



REGIONAL MUNICIPALITY OF WATERLOO AUDIT COMMITTEE MINUTES

Thursday, August 25, 2011
4:05 p.m.
Room 218
150 Frederick Street
Kitchener, Ontario

Present were: Chair T. Galloway, K. Seiling, S. Strickland, *J. Wideman and C. Zehr

DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT

None declared.

PRESENTATION

- a) [Presentation by Deloitte and Touche](#) - Outline of 2010 audit results and management letter

Peter Barr, Partner, Assurance and Advisory, introduced Heather Urie, Senior Manager of Assurance and Advisory, and Jennifer Gruber, Assistant Manager of Assurance and Advisory.

P. Barr and H. Urie provided an overview of the audit report, including:

- Scope of audit activities;
- Audit findings;
- 2010 audit conclusion;
- Financial statement presentation amendments;
- Results of work on areas of audit focus;
- Approval of financial statements and signing of management letter to occur on same day as date of statements;
- Independence of the auditor; and
- Matters to be communicated to the Audit Committee.

The report is attached to the original minutes.

P. Barr and H. Urie provided additional detail to the Committee on various aspects of the audit report, including:

- Random purchases greater than \$100,000 were selected for examination;
- Reserve funds were examined for proper process in transaction;
- Effects of Ontario Works reorganization upon noted bank reconciliation;
- Light rail transit decision will have no impact on 2010 financial statements;

The Committee requested greater detail be included with respect to the Ontario Works reconciliation.

b) Presentation - Region of Waterloo Financial Report 2010

Calvin Barrett, Director, Financial Services/Development Finance, provided an overview of the draft 2010 financial report, noting that the attached memo to the financial report assists in translating what is done on a tax basis to what is done on an accounting basis. He observed that the provincial government has not yet fully reconciled the *Municipal Act* with accounting practice as it applies to financial statements. The province will review these issues again in 2012.

The Committee clarified with C. Barrett that the Region obtains opinions from actuaries annually regarding the present value of future costs for various Regional obligations.

The Committee observed that the format of the financial report and the use of accounting terminology could make the report confusing to the casual reader, and asked what steps could be taken to make the report more easily understandable. Mike Murray, Chief Administrative Officer, responded that staff does not routinely assign much profile to the financial report owing to the those factors. C. Barrett added that the report is available to the public through the Region's website and copies are printed for the public by request.

C. Barrett noted that the Region's financial statements used to be published in the local newspaper, but that presently an announcement of the statements' preparation is made through the Region's website. It was clarified that the financial statements are not circulated to residents through Regional publications; M. Murray explained that currently information is included in the Region News, such as figures categorizing the use of tax dollars.

The Committee questioned the \$73 million figure listed as "Other" under the Region's revenues, and C. Barrett indicated that figure is mostly comprised of transit revenues. The Committee generally agreed that the size of the figure merits greater detail in the financial statements. H. Urie stated that Note 20 to the financial statements provides greater detail on that item, though the financial statements do not reference the note. The Committee asked that staff provide greater detail in the financial statements on this item, to specifically including transit and other items.

*J. Wideman left the meeting at 4:43 p.m.

The Committee observed that the financial statements imply the Region's prudent use of debt.

MOTION TO GO INTO CLOSED SESSION

MOVED by S. Strickland
SECONDED by C. Zehr

That a closed meeting of Audit Committee be held on August 25, 2011 during open session of Audit Committee in Room 218 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

CARRIED

MOTION TO RECONVENE INTO OPEN SESSION

MOVED by C. Zehr
SECONDED by S. Strickland

THAT the meeting reconvene into Open Session.

CARRIED

MOVED by C. Zehr
SECONDED by S. Strickland

THAT the Regional Municipality of Waterloo receive the 2010 Consolidated Financial Statements prepared by Deloitte and Touche LLP.

CARRIED

REPORTS – Chief Administrative Officer

a) CA-11-005, Facilities – Maintenance and Operations – Program Review 2010-2011

M. Murray provided introductory comments on the internal audit process, emphasizing that the process examines programs to see if they are efficient, effective, and how risks are being managed. He related that staff looks for all potential improvements for each facet, and that the facilities review was particularly challenging due to staff transitions which occurred in-process.

David A. Young, Manager, Internal Audit, noted the report's 15 recommendations and five key themes, with many recommendations addressed to the entire division despite the specificity of the audit.

*J. Wideman re-entered the meeting at 4:54 p.m.

