements be corrected. A summary of the uncorrected misstatements as of the date of this report have been included in Appendix 4, there were no corrected misstatements</p> <p>All proposed uncorrected misstatements were reviewed with management and were determined by management to be immaterial, individually and in the aggregate, to the financial statements taken as a whole.</p>
<b>Uncorrected disclosure misstatements</b>	✓	<p>In accordance with Canadian GAAS, we request that all disclosure misstatements be corrected.</p> <p>There are no disclosure misstatements aggregated by us during the current engagement and pertaining to the latest period presented to report, as those disclosure misstatements detected in our audit have been corrected by management.</p>
<b>Internal control deficiencies</b>	✓	<p>We did not identify any significant deficiencies in internal control that existed as of December 31, 2014 that we concluded to be significant. Minor internal control issues identified have been reviewed with management.</p>
<b>Significant audit risks</b>	✓	<p>Our audit plan identified certain areas that we refer to as significant risks. There have been no changes to these risks nor have any additional risks been identified since our previous communication. The results of our audit work on these risks are set out on page 3.</p>



	Status/findings	Comments
<b>Significant accounting practices, judgments and estimates</b>	✓	The significant accounting practices, judgments and estimates are consistent with those identified in the audit plan. We have summarized the results of our procedures related to these items on page 5.
<b>Independence</b>	✓	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>You have requested that we report all relationships and other relevant matters that, in our professional judgment, may reasonably be thought to bear on our independence and confirmed our independence to the Audit Committee for the year ended December 31, 2014 in Appendix 2.</p>
<b>Reporting responsibilities</b>	✓	<p>As a part of our audit plan, we committed to communicate certain matters to the Audit Committee on a regular basis or as specified events occur.</p> <p>A summary of our communications is provided in Appendix 1.</p>
<b>Conclusion</b>	●	<p>In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of The Region of Waterloo's annual financial statements prepared in accordance with Canadian public sector accounting standards (PSAS).</p> <p>No restrictions have been placed on the scope of our audit. In performing the audit, we were given full and complete access to the accounting records, supporting documentation and other information requested.</p> <p>We intend to issue an unmodified audit report on the Financial Statements of The Region of Waterloo for the year ended December 31, 2014 once the outstanding items referred to above are completed satisfactorily and the Financial Statements are approved by Council.</p>

**Status and findings:**

- ✓ Results of procedures satisfactory.
- ✓ Completed. Significant issues identified. Impact on our audit is discussed in the report.
- ✗ Completed. Material issues identified. Impact on our audit is discussed in the report.
- In progress. Completion expected by June 3, 2015.

# Audit results

The following summarizes the status and findings of key aspects of our audit. In the appendices to this report, we have provided additional information related to certain matters we committed to report to the Audit Committee as part of the audit plan.

The following important matters have been discussed with management:

## Significant audit risks

### Revenue/deferred revenue

<b>Audit risk</b>	Revenue is overstated through the recognition of revenue that should be deferred to a subsequent period.
<b>Our audit response</b>	<ul style="list-style-type: none"> <li>We reviewed the Region's recording of grants, charges, contributions and other monies received to ensure they were valid and recorded in the correct period.</li> <li>We reviewed the Rapid Transit funding agreements and submissions to verify the terms and conditions and to assess whether revenue is recognized in the correct period. We agreed the Rapid Transit receivable to the claim submission.</li> </ul>
<b>Our conclusion</b>	Revenue and deferred revenue, including revenue related to the Rapid Transit funding agreements, included in the consolidated financial statements are properly recorded for the year ending December 31, 2014.

### Management override of controls

<b>Audit risk</b>	Management override of controls is a presumed area of significant risk in a financial statement audit due to management's ability to override controls that otherwise appear to be operating effectively.
<b>Our audit response</b>	<ul style="list-style-type: none"> <li>On a sample basis, we test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements;</li> <li>We obtain an understanding of the business rationale for significant transactions that we become aware of that are outside of the normal course of business, or that otherwise appear to be unusual given our understanding of the Region and its environment;</li> <li>We review accounting estimates for bias and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement;</li> <li>In addition, experienced Deloitte personnel are assigned to the testing and review of journal entries and areas of estimates; and</li> <li>Professional skepticism is maintained throughout the audit.</li> </ul>
<b>Our conclusion</b>	Results were satisfactory.

