CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 1, Report No. 8, of the Finance and Administration Committee, which was adopted, as amended, by the Council of the City of Vaughan on June 25, 2013, as follows:

By receiving Communication C11 from the Director of Financial Services, dated June 21, 2013.

1 2012 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance and Administration Committee recommends:

1) **That the recommendation contained in the following report of the Acting Commissioner of Finance & City Treasurer and the Director of Financial Services, dated June 10, 2013, be approved; and**

2) **That Communication C1, Presentation Material, entitled, *"2012 Consolidated Financial Statements"*, be received.**

Recommendation

The Acting Commissioner of Finance & City Treasurer and the Director of Financial Services recommends:

1. That the report "2012 Draft Consolidated Financial Statements" be received; and

2. That the 2012 Draft Consolidated Financial Statements and Trust Fund Statements (Attachment #1) be approved; and

3. That the KPMG Audit Findings Report for the year ended December 2012 (Attachment #2) be received.

Contribution to Sustainability

This is not applicable to this report.

Economic Impact

There is no economic impact as this is an information item.

Communications Plan

An advertisement will be placed in the local paper when the financial statements are approved by Council. The advertisement will indicate that the 2012 Consolidated Financial Statements and Trust Fund Statement are available for pick up at the City and in addition the financial statements will be published on the City's web page.

Purpose

To receive the report 2012 Draft Consolidated Financial Statements, to approve the City's 2012 Draft Consolidated Financial Statements, Vaughan Public Library (VPL) Financial Statements, Kleinberg Business Improvement Area Financial Statements, the Trust Fund Statements and to receive the City's external Auditor's Findings Report for 2012. The VPL financial statements will be presented to the Library Board for approval on June 20, 2013.

Background - Analysis and Options

The City's Draft Consolidated Financial Statements have been prepared under the Public Sector

Accounting Board Standards 3150 and 1200. An audit of the statements was conducted by KPMG. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31st, 2012 is provided below. The Consolidated Financial Statements incorporate the financial results of the City, Vaughan Public Library Board, Kleinburg Business Improvement Area and the Hydro Vaughan Corporations. The City Trust Fund Financial Statements are not included in the City's consolidated financial results because the assets do not belong to the City but are held in trust only.

Changes in Accounting Standards

The City implemented the Public Sector Accounting Board (PSAB) standard 3150 tangible capital assets and standard 1200 financial statement presentation in 2009. These accounting standards are described below:

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The City of Vaughan implemented in 2009 the accounting and reporting recommendations of the Public Sector Accounting Board section 3150 regarding the accounting for municipal tangible capital assets. Tangible capital assets consist of land, parks, buildings, bridges, sidewalks, vehicles, equipment, streetlights, roads, water and wastewater/storm infrastructure.

The asset historical cost, asset service life, annual amortization and disposals were determined for all the City's assets. These assets are classified on the financial statements under "Non-Financial Assets".

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International Financial Reporting Standards (IFRS) – PowerStream Inc.

In 2012 PowerStream Inc. adopted the international financial reporting standards. These standards were developed for the private sector to harmonize accounting standards around the world and to provide a common and understandable language for financial reporting.

2012 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan's 2012 Consolidated Statement of Financial Position demonstrates a continued strong position in many key financial areas which supports the Vaughan Vision 2020 strategic initiative for a financially sustainable future. These key financial areas include the City's cash and cash investment levels as seen in Exhibit #1, deferred revenues Exhibit #2, reserve balances in Exhibit #3 and Hydro Vaughan Corporations investment as described further in the review.