Gary Sosnoski, Commissioner, Corporate Resources, commented that it was quickly apparent that the recommendations following the program review would be expanded to the divisional level, and that Facilities Management is not as efficient or effective as it needs to be despite good work of staff. The Region has outgrown the existing decentralized model of maintenance, and that a culture change within Facilities Management will be required to make the improvements recommended from the audit process. The recommendations will maximize the life of buildings and building components, mitigate sudden failures, help to manage costs and make improvements in measuring performance. A number of drivers of satisfaction are also to be addressed, such as improving timeliness and closing the communication loop with clients regarding the status of facility requests.

Ellen McGaghey, Director, Facilities, explained that the plan going forward would focus on five key business areas, and provided details as to the steps to be taken as well as the involvement of staff from various areas to implement the report recommendations. She expects that 2-3 years will be required to bring about full implementation of the recommendations.

The Committee inquired as to financial implications of the report's recommendations, and M. Murray noted some short term costs in 2012 which can be accommodated within existing budgets. He observed that systems will be in place by 2012 to track costs, and once operating,

will allow for estimates of expected cost savings and full lifecycles of buildings. G. Sosnoski addressed the consultant's cost estimate of \$975,000 noted in the report, and explained that those estimates incorporate a different approach than what staff are proposing. Staff aims to avoid new costs, and would prefer to redirect existing funding approval to keep the implementation cost neutral. G. Sosnoski observed that the FTE approved in the most recent budget for asset management was held back until the results of the audit came forward.

The Committee asked why the Archibus system was removed, and G. Sosnoski replied that the system was underutilized; the system will be fully implemented following the program review. E. McGaghey indicated that no new software licensing would be required for systems in place, but that additional licensing may be required for asset management activities.

The Committee asked whether assessment of lifecycle costs for buildings will become a part of the design process for new construction. E. McGaghey responded that a full-fledged asset management program would include those considerations in the design phase of buildings, and G. Sosnoski noted that while the lowest bid from contractors do not necessarily yield the lowest lifecycle costs, the Region is getting better at building those considerations into the design specifications to provide the best long-term value. The Committee emphasized that lifecycle cost considerations are made from initial design through to construction completion.

The Committee asked the merits of consolidating maintenance suppliers and forming maintenance agreements with a small number of suppliers. E. McGaghey responded that no such analysis has occurred but could come as the audit recommendations proceed. She asserted that business systems will be realigned immediately, and that the Region could examine such actions by the end of 2012. G. Sosnoski noted the significant culture changes coming from the audit, and cited the importance of building understanding and acceptance for the coming changes.

The Committee questioned whether lifecycle cost considerations arose when the Region implemented Tangible Capital Asset Accounting. G. Sosnoski responded in the affirmative, stating that staff have to date done their best with the existing systems, and the ability to examine all buildings comprehensively is new. He added that several organizations exist to bring about the proposed improvements, which will result in a made-in-Region solution.

The Committee asked how the responsibility for the report's recommendations would be allocated, suggesting that Facilities Management staff could ultimately be the drivers of the proposed changes. M. Murray responded that the Region is moving toward Facilities Management being responsible for all buildings except water and wastewater facilities, where Facilities Management would be responsible only for the building envelope. G. Sosnoski suggested that program areas may recognize the benefit of Facilities Management as a centralized 'landlord'.

The Committee observed that some organizations contract out facilities maintenance, and asked if this has been considered by the Region. G. Sosnoski responded that the option had been examined in the past, and that staff sees more value in retaining internal resources, though as the recommendations are implemented the option may again be reviewed. M. Murray noted that the Region presently has a mix of staff and contractors for facilities maintenance, with staffing for a base level of work and hiring beyond that level as needed; the Region's facilities management is comparable to OMBI municipalities and large building contractors.

The Committee affirmed the proposed changes and cultural shift, and suggested that firm rules would be needed to assist implementation. The Committee also suggested that the relationship

between Facilities Management and program areas would be more collaborative than the landlord/tenant metaphor might suggest.

The Committee asked how staff will track the exact savings from the proposed actions, and E. McGaghey responded that the first action is to implement systems to monitor the present costs, and then to undertake new initiatives when the savings can be accurately projected out. G. Sosnoski observed that Facilities Management staff does not necessarily know what is contained within other budgets beyond their control, and that the operative action is to begin tracking and measuring of costs. M. Murray indicated that the follow-up for all program reviews involves periodic reporting back to Council, where measured savings can be reported back.

The Committee thanked all staff involved in the review, noting the high quality of the analysis and the benefit to the organization.

MOVED by J. Wideman
SECONDED by S. Strickland

THAT the Audit Committee endorse in principle the findings of the Facilities – Maintenance and Operations – Program Review 2010-2011 (Report CA-11-005) recognizing that implementation will be subject to annual budget approval.

CARRIED

OTHER BUSINESS

- a) Council Enquiries and Requests for Information Tracking Sheet was received for information.