## Other areas of audit focus

Areas of risk	Our audit response	Our conclusion
<p><b>Accounts payable and accrued liabilities</b></p> <p>Accounts payable and accrued liabilities may be understated due to improper cut-off.</p>	<ul style="list-style-type: none"> <li>• Tested disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities.</li> <li>• Tested the supporting assumptions for accruals.</li> <li>• Reviewed the outcome of prior year estimates and accruals.</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts payable and accrued liabilities are properly accounted for and reported in the consolidated financial statements as at December 31, 2014.</li> </ul>
<p><b>Actuarially determined liabilities</b></p> <p>Actuarial liabilities may be misstated due to improper inputs used in valuation. In addition, the financial statement disclosure may not contain all required items.</p>	<ul style="list-style-type: none"> <li>• Reviewed actuarial report, including related assumptions.</li> <li>• Ensured appropriate accounting treatment has been applied.</li> <li>• Reviewed related financial statement note disclosure for accuracy and completeness.</li> <li>• Communicated with the actuary on our reliance on their report for audit purposes.</li> </ul>	<ul style="list-style-type: none"> <li>• Actuarially determined liabilities are reasonable as at December 31, 2014 and are properly disclosed in the consolidated financial statements.</li> </ul>
<p><b>Contingencies</b></p> <p>Contingent liabilities are not properly accrued for and commitments and contingencies are not disclosed in the financial statements in 2014 with a specific focus on commitments related to the Rapid Transit plan.</p>	<ul style="list-style-type: none"> <li>• We contacted the Regional Solicitor to obtain the status of any outstanding claims. We also reviewed their evaluation of claims to ensure proper recognition.</li> <li>• We reviewed Council and Audit Committee minutes for evidence of contingent liabilities.</li> <li>• Confirmed that contingencies and commitments are disclosed in the financial statements in accordance with PSAS. For 2014, verified that commitments related to the Rapid Transit plan are identified and disclosed.</li> </ul>	<ul style="list-style-type: none"> <li>• Disclosures of contingencies are complete and accurate for the year ending December 31, 2014.</li> </ul>
<p><b>Estimates</b></p> <p>Management estimates are not calculated in accordance with Canadian PSAS or properly supported.</p>	<ul style="list-style-type: none"> <li>• Tested the supporting assumptions for estimates.</li> <li>• Reviewed the outcome of prior year estimates and accruals.</li> </ul>	<ul style="list-style-type: none"> <li>• Management estimates were determined to be reasonable and properly supported for the year ending December 31, 2014.</li> </ul>
<p><b>Payroll</b></p> <p>Payroll expense is not accurately recorded.</p>	<ul style="list-style-type: none"> <li>• Performed focused detail testing on payroll expenditures and accruals.</li> </ul>	<ul style="list-style-type: none"> <li>• Payroll expense is properly determined for the year ending December 31, 2014.</li> </ul>

Areas of risk	Our audit response	Our conclusion
<p><b>Obligatory reserve fund</b> Revenue from obligatory reserve funds are not recorded in accordance with the Region's accounting policies.</p>	<ul style="list-style-type: none"> <li>Tested the revenue recognized in obligatory reserve fund balances and ensured revenues were recognized in accordance with the Region's accounting policies and PSAS.</li> </ul>	<ul style="list-style-type: none"> <li>Obligatory reserve funds are properly determined for the year ending December 31, 2014.</li> </ul>
<p><b>Taxation revenue</b> Management's estimate of allowance for doubtful accounts is understated.</p>	<ul style="list-style-type: none"> <li>Taxation revenue balances were confirmed with local municipalities.</li> <li>Ensured that Management's estimate of allowance for doubtful accounts was reasonable.</li> </ul>	<ul style="list-style-type: none"> <li>Taxation revenue and allowance for doubtful accounts are properly calculated and reported for the year ending December 31, 2014.</li> </ul>
<p><b>Tangible capital assets</b> Assets recorded are not capital in nature and assets disposed of by the Region of Waterloo have not been recorded.</p>	<ul style="list-style-type: none"> <li>Tested a sample of tangible capital asset additions and verified that the asset additions were capital in nature.</li> <li>Assessed the disposal schedule prepared by management for reasonability and tested selected transactions.</li> <li>Tested a sample of construction in progress additions for large capital projects including Rapid Transit and verified costs are valid and accurate.</li> </ul>	<ul style="list-style-type: none"> <li>Tangible capital assets recorded are properly reported as at December 31, 2014. Uncorrected misstatements are not material and are recorded in Appendix 4.</li> </ul>

## Accounting practices, judgments and estimates

The accounting policies described below are those that are most important to the portrayal of The Region of Waterloo's financial condition and financial performance.

