

Consolidated financial statements of

The Regional Municipality of Waterloo

December 31, 2019

The Regional Municipality of Waterloo

December 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of The Regional Municipality of Waterloo (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statements of operations and accumulated surplus for the year then ended
- the consolidated statement of changes in net debt for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated results of operations, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the consolidated Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.



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

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

May 6, 2020

The Regional Municipality of Waterloo
Consolidated Statement of Financial Position
as at December 31, 2019 (in thousands of dollars)

	2019	2018
	(\$000s)	(\$000s)
Financial assets		
Cash	189,342	174,081
Accounts receivable	189,962	214,144
Other assets	6,500	6,079
Investments (Note 3)	165,625	149,630
Long-term receivables (Note 6)	165,144	172,174
Total financial assets	716,573	716,108
Liabilities		
Accounts payable	90,987	103,984
Other liabilities	65,592	81,015
Deferred revenue (Note 4)	84,545	41,469
Mortgages payable	3,260	3,523
Long-term liabilities (Note 6)	866,772	857,949
Employee future benefits liability (Note 10)	213,800	206,406
Landfill closure & post-closure liability (Note 11)	76,097	72,038
Contaminated sites liability (Note 12)	1,472	1,472
Total liabilities	1,402,525	1,367,856
Net Debt	(685,952)	(651,748)
Non-financial assets		
Tangible capital assets (Note 15)	3,475,178	3,316,744
Inventory	8,168	7,010
Prepaid expenses	13,030	12,022
Total non-financial assets	3,496,376	3,335,776
Accumulated surplus (Note 16)	2,810,424	2,684,028

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, 2019 (in thousands of dollars)

	2019 Budget (Note 18) (\$000s)	2019 Actual (\$000s)	2018 Actual (\$000s)
Revenue			
Property taxes	557,190	558,687	532,790
Government transfers			
Canada	47,623	48,042	57,771
Ontario	305,624	309,154	362,905
User fees, fines and service charges	240,570	244,628	237,094
Development charges earned	56,442	56,442	66,281
Investment income	8,927	9,054	7,346
Other	4,762	1,305	1,078
Total revenue	1,221,138	1,227,312	1,265,265
Expense			
General government	52,595	58,840	57,870
Police and other protective services	197,706	201,241	196,233
Transportation services	70,628	75,332	79,319
Transit	195,171	182,447	166,294
Environmental services	173,163	170,231	169,043
Health services	71,389	68,813	67,093
Social and family services	237,097	238,525	237,039
Housing	86,521	85,112	87,886
Planning and culture	21,090	20,375	20,402
Total expense	1,105,360	1,100,916	1,081,179
Annual surplus	115,778	126,396	184,086
Accumulated surplus, beginning of year		2,684,028	2,499,942
Accumulated surplus, end of year (Note 16)		2,810,424	2,684,028

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, 2019 (in thousands of dollars)

	2019	2018
	Actual	Actual
	(\$000s)	(\$000s)
Annual Surplus	126,396	184,086
Acquisition of tangible capital assets	(290,715)	(238,584)
Amortization of tangible capital assets	131,374	124,733
Loss on disposal of tangible capital assets	403	2,145
Proceeds on disposal of tangible capital assets	504	867
Change due to tangible capital assets	(158,434)	(110,839)
Decrease (increase) in inventory	(1,158)	66
Decrease (increase) in prepaid expenses	(1,008)	(1,641)
Change in inventories and prepaid expenses	(2,166)	(1,575)
Change in net debt	(34,204)	71,672
Net Debt beginning of year	(651,748)	(723,420)
Net Debt end of year	(685,952)	(651,748)

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, 2019 (in thousands of dollars)