NEXT MEETING – to be announced

ADJOURN

MOVED by S. Strickland
SECONDED by J. Wideman

THAT the meeting adjourn at 5:46 p.m.

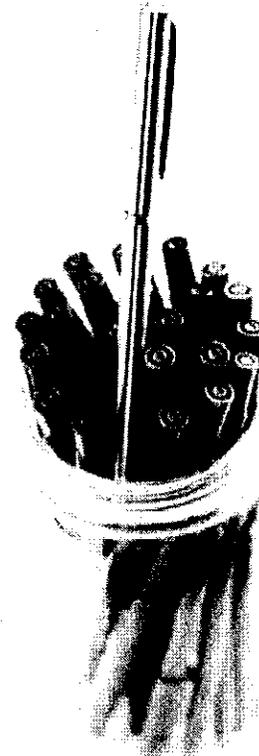
CARRIED

COMMITTEE CHAIR, *T. Galloway*

COMMITTEE CLERK, *M. Grivicic*

Deloitte

Year-end communication
Regional Municipality of
Waterloo



For the year ended December 31, 2010
Presented to the Audit Committee
August 25, 2011



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

August 25, 2011

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Audit Committee
The Regional Municipality of Waterloo
150 Frederick St
Finance Dept. 4th Floor
Kitchener ON N2G 4J3

Dear Audit Committee Members:

We have performed an audit of the financial statements of the Regional Municipality of Waterloo as of and for the year ended December 31, 2010, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon dated August 25, 2011.

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 14, 2011.

Use of our report

This report is intended solely for the information and use of the Audit Committee Members, management and others within 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,

Deloitte & Touche LLP
Chartered Accountants

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Executive summary

This report summarizes the main findings arising from our audit.

Audit findings

Audit results	<p>Our audit of the financial statements is designed to obtain reasonable, rather than absolute, assurance as to whether the financial statements are free of material misstatement.</p> <p>There were no significant departures from the audit planning and risk assessment described in the audit plan, which we presented on February 14, 2011.</p> <p>A detailed description of our audit results has been included on page 3 and 4 of this report.</p>
Status of our audit	<p>We expect to be in a position to render our audit opinion dated August 25, 2011 on the Consolidated financial statements of the Regional Municipality of Waterloo following approval of the Consolidated financial statements by Council and the completion of the following outstanding procedures :</p> <ul style="list-style-type: none">• Receipt of signed management representations letter• Completion of the Engagement Quality Control review
Audit risks	<p>In accordance with our audit plan, our procedures focused on the following areas that we identified as risks of material misstatements in the current year:</p> <ul style="list-style-type: none">• Accounts Payable and Accrued Liabilities• Actuarially Determined Liabilities• Contingencies• Council and Senior Management expenses• Estimates• Payroll• Procurement process• Reserves and Reserve Funds• Revenue/Deferred Revenue• Taxation Revenue <p>There were no substantive changes in the risks identified in our audit plan. We have summarized the results of our audit procedures for each of these risk areas on page 5 and 6 of this report.</p>

Audit findings

Fraud and illegal acts	Based on the procedures we performed as recommended by 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 Region of Waterloo during the year.
Significant accounting policies	<p>The Region's significant accounting policies are set forth in Note 1 to December 31, 2010 financial statements.</p> <p>We believe management's selection of accounting policies to be appropriate under Canadian public sector accounting standards. Our views on the significant quantitative and qualitative aspects of these accounting policies are presented on page 8 of this report.</p>
Management judgment and accounting estimates	<p>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.</p> <p>During the year ended December 31, 2010, management advised us that there were no significant changes in accounting estimates or in judgments relating to such estimates.</p> <p>Our views on the significant quantitative and qualitative aspects of the judgments and estimates made by Region of Waterloo's management are presented on page 8 of this report.</p>
Audit adjustments and uncorrected misstatements	In accordance with Canadian GAAS, we request that misstatements be corrected. We have aggregated all uncorrected misstatements greater than \$735,000 and those that are quantitatively insignificant but qualitatively significant, in the appendices attached to the management representation letter. All proposed uncorrected audit adjustments 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.
Adjusted and unadjusted disclosure deficiencies	Management has concluded that the financial statements are not materially misstated, and we concur with management's assessment.
Independence	<p>We have developed appropriate safeguards and procedures to eliminate threats to our independence or to reduce them to an acceptable level.</p> <p>As required under GAAS, we have reported 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, 2010 in Appendix B.</p>
Representations letter	A draft version of the representations letter to be signed by management is included in Appendix C.
Conclusion	<p>We intend to issue an unmodified audit report on the Consolidated financial statements of the Regional Municipality of Waterloo for the year ended December 31, 2010 once the outstanding items referred to above are satisfactorily completed and the Consolidated financial statements are approved by Council.</p> <p>A draft version of our Auditor's report is included in Appendix A.</p>
Fees	We communicated our proposed audit fees in our detailed audit plan. There have been no changes to our proposed fee.
Communications	<p>As a part of our audit plan, we committed to communicate certain matters to the Audit Committee.</p> <p>A summary of our communications is provided in Appendix D.</p>

Audit scope and findings

We have prepared the following comments to assist you in fulfilling your oversight responsibilities of the financial reporting and disclosure process for which management of Region of Waterloo is responsible.