In the course of our audit of the financial statements, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the financial statements.

### Significant accounting policies

In our judgment, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of The Region of Waterloo.

The Region of Waterloo's significant accounting policies, as determined by management, are set forth in Note 1 to The Region of Waterloo's 2014 consolidated financial statements.

At a glance	Audit results	Other reportable matters	Appendices
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### Management judgment and accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

In our judgment, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the Financial Statements around estimation uncertainty is in accordance with PSAS and is appropriate to the particular circumstances of The Region of Waterloo.

### Internal control

As part of our financial statement audit, we are required to consider many components of internal controls, which assist us in determining the risks of material misstatement and the identification of internal controls that will be relevant for our audit. Not all controls are relevant to every audit. For example, some internal controls may exist to address operational risks. For those controls deemed relevant to our audit, we evaluated the design of these controls and determined whether they were implemented. The procedures undertaken during this process allows us to consider whether or not our audit strategy will further rely on the operating effectiveness of those identified internal controls. In such cases, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented to also test whether the controls on which we intend to rely are operating effectively throughout the period of reliance. The determination of whether or not we will test the operating effectiveness of controls is determined on an engagement by engagement basis.

In our audit of Region of Waterloo's consolidated financial statements, we planned to and were able to rely on internal controls in the following areas:

- General Computer controls;
- Budget Process – we examined controls such as budget approval;
- Payroll;
- Treasury – we examined controls relating to areas such as investment purchases and disposals; and
- Expenditures.

Canadian GAAS requires us to report to the Audit Committee any significant deficiencies that have come to our attention. There are no significant deficiencies noted as a result of conducting our audit.

# Other reportable matters

Canadian GAAS require that we also communicate to the Audit Committee on the following matters:

	Comment						
<b>Audit strategy and scope</b>	Refer to our engagement letter dated March 10, 2015 and our audit plan dated February 3, 2015.						
<b>Fraud and illegal acts</b>	Based on the procedures we performed as required by Canadian auditing Standards (CAS) 240, <i>The auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> , we are not aware of any illegal acts or fraudulent events with respect to The Region of Waterloo during the year.						
<b>Materiality</b>	<p>Materiality is the magnitude of misstatements, including omissions, in the Financial Statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the financial statement users. Judgments about materiality are made in the light of surrounding circumstances, and are affected by our perception of the information needs of the financial statement users, and by the size or nature of a misstatement, or a combination of both. We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement.</p> <p>Canadian GAAS require that we determine performance materiality for purposes of assessing the risks of material misstatement of the Financial Statements and determining the nature, timing, and extent of our audit procedures. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the Financial Statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality is set at a lower level than materiality, so that if misstatements are detected, we may nevertheless be able to conclude with reasonable assurance that the uncorrected misstatements both in individually and in aggregate do not exceed materiality.</p> <p>Materiality levels were determined on the basis of consolidated expenses. We used the following materiality levels for the year ended December 31, 2014 :</p> <table border="1"> <thead> <tr> <th>Materiality</th> <th>Performance materiality</th> <th>Misstatement Threshold</th> </tr> </thead> <tbody> <tr> <td>\$18,100,000</td> <td>\$13,580,000</td> <td>\$800,000</td> </tr> </tbody> </table>	Materiality	Performance materiality	Misstatement Threshold	\$18,100,000	\$13,580,000	\$800,000
Materiality	Performance materiality	Misstatement Threshold					
\$18,100,000	\$13,580,000	\$800,000					
<b>Significant difficulties encountered in performing the audit</b>	We did not encounter any significant difficulties while performing the audit. There were no significant delays in receiving information from management required for the audit nor was there an unnecessarily brief timetable in which to complete the audit.						