	2019	2018
	(\$000s)	(\$000s)
Operating Activities		
Annual Surplus	126,396	184,086
Non-cash charges to operations		
Amortization of tangible capital assets	131,374	124,733
Amortization of bond premium	(556)	(904)
Change in employee future benefits liability	7,394	12,288
Change in landfill closure and post-closure liability	4,059	7,568
Change in contaminated sites liability	-	750
Loss on sale of tangible capital assets	403	2,145
Change in non-cash assets and liabilities		
Accounts receivable	24,182	(18,130)
Other assets	(421)	18
Accounts payable	(12,997)	(24,642)
Other liabilities	(15,423)	7,760
Deferred revenue	43,076	(8,127)
Inventory	(1,158)	66
Prepaid expense	(1,008)	(1,641)
Net change in cash from operating activities	305,321	285,970
Capital Activities		
Acquisition of tangible capital assets	(290,715)	(238,584)
Proceeds on sale of tangible capital assets	504	867
Net change in cash from capital activities	(290,211)	(237,717)
Investing activities		
Proceeds from disposals and redemptions of investments	19,870	22,718
Acquisition of investments	(34,995)	(1,998)
Investment funds interest reinvested	(314)	(303)
Net change in cash from investing activities	(15,439)	20,417
Financing transactions		
Net long-term liabilities incurred	73,829	51,859
Net long-term liabilities repaid	(57,976)	(57,395)
Mortgage repaid	(263)	(260)
Net change in cash from financing transactions	15,590	(5,796)
Net change in cash and cash equivalents	15,261	62,874
Cash beginning of year	174,081	111,207
Cash end of year	189,342	174,081

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, 2019
(in thousands of dollars)

The Regional Municipality of Waterloo (the “Region”) is an upper-tier municipality in the Province of Ontario, Canada. Provincial statutes including the *Municipal Act*, the *Municipal Affairs Act* and related legislation guide its operations. The Region has a population of 616,780 and is comprised of the Cities of Cambridge, Kitchener and Waterloo and the Townships of North Dumfries, Wellesley, Wilmot and Woolwich.

1. Significant accounting policies

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

a) Basis of consolidation

- i) The consolidated financial statements reflect the financial assets, liabilities, revenue and expense and changes in investment in tangible capital assets of the Region. These statements comprise all services and enterprises accountable to the Region and which are owned or controlled by the Region. The following boards are consolidated: the Waterloo Regional Police Services Board (“WRPS”), Region of Waterloo Community Housing Inc., and the Region of Waterloo Library Board. All interfund assets, liabilities, sources of financing and expenses are eliminated.
- ii) The following entities are not consolidated: Grand River Conservation Authority, the Waterloo Regional Heritage Foundation, the Waterloo Economic Development Corporation, the Region of Waterloo Arts Fund, and the Waterloo Region Municipalities Insurance Pool.
- iii) Sinking funds held by the Region for the retirement of long-term liabilities are not consolidated and are shown as a reduction in the amount of long-term liabilities (see note 6).
- iv) Trust funds administered by the Region amounting to \$143 (2018 - \$138) are not consolidated and are reflected in the trust fund’s statement of continuity and balance sheet.

b) Basis of accounting

- i) Accrual basis of accounting

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

- ii) Use of estimates

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

- iii) Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of regional services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, determines the change in net debt for the year

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2019
(in thousands of dollars)

1. Significant accounting policies (continued)

iv) Government transfers

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

v) Reserves and reserve funds

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

vi) Cultural and Historic Assets

Works of art and cultural and historic assets are not recorded as assets in these financial statements. The Region's museums include approximately 57,718 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 Ken Seiling Waterloo Region Museum, Schneider Haus and McDougall Cottage.

vii) Inventory

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

viii) Land held for resale

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

ix) Comparative Information

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

2. Contributions to non-consolidated entities

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

	2019	2018
	(\$000s)	(\$000s)
Grand River Conservation Authority	5,948	5,817
Waterloo Region Municipalities Insurance Pool	2,009	1,957
Waterloo Economic Development Corporation	900	900
Region of Waterloo Arts Fund	393	393
Waterloo Regional Heritage Foundation	106	106
	9,356	9,173

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2019
(in thousands of dollars)

3. Investments

Investment activities are governed by the Municipal Act and the Region's consolidated investment policy. Investments of \$165,625 (2018 - \$149,630) are recorded at cost. The investments have a market value of \$166,648 (2018 - \$149,014) at the end of the year. The market value represents the realizable value of the investments if they were sold at December 31, 2019. The investment practice is to generally hold investments until maturity. Investments by type are listed below:

Issuer	2019	2018
	(\$000s)	(\$000s)
Schedule I Canadian Banks	72,430	45,425
Canadian Municipalities	45,643	43,611
Provincial Governments	32,697	46,054
Investment Funds	14,792	14,479
Restricted Cash	63	61
	165,625	149,630

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 development charge fund balance and forms part of the deferred revenue balance.