In accordance with Canadian GAAS, our audit is designed to enable us to express an opinion on the fairness of the presentation of the Regional Municipality of Waterloo's annual financial statements prepared in accordance with Canadian public sector accounting standards.

Changes to the audit plan

The December 31, 2010 audit was conducted in accordance with our audit plan, which was presented to the Audit Committee. We confirm that there have been no significant amendments to the audit scope and approach communicated in the audit plan.

Group audit

We are auditors of all the entities within the group. 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.

Status of matters reported in the prior year

We have considered and followed up on the matters reported in the prior year to the Region of Waterloo Audit Committee and in reports to management, where appropriate. The issues raised have been adequately addressed.

Use of the work of experts

As planned, Deloitte and outside experts assisted in the audit to the extent we considered necessary:

IT specialists	participated in evaluating internal controls and in using our computerized audit applications
Commodity Tax experts	helped assess the adequacy of the Region's accounting for commodity taxes and related balance sheet accounts
Actuarial experts	helped assess the adequacy of the employee future benefits liability

Consultation with other accountants

Management has informed us that Region of Waterloo has not consulted with other accountants about auditing or accounting matters.

Related party transactions

We have not identified any related party transactions that are not in the normal course of operations and that involve significant judgments by management concerning measurement or disclosure.

Legal and regulatory compliance

Management is responsible for ensuring that Region of Waterloo's operations are conducted in accordance with laws and regulations. The responsibility for preventing and detecting non-compliance rests with management.

The auditor is not and cannot be held responsible for preventing non-compliance with laws and regulations.

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 procedures did not identify any areas of material non compliance with laws and regulations by Region of Waterloo.

Post-balance sheet events

Management is responsible for assessing subsequent events up to the date of the release of the financial statements.

At the date of finalizing this report, we are not aware of any significant post balance sheet events.

Other information in the annual reports to taxpayers

We will read the other information presented in the annual reports to taxpayers and considered whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us.

Audit risks

Our audit plan identified certain areas, which we refer to as significant audit 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 below:

Risks

Areas of risk	Our audit response	Our conclusion
Accounts Payable and Accrued Liabilities	<ul style="list-style-type: none"> • Test disbursements subsequent to year-end to determine the reasonableness of accounts payable and accrued liabilities. • Test the supporting assumptions for accruals. • Review the outcome of prior year estimates and accruals 	<ul style="list-style-type: none"> • No material misstatements noted. Accounts payable and accrued liabilities are reasonable as at December 31, 2010.
Actuarially Determined Liabilities	<ul style="list-style-type: none"> • Review actuary report, including related assumptions. • Ensure appropriate accounting treatment has been applied. • Review related financial statement note disclosure for accuracy and completeness. • Communicate with actuary on our reliance on their report for audit purposes. 	<ul style="list-style-type: none"> • No material misstatements noted. Actuarially determined liabilities are reasonable as at December 31, 2010.
Contingencies	<ul style="list-style-type: none"> • We will contact the Municipality's external law firms to obtain the status of any outstanding claims and review evaluation of claims to ensure proper recognition. 	<ul style="list-style-type: none"> • No material misstatements noted. Disclosure is complete and accurate.
Council and Senior Management expenses	<ul style="list-style-type: none"> • Review of sample of expense reports for validity and proper approval 	<ul style="list-style-type: none"> • Expenses tested were in line with the Region's expense policies.
Estimates	<ul style="list-style-type: none"> • Test the supporting assumptions for estimates. • Review the outcome of prior year estimates and accruals 	<ul style="list-style-type: none"> • Management estimates were determined to be reasonable for the year ending December 31, 2010.
Payroll	<ul style="list-style-type: none"> • Focused detail testing on payroll expenditures and accruals. • Substantive testing on variances. 	<ul style="list-style-type: none"> • No material misstatements noted. Payroll expense is reasonable for the year ending December 31, 2010.
Procurement process	<ul style="list-style-type: none"> • Perform compliance testing on procurement policy 	<ul style="list-style-type: none"> • Expenses tested subject to testing for the 2010 fiscal year were reasonable and in line with the Region's procurement policy.