	Comment
<b>Changes to the audit plan</b>	The audit was conducted in accordance with our audit plan, which was communicated to the Audit Committee. We confirm that there have been no significant amendments to the audit scope and approach communicated in the audit plan.
<b>Related party transactions</b>	We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments by management concerning measurement or disclosure.
<b>Disagreements with management</b>	In the course of our audit, we did not encounter any disagreements with management about matters that individually or in the aggregate could be significant to the consolidated financial statements.
<b>Consultation with other accountants</b>	Management has informed us that The Region of Waterloo has not consulted with other accountants about auditing or accounting matters.
<b>Legal and regulatory compliance</b>	<p>Management is responsible for ensuring that The Region of Waterloo's operations are conducted in accordance with the laws and regulations applicable to The Region of Waterloo in the jurisdictions in which it operates. The responsibility for preventing and detecting non-compliance rests with management.</p> <p>The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations.</p> <p>The legal and regulatory non-compliance matters reported below are restricted to those that came to our attention during the course of our substantive procedures and should not be considered to be exhaustive. Our limited procedures did not identify any areas of material non-compliance with laws and regulations by The Region of Waterloo.</p>
<b>Post-balance sheet events</b>	<p>Management is responsible for assessing subsequent events up to the date of the release of the financial statements.</p> <p>At the date of finalizing this report, we are not aware of any significant post balance sheet events.</p>
<b>Management representation letter</b>	A draft version of the management representation letter to be signed by management is included in Appendix 3.



# Appendix 1 – Communication requirements

In our audit plan, we committed to communicate certain items to the Audit Committee on a regular basis or as specified events occur. These items are summarized below. To the extent these matters have not been addressed elsewhere in this report, we have commented below based on our findings to date.

Reportable matter	Refer to this report or document described below
1. Our responsibilities under Canadian GAAS.	Audit plan communicated on February 3, 2015, and our Engagement letter.
2. Our audit strategy and scope.	Audit plan communicated on February 3, 2015, and our Engagement letter.
3. Management judgment and accounting estimates.	Management judgment and accounting estimates – page 6.
4. Uncorrected and corrected misstatements.	Uncorrected and corrected misstatements – Appendix 4.
5. Uncorrected disclosure misstatements.	Uncorrected disclosure misstatements – None.
6. Significant accounting policies.	Significant accounting policies – page 5.
7. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	Significant accounting policies – page 5
8. Our views about significant qualitative aspects of The Region of Waterloo's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	Significant accounting policies – page 5 Management judgment and accounting estimates – page 6.
9. Our responsibility for other information in documents containing audited Financial Statements (e.g., MD&A), any procedures performed, and the results.	None.
10. Disagreements with management.	Disagreements with management – page 8.
11. Our views about significant matters that were the subject of consultation with other accountants.	Consultation with other accountants – page 8.
12. Major issues discussed with management prior to our retention.	N/A – none.
13. Significant difficulties, if any, encountered during the audit.	Significant difficulties encountered in performing the audit – page 7.
14. All significant deficiencies in internal control identified during the audit.	Refer to audit results.
15. Material written communications between management and us.	Engagement letter dated March 10, 2015.

At a glance	Significant events	Integrated audit results	Other reportable matters	Appendices
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Reportable matter	Refer to this report or document described below
16. All relationships between The Region of Waterloo and us that, in our professional judgment, may reasonably be thought to bear on independence.	Independence letter – Appendix 2.
17. A statement that, in our judgment, our engagement team and others in our firm as appropriate, our firm itself and, when applicable, network firms have complied with relevant ethical requirements regarding independence.	Independence letter – Appendix 2.
18. Illegal or possibly illegal acts.	Fraud, errors and illegal acts – page 7.
19. Fraud or possible fraud identified through the audit process.	Fraud, errors and illegal acts – page 7.
20. Significant transactions inconsistent with normal course of business, including related party transactions.	Significant events and related party transactions – page 8.
21. Non-compliance with laws and regulations that come to the auditor's attention.	Legal and regulatory compliance – page 8.
22. Ineffectiveness of the Audit Committee's oversight over The Region of Waterloo's internal controls.	None noted.
23. Limitations placed on our scope.	None.
24. Written management representations the auditor is requesting.	Management representation letter – Appendix 3.

# Appendix 2 – Independence



Deloitte LLP  
4210 King Street East  
Kitchener ON N2P 2G5  
Canada

Tel: 519-650-7600  
Fax: 519-650-7601  
www.deloitte.ca

May 1, 2015

## Private and confidential

The Chair and Members of the Audit Committee  
Regional Municipality of Waterloo

Dear Members:

We have been engaged to audit the consolidated financial statements of The Regional Municipality of Waterloo (the “Municipality”) for the year ending December 31, 2014.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Municipality, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

We have considered relevant rules and related interpretations prescribed by the appropriate provincial institute / ordre and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 1, 2014, the date of our last letter.