4. Deferred revenue

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

(\$000s)	Balance at December 31, 2018	Inflows	Revenue Recognized	Exemptions	Balance at December 31, 2019
Development Charges	36,808	90,209	(56,442)	(10,346)	60,229
Federal Gas Tax	1,522	32,976	(13,321)	-	21,177
Other Deferred Revenue	3,139	-	-	-	3,139
Total	41,469	123,185	(69,763)	(10,346)	84,545

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

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

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Notes to the Consolidated Financial Statements
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5. 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 2019 was \$34,206 (2018 - \$33,856) for current service of 4,393 eligible employees and is included as an expense on the consolidated statement of operations and accumulated surplus. Contributions were made in 2019 at rates ranging from 9.0% to 15.8% of member earnings, depending on the member's designated retirement age and level of earnings. The OMERS funded ratio of plan assets to pension obligations for 2019 is 97% (2018 - 96%).

6. Net long-term liabilities

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

	2019	2018
	(\$000s)	(\$000s)
Total long-term liabilities incurred by the Region, including those incurred on behalf of School Boards and other Municipalities, outstanding at the end of the year	913,792	896,449
The total value of the Region's own sinking fund	(47,020)	(38,500)
Total long-term liabilities	866,772	857,949
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:	(165,144)	(172,171)
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:	-	(3)
Total long-term receivables	(165,144)	(172,174)
Net long-term liabilities, end of year	701,628	685,775

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2019
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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)
2020-2024	260,069
2025-2029	172,818
2030-2034	120,594
2035-2039	77,407
2040-2044	50,246
2045 onwards	20,494
	701,628

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

	2019	2018
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	399,913	408,839
Development charge collections	194,289	161,629
Wastewater rate revenue	106,520	113,958
Water rate revenue	906	1,349
	701,628	685,775

- d) Long-term liabilities include sinking fund debentures issued in the amount of \$242,230 (2018 - \$242,230) of which \$237,099 (2018 - \$237,099) is the Region's share. Annual payments to the sinking fund are made to finance the repayment of the debentures as they mature. Accumulated contributions to and earnings of the sinking fund total \$50,858 (2018 - \$41,339) of which \$47,020 (2018 - \$38,500) 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 Stage1 Light Rail Transit project. The contract requires GrandLinq GP to provide long term financing for the first \$130,652 of capital costs incurred. As at December 31, 2019, the amount of the long term liability was \$125,733 (2018 - \$127,733) and is included in net long term liabilities.

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
December 31, 2019
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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.

	2019	2018
	(\$000s)	(\$000s)
City of Kitchener	63,418	71,179
City of Cambridge	41,577	35,379
Waterloo Region District School Board	30,946	35,878
City of Waterloo	15,885	14,584
Waterloo Catholic District School Board	7,213	8,785
Township of Woolwich	3,148	3,389
Township of North Dumfries	1,136	1,336
Township of Wilmot	920	1,028
Township of Wellesley	901	613
Property Owners (Tile Drainage)	-	3
Total debentures assumed by others	165,144	172,174

7. Payments for net long-term liabilities

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

	2019	2018
	(\$000s)	(\$000s)
Principal payments including contributions to the sinking fund	57,976	57,395
Interest	27,478	26,763
	85,454	84,158

The interest rates on debt outstanding at December 31, 2019 ranged from 1.050% to 6.7%.

The following revenues were collected to meet these payments:

	2019	2018
	(\$000s)	(\$000s)
Property taxes and general municipal revenue	60,778	60,766
Development charge collections	13,717	12,640
Wastewater rate revenue	10,475	9,420
Water rate revenue	484	1,332
	85,454	84,158

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Notes to the Consolidated Financial Statements
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8. Debt obligations for housing properties

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, 2019 is \$2,814 (2018 - \$3,991) and principal repayments are scheduled as follows:

	(\$000s)
2020 - 2024	2,524
2025 - 2028	290
	2,814

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 2019 of 3.45% (2018 – 3.45%) per annum. At December 31, 2019, the Region's bank indebtedness using the operating credit facility was \$0 (2018 - \$0).