Areas of risk	Our audit response	Our conclusion
Reserves and Reserve Funds	<ul style="list-style-type: none"> • Approval of transfers to and from reserves and reserve funds 	<ul style="list-style-type: none"> • No material misstatements noted. Reserve and Reserve Funds balance are reasonable as at December 31, 2010.
Revenue/Deferred Revenue	<ul style="list-style-type: none"> • Recording of grants, charges, contributions and other monies received. 	<ul style="list-style-type: none"> • No material misstatements noted.
Taxation Revenue	<ul style="list-style-type: none"> • Calculation of taxation for municipal purposes. • Ensure that Management's estimate of allowance for doubtful accounts is reasonable. 	<ul style="list-style-type: none"> • No material misstatements noted. Taxation revenue is reasonable for the year ending December 31, 2010.

Internal control matters

We obtained an understanding of internal control relevant to the audit, however not all controls are relevant to every audit. We evaluated the design of controls relevant to the audit and determined whether they have been implemented. We are not, however, required in a non-integrated audit to determine whether all relevant controls are operating effectively. Although not required by Canadian GAAS, we may decide that, for a particular engagement, it makes sense to rely on the effective operation of some controls to determine our planned substantive procedures we will perform. 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.

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

- Budget
- Payroll
- Treasury
- Expenditures

Canadian GAAS require 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, provided under separate cover minor recommendations noted.

Significant accounting practices

Significant accounting policies are those that are most important to the portrayal of Regional Municipality of Waterloo's financial condition and the results of operations.

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.

Changes in accounting policies

During the year ended December 31, 2010, there were no significant changes in previously adopted accounting policies or their application.

Significant accounting policies

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

Management judgment and accounting estimates

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 consolidated financial statements around estimation uncertainty is in accordance with Canadian public sector accounting standards and is appropriate to the particular circumstances of the Regional Municipality of Waterloo.

Appendices

Appendix A – Draft version of our Independent Auditor’s Report

Deloitte & Touche LLP
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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, 2010, and the consolidated statements of financial activities, changes 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

(To be signed Deloitte & Touche LLP)

Chartered Accountants
Licensed Public Accountants
August 25, 2011
Kitchener, Ontario

Appendix B – Independence letter

Deloitte

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

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

June 21, 2011

Private and confidential

The Chairman 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 “Region”) for the year ending December 31, 2010.

Canadian generally accepted auditing standards (GAAS) require 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 Region, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. We are also required to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, these standards require us to consider 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 January 12, 2011, the date of our last letter.

Regional Municipality of Waterloo
June 21, 2011
Page 2

Our firm has provided non-audit services to the Region from January 12, 2011 to June 21, 2011. These services include GST recovery, advisory services related to light rail transit, monitoring contract negotiations with Ontario Clean Water Agency, and incidental taxation advice. The provision of these services, in our professional judgement, does not impair our audit independence relationship.

GAAS requires that we confirm our independence to those charged with governance in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Accordingly, we hereby confirm that we are independent with respect to the Region within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 21, 2011.

This report is intended solely for the use of the audit committee, Council, management, and others within the Region 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 August 25, 2011.

Yours very truly,

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Appendix C – Draft letter of representation

August 25, 2011

Deloitte & Touche LLP
4210 King St E
Kitchener ON N2P 2G5

Dear Sirs:

Subject: Consolidated financial statements for the year ended December 31, 2010

This representation letter is provided in connection with the audit by Deloitte & Touche 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, 2010 (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 Canadian public sector standards (“PSAS”).

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the Financial Statements would influence the decision of a reasonable person relying on the Financial Statements.

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 December 13, 2010 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 as at December 31, 2010 and the results of its operations and cash flows for the year then ended in accordance with PSAS.
2. In preparing the Financial Statements in accordance with PSAS, management makes judgments and assumptions about the future and uses estimates. The completeness and adequacy 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.

Significant assumptions used in making estimates are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity. The measurement methods, including the related assumptions and models, used in determining the estimates 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.

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

3. With regard to the fair value measurements and disclosures of certain assets, liabilities, and specific components of equity, we believe that:
 - a) The measurement methods, including the related assumptions and models, used in determining fair value were appropriate, reasonable and consistently applied in accordance with PSAS.
 - b) The completeness and adequacy of the disclosures related to fair values are in accordance with PSAS.
 - c) No events have occurred subsequent to December 31, 2010 that require adjustment to the fair value measurements and disclosures included in the Financial.
 - d) They appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Municipality when relevant to the use of fair value measurements or disclosures.
4. All related party relationships and transactions (including associated amounts receivable and payable) have been appropriately accounted for and disclosed in the Financial Statements in accordance with the requirements of PSAS.
5. We have completed our review of events after December 31, 2010 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.
6. The Financial Statements are free of material errors and omissions.
7. Management has completed its assessment of the ability of the Municipality 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 Municipality's ability to continue as a going concern, which would require disclosure in the Financial Statements. In assessing whether the going concern assumption is appropriate, management took into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date, their plans for future action and the feasibility of these plans.
8. 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.