We are not aware of any relationships between the Municipality and our Firm, including any network firms that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from May 1, 2014 to May 1, 2015.

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Regional Municipality of Waterloo  
May 1, 2015  
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We hereby confirm that we are independent with respect to the Municipality within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of May 1, 2015.

This report is intended solely for the use of the audit committee, Council, management, and others within the Municipality and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on May 15, 2015.

Yours very truly,



Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

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# Appendix 3 – Draft management representation letter

June 3, 2015

Deloitte LLP  
4210 King St E  
Kitchener ON N2P 2G5

Dear Sirs:

**Subject: Consolidated financial statements of The Regional Municipality of Waterloo for the year ended December 31, 2014**

This representation letter is provided in connection with the audit by Deloitte LLP (“Deloitte” or “you”) of the consolidated financial statements of The Regional Municipality of Waterloo (the “Municipality” or “we” or “us”) for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information (the “Financial Statements”) for the purpose of expressing an opinion as to whether the Financial Statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Municipality in accordance with Public Sector Accounting Standards (“PSAS”).

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## Financial statements

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between the Municipality and Deloitte dated March 10, 2015 for the preparation of the Financial Statements in accordance with PSAS. In particular, the Financial Statements are fairly presented, in all material respects, and present the financial position of the Municipality at December 31, 2014 and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with PSAS. The Municipality has appropriately disclosed in the Financial Statements the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Financial Statements.

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### Financial statements (continued)

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2014 that require adjustment to the estimates and disclosures included in the Financial Statements.

There are no changes in management's method of determining significant estimates in the current year.

3. We have determined that the Financial Statements are complete as of the date of this letter as this is the date when there are no changes to the Financial Statements (including disclosures) planned or expected; all final adjusting journal entries have been reflected in the Financial Statements and the Financial Statements have been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2014 and up to the date of this letter. All events subsequent to the date of the Financial Statements and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Financial Statements that are impacted by subsequent events have been appropriately adjusted.
5. The Financial Statements are free of material errors and omissions.
6. The Municipality has satisfactory title to and control over all assets, and there are no liens or encumbrances on such assets. We have disclosed to you and in the Financial Statements all assets that have been pledged as collateral.

### Information provided

7. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the Financial Statements, such as records, documentation and other matters. All financial statements and other financial information provided to you accurately reflect the activities and expenses of the Municipality and do not reflect any activities or expenses of any other person or entity;
  - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit; and,
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
8. All transactions have been properly recorded in the accounting records and are reflected in the Financial Statements.
9. We have disclosed to you the results of our assessment of the risk that the Financial Statements may be materially misstated as a result of fraud.
10. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the Financial Statements.
11. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's Financial Statements and all knowledge of concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting the Municipality that have been communicated by employees, former employees, or others, whether written or oral.

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### Information provided (continued)

12. We have disclosed to you all communications from regulatory agencies and all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Financial Statements.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, including guarantees, non-monetary transactions and transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
15. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Financial Statements. As appropriate, these items have been disclosed and accounted for in the Financial Statements in accordance with PSAS.
16. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Financial Statements.
17. We have disclosed to you, and the Municipality has complied with all aspects of contractual agreements that could have a material effect on the Financial Statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### Independence matters

For purposes of the following paragraph, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

18. Prior to the Municipality having any substantive employment conversations with a former or current Deloitte engagement team member, the Municipality has held discussions with Deloitte and obtained approval from the Audit Committee.

### Standard representations

19. The Municipality has applied the same accounting policies on a consistent basis for the opening PSAS statement of financial position and throughout all periods presented in the Financial Statements. These accounting policies are in accordance with the PSAS effective at the end of the current reporting period December 31, 2014.

### Plans or intentions affecting carrying value/classification of assets and liabilities

20. We have disclosed to you all plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the Financial Statements.

### Notes, loans and receivables

21. The Municipality is responsible for determining the appropriate carrying amount of notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes that the carrying amounts recorded and disclosed are appropriate.

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### Environmental liabilities/contingencies

22. We have considered the effect of environmental matters on the Municipality and have disclosed to you all liabilities, provisions or contingencies arising from environmental matters. All liabilities, provisions, contingencies and commitments arising from environmental matters, and the effect of environmental matters on the carrying values of the relevant assets are recognized, measured and disclosed, as appropriate, in the Financial Statements.