10. Employee future benefits liability

Summary of employee future benefits

(\$000s)	Region (excluding WRPS)	WRPS	2019	2018
Future payments required for:				
Post employment benefits	20,694	120,135	140,829	130,463
Sick leave	23,284	33,211	56,495	61,241
Workplace Safety & Insurance Board	5,354	11,122	16,476	14,702
Total	49,332	164,468	213,800	206,406

Post employment benefits

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

The actuarial valuation completed as at December 31, 2019 determined that the liability for present and future benefits is \$140,829 (2018 - \$130,463). The calculations were based on a discount rate of 2.9% (2018 – 3.5%) and an inflation rate for benefits of 2.0% (2018 – 2.0%).

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
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10. Employee future benefits liability (continued)

Sick leave

The Region provides sick leave benefits to its employees and unused sick leave accumulates during employees' service. Eligible employees become entitled to receive a cash payment of up to six months of the accumulated sick leave balance upon leaving the Region's employment. As a result of negotiated changes to collective agreements, new employees are not eligible for a sick leave payout. As of December 31, 2019, 23% (2018- 26%) of employees are entitled to this benefit. The actuarial liability at the end of the year for accumulated days, assuming a 2.9% discount rate, 2.0% inflation and to the extent that they have vested was \$56,495 (2018 - \$61,241). Approximately 45% of this amount is eligible to be paid in cash upon employee termination and the remaining 55% would be taken in the form of future year absences. The amount paid to employees who left the Region's employment in 2019 amounted to \$1,606 for the Regional portion (2018 - \$1,661) and \$2,449 for WRPS (2018 - \$1,680) totaling \$4,055 (2018 - \$3,341).

The cost of benefits paid for non-WRPS employees is provided from a sick leave reserve fund, which is funded through annual payroll charges to operations. A reserve fund of \$2,302 (2018 – \$2,491) to partially provide for the Regional portion of this liability is included in the accumulated surplus (note 16).

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

(\$000s)	Region (excluding WRPS)	WRPS	2019
2020	3,161	3,008	6,169
2021	1,203	1,208	2,411
2022	1,520	1,068	2,588
2023	1,229	980	2,209
2024	1,040	888	1,928
	8,153	7,152	15,305

Workplace Safety & Insurance Board (WSIB)

The Region is responsible for costs awarded under the Workers' Compensation Act. During 2019, the Region paid \$2,321 (2018 - \$2,491) in such costs for employees. The liability for present and future awards is \$16,476 (2018 - \$14,702). The calculations were based on a discount rate of 2.9% (2018 – 3.5%) and an inflation rate of up to 2.0% (2018 – 2.0%). An amount of \$10,422 (2018 - \$11,191) has been provided for current and future awards, of that \$6,878 for Police and \$3,544 for Region and is included in the Workplace Safety and Insurance Board reserve fund (Note 16).

11. Landfill closure and post-closure liability

The Region owns and operates one active landfill site and owns and monitors five closed landfill sites. The active site has a remaining capacity of 33.6% or 6.72 million m3 and has an estimated life expectancy of 15-20 years. The present value of the expected closure and post-closure costs of the active landfill site and the present value of expected monitoring and capital rehabilitation costs of the closed landfill sites have been reported as a liability on the consolidated statement of financial position. The liability was estimated using a discount factor of 2.9%. The closure costs and post-closure costs are based on capital and operating budget estimates over 25 years. Any change in the liability is reported as an expense on the consolidated statement of operations and accumulated surplus. A liability of \$76,097 (2018 - \$72,038) 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.

The Regional Municipality of Waterloo
Notes to the Consolidated Financial Statements
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12. Contaminated sites liability

The Region has recorded a liability for remediation of regional sites not in active use which contained contamination as defined in the public sector accounting standard for contaminated sites. The liability estimate of \$1,472 (2018 - \$1,472) for the sites identified was based on environmental assessments, or estimates for those sites where an assessment has not been conducted. Estimated recoveries are expected to be \$0.