Information provided

9. 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;
 - b) 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.
10. All transactions have been recorded in the accounting records and are reflected in the Financial Statements.
11. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
12. 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.
13. 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.
14. 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, analysts, regulators, or others, whether written or oral.
15. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations including the Corruption of Foreign Public Officials Act or similar Acts whose effects should be considered when preparing the Financial Statements.
16. We have disclosed to you all communications from:
- a) taxation authorities concerning assessments or reassessments that could have a material effect on the Financial Statements; and
 - b) regulatory agencies concerning noncompliance with or potential deficiencies in, financial reporting requirements. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
17. We have disclosed to you any change in the Municipality's internal control over financial reporting that occurred during the current year that has materially affected, or is reasonably likely to materially affect, the Municipality's internal control over financial reporting.
18. 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, transactions for no consideration and participation in a defined benefit plan that shares risks between group entities.

Independence matters

For purposes of paragraphs 19, "Deloitte" shall mean Deloitte & Touche LLP and Deloitte Touche Tohmatsu Limited, its member firms and the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu Limited and its member firms.

19. 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.

Uncorrected misstatements detected that relate to the prior year

20. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the Financial Statements for the year ended or period ended December 31, 2010 taken as a whole.

Selection of accounting policies and recording of transactions

21. The Municipality's accounting policies and their method of application have been applied on a basis consistent with that of the audited consolidated financial statements as of and for the year ended December 31, 2009.

Compliance with contractual agreements

22. 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.

Title to assets

23. The Company 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.

Work of management's experts

24. We agree with the work of management's experts in evaluating the employee future benefits and have adequately considered the competence and capabilities of the experts in determining amounts and disclosures used in the Financial Statements and underlying accounting records. We did not give any, nor cause any, instructions to be given to management's experts with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the experts.

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

25. 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.

Liabilities and contingencies

26. 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.

Loans and receivables

27. The Municipality is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowance is adequate to absorb currently estimated bad debts in the account balance.

Environmental liabilities/contingencies

28. 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

29. Employee future benefit costs, assets, and obligations 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, liabilities and costs for financial accounting purposes are appropriate in the circumstances.

30. 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

31. The following have been properly recorded and, when appropriate, adequately disclosed and presented in the Financial Statements:

- a) economic dependence on another party;
- b) losses arising from sale and purchase commitments;
- c) agreements to buy back assets previously sold;
- d) provisions for future removal and site restoration costs;
- e) financial instruments with significant individual or group concentration of credit risk, and related maximum credit risk exposure;
- f) sales with recourse provisions;
- g) sales incentives, including cash consideration provided to customers and vendor rebates;
- h) arrangements with financial institutions involving compensating balances or other arrangements involving restriction on cash balances and line-of-credit or similar arrangements;
- i) all impaired loans receivable; and
- j) loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.

32. 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.

Investments

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

Long-lived assets

34. With respect to the Municipality's long-lived assets, we have recognized and recorded the fair value of all legal obligations associated with the retirement of those related assets.

Yours very truly,

The Regional Municipality of Waterloo

Larry Ryan
Chief Financial Officer

Calvin Barrett,
Director, Financial Services/Development Financing

Appendix D – Communication requirements

In our audit plan presented, we committed to communicate certain items to the Audit Committee on a quarterly basis or as specified events occur. These items are summarized below.

Required communication	Comments
1. Our responsibilities under GAAS.	Audit plan presented on February 14, 2011
2. Our audit strategy and scope, including approach to auditing financial information of components of the group audit and our planned involvement in work performed by component auditors.	Audit plan presented on February 14, 2011
3. Management judgment and accounting estimates.	No issues noted - see comments on page 8.
4. Financial statement adjustments.	There were no audit adjustments and no uncorrected misstatements.
5. Uncorrected misstatements.	There were no audit adjustments and no uncorrected misstatements.
6. Significant accounting policies.	Significant accounting policies on page 8.
7. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	No alternative significant accounting policies were noted.
8. Our views about significant qualitative aspects of the Region's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	Significant accounting practices – see page 8 of this report
9. Our responsibility for other information in documents containing audited consolidated financial statements, any procedures performed, and the results.	Annual report to be reviewed.
10. Disagreements with management.	None.
11. Our views about significant matters that were the subject of consultation with other accountants.	None.
12. Significant difficulties, if any, encountered during the audit.	None.