### Employee future benefits

23. Employee future benefit costs, assets, and obligations, as applicable, have been properly recorded and adequately disclosed in the Financial Statements including those arising under defined benefit and defined contribution plans as well as termination arrangements. We believe that the actuarial assumptions and methods used to measure defined benefit plan assets, obligations and costs for financial statement purposes are appropriate in the circumstances.
24. We have disclosed to you any intentions of terminating any of our pension plans or withdrawing from the multi-employer plan, or taking any other action that could result in an effective termination or reportable event for any of the plans. We have disclosed to you any occurrences that could result in the termination of any of our pension or multi-employer plans to which we contribute.

### Various matters

25. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:
- a. losses arising from sale and purchase commitments;
  - b. agreements to buy back assets previously sold;
  - c. provisions for future removal and site restoration costs;
  - d. financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
  - e. arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements;
  - f. all impaired loans receivable;
  - g. loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.

### Adjusting journal entries

26. We have reviewed and approved the year-end adjusting entries, including all related supporting schedules, and the financial statements and acknowledge our responsibility for their accuracy. While discharging our responsibility we may have requested your assistance or input in certain areas such as:
- a. Recording of transactions for which we have determined or approved the appropriate account classification;
  - b. Posting transactions to the general ledger;
  - c. Preparing financial statements;
  - d. Posting journal entries to the trial balance;
  - e. Performing non-custodial payroll services; and
  - f. Preparing taxation returns.

We acknowledge our responsibility for the above listed items and confirm that we have authorized, reviewed and approved all of the above items.

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Deloitte LLP  
June 3, 2015  
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**Investments**

27. The Municipality does not hold any investments in Master Asset Vehicle notes (which replaced third party non-bank asset backed commercial paper).

Yours very truly,

**The Regional Municipality of Waterloo**

---

Craig Dyer  
Chief Financial Officer

**Management Representation Letter – Appendix A**  
**The Regional Municipality of Waterloo**  
**Summary of uncorrected financial statement misstatements**

Year ended December 31, 2014

Description of misstatement	Assets	Accumulated surplus, beginning of year	Annual Surplus
	Increase/ (Decrease) \$	Increase/ (Decrease) \$	Increase/ (Decrease) \$
Understatement of depreciation expense – 2014	(1,368,797)	(968,174)	(400,623)
Overstatement of depreciation expense – 2014	(23,733)	(193,130)	169,397
<b>Total uncorrected known misstatements</b>	<b>(1,392,530)</b>	<b>(1,161,304)</b>	<b>231,226</b>
Capital project costs expensed instead of capitalized – estimated misstatement 2014	1,025,333		1,025,333
<b>Total uncorrected likely misstatements</b>	<b>1,025,333</b>		<b>1,025,333</b>

# Appendix 4 – Uncorrected and Corrected Misstatements and Disclosure Misstatements

## Uncorrected misstatements

### Items expensed that meet the definition of a tangible capital asset

Expenses of \$1,025,333 were recorded during the year for costs that met the Region's requirement for capitalization under the Tangible Capital Asset Policy. These items were recorded as an expense in 2014 because the related capital project was capitalized in the previous year when it was considered substantially complete consequently, these trailing costs were expensed.

2014 financial statement impact:

Tangible capital assets are understated by \$1,025,333 and 2014 expenses are overstated by \$1,025,333.

### Timing of transfers from work in progress to tangible capital asset additions

A tangible capital asset which was substantially complete and available for use in a previous year was not transferred from work in progress to tangible capital assets because additional costs were expected to be incurred. The additional costs incurred were not significant to the total cost of the project and the asset was in use for 2 years before it was recorded as a tangible capital asset.

2014 financial statement impact:

Tangible capital assets are overstated by \$1,392,530 accumulated surplus is overstated by \$1,161,304 and depreciation expense for 2014 is understated by \$231,226.

### Management's response

Regional staff intend to review asset management practices and correct the depreciation misstatement in 2015.

## Corrected misstatements

There are no corrected misstatements identified in the December 31, 2014 consolidated financial statements.

## Disclosure misstatements

There are no uncorrected disclosure misstatements identified in the December 31, 2014 consolidated financial statements.

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