13. Public liability insurance

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

During the year 690 (2018 – 1,128) claims were settled for \$272 (2018 - \$624) the cost of which has been provided for from the general insurance reserve fund, which has a balance of \$5,038 (2018 - \$4,676) as at December 31, 2019.

14. Contingent liabilities

Legal claims

As of December 31, 2019 the Region has been named defendant, co-defendant or plaintiff in a number of ongoing legal actions. The Region has also received claims and notices of dispute for additional costs on construction projects. No provision has been made for any claims that are expected to be covered by insurance or where the consequences are indeterminable. Liabilities for non-insured claims are recorded in the year in which they are settled.

Expropriations

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

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15. Tangible capital assets

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

Cost	Balance at December 31, 2018	Additions	Disposals	Balance at December 31, 2019
Land	112,625	5,226	(10)	117,841
Land improvements	168,554	2,888		171,442
Buildings	592,219	9,433		601,652
Vehicles	178,262	94,731	(7,195)	265,798
Machinery and equipment	181,138	15,084	(465)	195,757
Roads and bridges	1,372,927	50,370	(35,059)	1,388,238
Water and wastewater	1,271,246	148,759	(3,217)	1,416,788
Transit rail line	605,539	24,408		629,947
Total Cost	4,482,510	350,899	(45,946)	4,787,463

Accumulated Amortization	Balance at December 31, 2018	Disposals	Amortization Expense	Balance at December 31, 2019
Land improvements	80,490		7,326	87,816
Buildings	250,987		18,305	269,292
Vehicles	100,472	(7,166)	15,350	108,656
Machinery and equipment	97,311	(448)	12,225	109,088
Roads and bridges	416,680	(34,761)	35,184	417,103
Water and wastewater	588,713	(2,666)	30,823	616,870
Transit rail line	11,711		12,161	23,872
Total Accumulated Amortization	1,546,364	(45,041)	131,374	1,632,697

Net Book Value	Balance at December 31, 2018	Balance at December 31, 2019
Land	112,625	117,841
Land improvements	88,064	83,626
Buildings	341,232	332,360
Vehicles	77,790	157,142
Machinery and equipment	83,827	86,669
Roads and bridges	956,247	971,135
Water and wastewater	682,533	799,918
Transit rail line	593,828	606,075
Total Net Book Value	2,936,146	3,154,766
Construction work in progress	380,598	320,412
Total Tangible Capital Assets	3,316,744	3,475,178

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15. Tangible capital assets (continued)

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of tangible capital assets is amortized on a straight-line basis over estimated lives as follows:

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

For assets with shorter lives (e.g. vehicles, laptop and desktop computers), one half of the amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for use. Landfill cells are amortized annually on the basis of tonnage filled as a percentage of the estimated total capacity of the facility. For all other assets, amortization begins in the first month of the year following their readiness for use.

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

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

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

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16. Accumulated surplus

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

As at December 31	2019	2018
	(\$000s)	(\$000s)
Surplus:		
Invested in tangible capital assets	3,475,178	3,316,744
Accumulated surplus on operations	158,533	171,974
Amounts to be recovered		
From future revenue		
Net long term liabilities	(701,628)	(685,775)
Employee future benefits	(197,323)	(191,704)
Landfill closure and post closure liability	(76,097)	(72,038)
Contaminated sites liability	(1,472)	(1,472)
From other municipalities and school boards		
Net long term liabilities	(165,144)	(172,174)
From Reserve Funds		
Employee future benefits	(2,302)	(2,491)
Workplace safety and insurance	(10,422)	(11,191)
Total Surplus	2,479,323	2,351,873
Reserves set aside by Council for:		
Capital	144,901	143,683
Housing	45,698	44,842
Contingencies and stabilization	43,367	38,476
Equipment replacement	35,296	36,237
Waterloo Regional Police Services	12,921	13,352
Program specific	1,703	1,616
Heritage resources	1,186	583
Library	556	477
Public art	265	532
Total Reserves	285,893	279,798
Reserve Funds set aside for specific purposes by Council for:		
Regional Transportation Master Plan	14,447	21,604
Benefits and Insurance	14,446	13,720
Workplace Safety and Insurance Board	10,422	11,191
Brownfield Financial Incentives	3,592	3,598
Provincial Gas Tax	2,301	2,244
Total Reserve Funds	45,208	52,357
Accumulated Surplus	2,810,424	2,684,028

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17. Commitments and Contractual Obligations

Lease commitments

At the end of 2019, the Region is responsible for total lease commitments of approximately \$10,262 (2018 - \$10,084) relating to equipment and buildings.