Required communication	Comments
<p>13. All deficiencies in Internal Control over Financial Reporting (ICFR) that existed as of the date of management's assessment and were concluded to be material weaknesses or significant deficiencies in ICFR.</p> <p>All deficiencies in ICFR of a lesser magnitude communicated to management.</p>	<p>No material weaknesses or significant deficiencies in ICFR noted.</p>
<p>14. Material written communications between management and us.</p>	<p>Engagement letter dated December 13, 2010</p>
<p>15. All relationships between Region of Waterloo and us that, in our professional judgment, may reasonably be thought to bear on independence.</p>	<p>Independence letter - Appendix B</p>
<p>16. A statement that, in our judgment, 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.</p>	<p>Independence letter - Appendix B</p>
<p>17. Illegal or possibly illegal acts.</p>	<p>None noted.</p>
<p>18. Fraud or possible fraud identified through the audit process.</p>	<p>None noted.</p>
<p>19. Significant transactions inconsistent with ordinary business, including related party transactions.</p>	<p>None noted.</p>
<p>20. Non-compliance with laws and regulations that come to the auditor's attention.</p>	<p>None noted.</p>
<p>21. If we became aware that the oversight of the Region's external financial reporting and internal control over financial reporting by the Region's Audit Committee Members is ineffective, we committed to communicate that information in writing to Council.</p>	<p>None noted.</p>
<p>22. Limitations placed on our scope.</p>	<p>None noted.</p>
<p>23. Written representations the auditor is requesting.</p>	<p>Draft management's representations letter - Appendix C</p>

Appendix E – Standard-setting update as of April 20, 2011

Public sector accounting standards

Final Standard	Effective Date
<p>Introduction to Public Sector Accounting Standards Not-for-Profit Organizations</p> <p>The Introduction to Public Sector Accounting Standards was amended to require that, for purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CICA Public Sector Accounting (PSA) Handbook or the standards in the CICA PSA Handbook without Sections PS 4200 to PS 4270.</p>	January 1, 2012
<p>Introduction to Public Sector Accounting Standards – Government Business Enterprises</p> <p>The introduction to Public Sector Accounting Standards was amended to confirm that, for purposes of their financial reporting, government business enterprises should adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting Part 1. The government business-type organization category of government organizations was eliminated and Appendix B was removed.</p>	January 1, 2011
<p>Section PS 2100 (Revised), Disclosure of Accounting Policies</p> <p>PSAB approved an amendment to Section PS 2100, <i>Disclosure of Accounting Policies</i>, to deal with recent changes to the source of accounting standards applied by various types of organizations in Canada.</p>	January 1, 2011
<p>Section PS 2125, First-time Adoption of Public Sector Accounting Standards by Government Organizations</p> <p>This new Section establishes recognition, measurement, presentation and disclosure standards relating to adoption by a government organization of the CICA Public Sector Accounting Handbook for the first time.</p>	January 1, 2011
<p>Section PS 3260, Liability for Contaminated Sites</p> <p>This new Section establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments and those organizations applying the CICA Public Sector Accounting Handbook.</p>	April 1, 2014
<p>Section PS 3410 (Revised), Government Transfers</p> <p>PSAB approved a final standard to replace existing Section PS 3410, which establishes standards on how governments should account for and report</p>	April 1, 2012

Final Standard	Effective Date
government transfers to individuals, organizations and other governments from both a transferring government and a recipient government perspective.	
<p>Section PS 3510, Tax Revenue</p> <p>This new Section establishes recognition, measurement, presentation and disclosure standards relating to tax revenue reported in financial statements.</p>	April 1, 2012
<p>Section PS 3800, Government Assistance</p> <p>In June 2010, this Section has been withdrawn as a result of the adoption of IFRSs by certain government organizations. Section PS 3800 will remain in effect until the adoption of IFRSs for fiscal periods beginning on or after January 1, 2011, unless a government organization has elected early adoption.</p>	Withdrawn – January 1, 2011
<p>Section PS 4200 – PS 4270, Government Not-for-profit Organizations</p> <p>The PSAB approved the inclusion of the PS 4200 to PS 4270 series of standards into the PSA Handbook for use by government organizations applying the standards for not-for-profit organizations</p>	January 1, 2012

Proposed standards	Comment period ends
<p>Financial Instruments</p> <p>This exposure draft proposes a new accounting standard, <i>Financial Instruments</i>, which will provide guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives, by government organizations.</p>	January 15, 2010
<p>Financial Instruments and Foreign Currency Translation: Financial Statement Presentation</p> <p>This exposure draft proposes the introduction of a statement of remeasurement gains and losses to report unrealized gains and losses on financial instruments and foreign exchange.</p>	January 17, 2011
<p>Financial Statements for Government Organizations (formerly Entity Level Financial Statements)</p> <p>The objective of this SOP is to obtain comments on the tentative conclusions of the PSAB prior to the issue of an exposure draft that will provide guidance for departmental, ministerial or other governmental entity level general purpose financial statements.</p>	September 28, 2009
<p>Foreign Currency Translation</p> <p>This exposure draft proposes amendments to Section PS 2600, <i>Foreign Currency Translation</i>. The objective is to amend Section PS 2600, taking into consideration the final recommendations of the Financial Instruments project and the conceptual framework, to ensure consistent accounting standards, including with respect to remeasurement gains and losses.</p>	January 15, 2010

Projects	Last updated
<p>Amalgamations and Restructuring</p> <p>The objective of this project is to issue an accounting standard that addresses the definition and classification of amalgamation and restructuring activities, the recognition criteria and accounting treatment of such transactions, the measurement basis of assets and liabilities involved and the disclosure requirements unique to amalgamation and restructuring activities.</p>	February 2011
<p>Appropriations</p> <p>The objective of this project is to issue a new accounting standard that addresses recognition and disclosure of appropriations.</p>	February 2011
<p>Assets</p> <p>The objective of this project is to issue one or more accounting standards to provide more detailed guidance with respect to accounting for assets, including contingent assets and contractual rights.</p>	February 2011
<p>Concepts Underlying Financial Performance</p> <p>The objective of this project is to review and amend, if necessary, the conceptual framework in Sections PS 1000, <i>Financial Statement Concepts</i>, and PS 1100, <i>Financial Statement Objectives</i>. This review could also affect Section PS 1200, <i>Financial Statement Presentation</i>.</p>	February 2011
<p>Related Party Transactions</p> <p>The objective of this project is to issue a new accounting standard that defines a related party in the context of government and government organizations, describes the disclosure required for related parties and related party transactions and addresses recognition and disclosure of appropriations</p>	February 2011
<p>Revenue from Exchange Transactions</p> <p>The objective of this project is to address accounting and financial reporting issues related to revenue from exchange transactions</p>	February 2011

Appendix F – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focusing on client service. To this end, we have developed numerous resources, which contain relevant and timely information for our clients and are accessible by our clients. Included below is an overview of these resources. These resources are available through the Deloitte Portal (www.deloitte.com/ca/portal).

Other resources		
Canadian resources	Audience	Description and frequency
Centre for Corporate Governance www.corpgov.deloitte.ca	<ul style="list-style-type: none"> • Audit Committee members • Board members • CEO/CFO • Internal auditor • Legal counsel 	<p>Web site specifically designed to help board members with their responsibilities.</p> <p>It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.</p>
DeloitteLINK www.deloitte.com/ca/DeloitteLINK	<ul style="list-style-type: none"> • CFO • V-P Finance • Controller • Financial reporting team 	Weekly e-newsletter that helps the finance team to stay on top of standard-setting initiatives.
Deloitte Update www.deloitte.com/ca/update	<ul style="list-style-type: none"> • CFO • V-P Finance • Controller • Financial reporting team 	Learning webcasts offered throughout the year featuring Deloitte professionals discussing critical issues that affect your business.
Directors' Series www.deloitte.com/ca/DirectorsSeries	<ul style="list-style-type: none"> • Audit Committee members • CEO/CFO • Internal auditor • Legal counsel 	The Directors' Series are held as live satellite broadcasts in locations across the country four or five times per year. They provide Canadian corporate directors with an opportunity to keep up with their learning requirements in a time of frequent change and new demands.

Other resources		
Integrity in the Spotlight	<ul style="list-style-type: none"> • Audit Committee members • CEO/CFO • Internal auditor • Legal counsel 	Second edition of a book on Audit Committee effectiveness, co-authored by retired Deloitte partner Jim Goodfellow and Maureen Sabia, chair of the Audit Committee at Canadian Tire. The book is a useful tool for discussions with your Audit Committee.
On the Agenda	<ul style="list-style-type: none"> • Audit Committee members • CEO/CFO • Internal auditor • Legal counsel 	Bi-monthly e-newsletter that advises directors about recent developments affecting their responsibilities, including the points of view of Deloitte professionals.
Standard-Setting Activities Digest www.deloitte.com/ca/standards	<ul style="list-style-type: none"> • CFO • V-P Finance • Controller • Financial reporting team 	Monthly online updates on recent developments in standard-setting from a comprehensive list of standard-setting organizations.

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