		Maturity Date	Amount (\$000s)
Office space	Varying maturities to	2041	7,859
Other	Varying maturities to	2040	2,403
Total commitments			10,262

Contractual obligations

a) Ontario Clean Water Agency

The Region has entered into a service agreement with the Ontario Clean Water Agency (“OCWA”) to operate the Region’s wastewater treatment plants, which expires on December 31, 2020. Included in the consolidated statement of operations and accumulated surplus is \$10,364 (2018 - \$10,029) paid to OCWA.

b) Rapid Transit

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

c) Brownfield Financial Incentive Program

The Region’s Brownfield Financial Incentive Program (“BFIP”) facilitates the remediation and redevelopment of brownfields throughout the Region. Tax Increment Grants (“TIGs”), which are one of the components of the BFIP, provide eligible developers with a grant to offset the cost of remediation. Approved TIGs totaling \$28,773 will be funded in future years from the reserve fund and future property tax revenue. The Brownfield Incentive Reserve Fund balance is \$3,592 (2018 - \$3,598).

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Notes to the Consolidated Financial Statements
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18. Budget figures

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

Reconciliation of Operating Budget to Financial Statement Budget

	2019	2018
	(\$000s)	(\$000s)
Budgeted Operating Surplus/(Deficit)	-	-
Add: Revenues not included in Budgeted Operating Surplus		
Development Charges	66,788	66,281
Deferred Federal Gas Tax Revenue	13,321	18,906
Capital Grants (Federal and Provincial)	58,393	129,110
Interest Revenue for Reserves and Reserve Funds	8,327	6,891
Less: Revenues not included in Consolidated Statements		
Internal Transfers from Reserves	(30,030)	(61,772)
Add: Expenses not in Consolidated Statements		
Sick Leave, Insurance and Other Transfers	123,950	151,876
Principal Repayments	56,421	53,525
Less: Expenses not included in Budgeted Operating Surplus		
Amortization of Tangible Capital Assets	(131,374)	(124,733)
Operating Expenses in Capital	(38,565)	(48,221)
Change in Actuarial Estimates	(7,394)	(12,288)
Change in Landfill Post Closure	(4,059)	(7,568)
Change in Contaminated Sites	-	(750)
Consolidated Financial Statement Budget Surplus	115,778	171,257

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

	2019	2018
	(\$000s)	(\$000s)
Operating Surplus/(Deficit)		
Regional tax supported programs	2,638	5,162
Region of Waterloo Library Board	42	123
Region of Waterloo Community Housing Inc.	118	126
Waterloo Regional Police Services Board	(1,040)	1,842
Regional water and wastewater programs	(124)	3,344
Total Operating Surplus	1,634	10,597
Add: Revenues not included in Operating Surplus		
Development Charges	66,788	66,281
Federal Gas Tax Revenue	13,321	18,906
Capital Grants (Federal and Provincial)	58,393	129,110
Add: Expenses included in Operating Surplus, but not in Consolidated Statements		
Transfers to Reserves and Reserve funds	111,679	98,978
Principal Repayments	56,158	53,595
Less: Expenses not included in Operating Surplus		
Amortization of Tangible Capital Assets	(131,559)	(124,554)
Operating Expenses in Capital	(38,565)	(48,221)
Change in Actuarial Estimates	(7,394)	(12,288)
Change in Landfill Closure & Post Closure Estimate	(4,059)	(7,568)
Change in Contaminated Sites Estimate	-	(750)
Consolidated Financial Statement Surplus	126,396	184,086

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Notes to the Consolidated Financial Statements

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20. Segmented disclosure

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

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

Transportation services include roads, traffic, and Region of Waterloo International Airport. Other transportation services provide planning, development, and maintenance of roads, traffic operations, winter control and street lighting.

Transit services include public transit. Grand River Transit and light rail transit provide local public transportation within the Region.

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

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

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

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

Planning and Culture includes community planning services, historic sites at Ken Seiling Waterloo Region Museum, 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 and Housing guidelines. The method of allocation for actuarial adjustments and insurance is current year budget or current year actual.

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Notes to the Consolidated Financial Statements
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20. Segmented disclosure (continued)

										2019
(\$000s)	General Government	Protection	Transportation	Transit	Environmental	Health	Social Services	Housing	Planning and Culture	Total
Revenue										
Property taxes	38,536	171,443	60,393	117,437	42,870	26,462	37,514	43,398	20,634	558,687
Government transfers	4,016	10,134	13,432	64,159	578	44,390	193,167	26,734	586	357,196
User fees & service charges	4,193	22,569	3,995	42,336	144,346	422	9,165	16,290	1,312	244,628
Development charges	480	1,085	15,499	6,325	31,878	630	-	-	545	56,442
Other	105	36	-	194	-	-	61	806	103	1,305
Investment income	3,272	417	601	748	2,695	91	25	1,152	53	9,054
	50,602	205,684	93,920	231,199	222,367	71,995	239,932	88,380	23,233	1,227,312
Expense										
Salaries and Benefits	45,434	169,453	23,052	74,782	25,211	57,192	66,208	4,997	10,248	476,577
Goods and Services	23,328	18,148	19,884	60,057	89,304	6,967	44,364	19,294	4,713	286,059
Interest	1,847	659	864	14,027	8,189	476	1,114	114	188	27,478
Amortization	6,589	4,920	39,039	30,889	38,973	1,917	2,464	4,891	1,692	131,374
Transfers and Other	(18,358)	8,061	(7,507)	2,692	8,554	2,261	124,375	55,816	3,534	179,428
	58,840	201,241	75,332	182,447	170,231	68,813	238,525	85,112	20,375	1,100,916
Net surplus (deficit)	(8,238)	4,443	18,588	48,752	52,136	3,182	1,407	3,268	2,858	126,396

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20. Segmented disclosure (continued)

										2018
(\$000s)	General Government	Protection	Transportation	Transit	Environmental	Health	Social Services	Housing	Planning and Culture	Total
Revenue										
Property taxes	38,398	162,759	57,862	109,217	39,726	25,972	36,846	42,001	20,009	532,790
Government transfers	4,793	10,695	21,351	106,460	10,115	43,247	192,831	30,686	498	420,676
User fees & service charges	10,150	15,691	4,526	38,978	140,818	484	9,503	15,661	1,283	237,094
Development charges	349	1,581	24,609	7,118	31,914	186	-	-	524	66,281
Other	130	42	-	-	-	-	32	754	120	1,078
Investment income	2,338	304	548	961	2,092	62	13	992	36	7,346
	56,158	191,072	108,896	262,734	224,665	69,951	239,225	90,094	22,470	1,265,265
Expense										
Salaries and Benefits	43,774	165,389	22,172	69,284	24,775	56,835	65,220	4,728	9,931	462,108
Goods and Services	24,550	17,412	21,136	52,682	92,358	6,596	42,102	20,167	4,548	281,551
Interest	1,997	652	312	14,040	8,117	70	1,155	141	279	26,763
Amortization	6,803	4,684	38,129	29,855	34,593	1,613	2,452	4,948	1,656	124,733
Transfers and Other	(19,254)	8,096	(2,430)	433	9,200	1,979	126,110	57,902	3,988	186,024
	57,870	196,233	79,319	166,294	169,043	67,093	237,039	87,886	20,402	1,081,179
Net surplus (deficit)	(1,712)	(5,161)	29,577	96,440	55,622	2,858	2,186	2,208	2,068	184,086

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21. Subsequent event

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial and market impact. Markets are prone to volatility and the COVID-19 virus has presented many uncertainties and is threatening the outlook for future global trade and GDP as well as disrupting the abilities of some organizations to operate.

At this time these factors present uncertainty over future cash flows and may cause significant changes to the operations and financial position of the organization. An estimate of the financial effect is not practicable at this time.