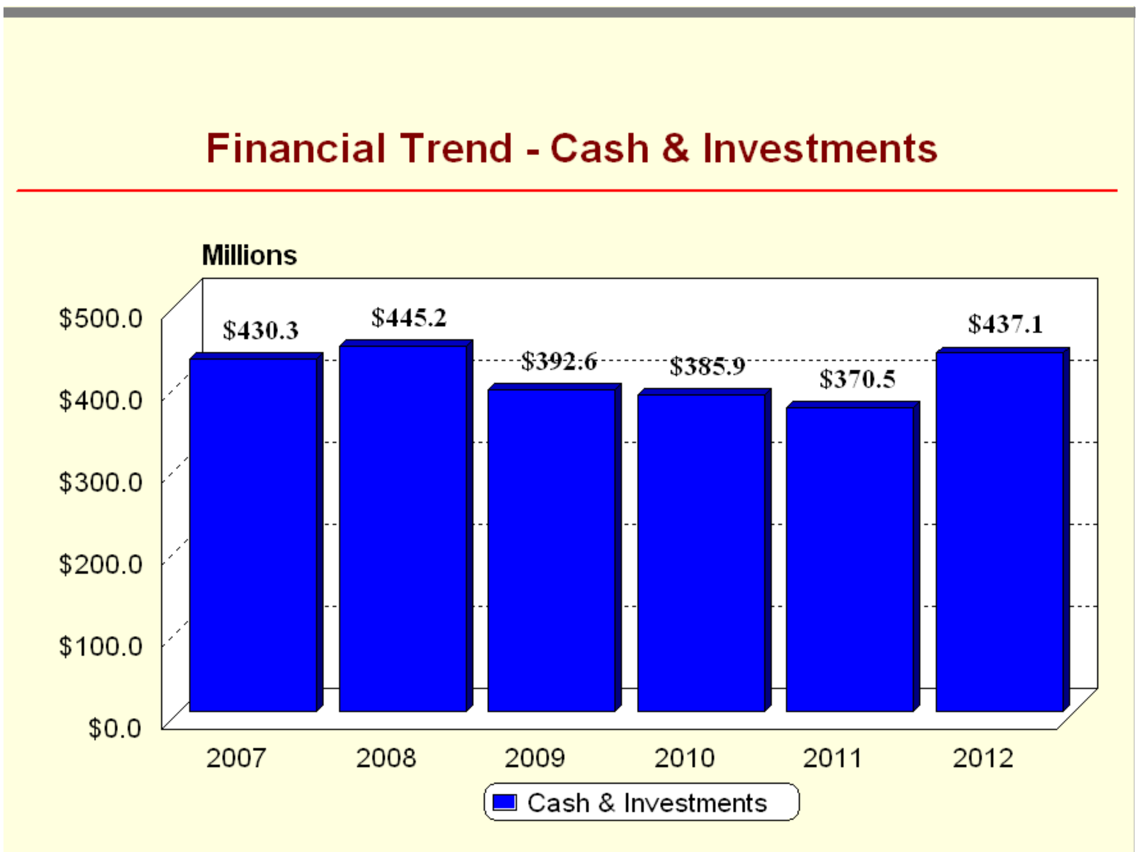
This strong financial position is a result of Council's commitment to sound fiscal policies, including the adoption of fiscally responsible operating and capital budgets, the long range financial planning targets, and establishment of new reserves and financial policies as required. Only through Council's on-going support for these financial policies has the City been able to achieve this increased financial flexibility. This approach provides Council more control over increases in the municipal portion of the property tax rate, the timing and funding of capital projects now and into the future.

Financial Assets

Cash and Cash Investments

The cash balance totals $360.6m (2011, $270.8m) at the end of 2012. Investments over 90 days total $76.5m (2011, $99.7m). Cash and cash investments combined total $437.1m (2011, $370.5m) as shown below. The investments have an effective interest rate range of 2.31% to 5.03**%**. The following graph (Exhibit 1) illustrates the continued strength in the City's cash and cash investment position.

EXHIBIT 1



Taxes Receivable

In 2012, taxes receivable totalled $36.0m (2011, $43.1m) a decrease of $7.1 million. This decrease in receivables is partially attributable to a smaller supplemental tax billing at the end of 2012 compared to last year's (2011) supplemental billing. In addition collections were strong throughout the year. The collection process includes six arrears notices mailed at strategic points during the year. Business accounts not only receive a collection letter but are also contacted directly by phone. Emphasis is also placed on those properties nearing the tax sale time frame of three years. This approach provides the owner with the opportunity to enter into a payment plan thereby avoiding the tax sale process.

Water and Wastewater Receivable

In 2012, the water and wastewater receivables totalled $17.0m (2011, $15.8m) an increase of $1.2m over 2011. The increase is due to a larger than normal year end billing accrual (revenue earned but not yet billed) this is the result of increased consumption in 2012 and the annual growth in the customer base.

Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling $15.7m (2011, $17.5m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. Local improvement receivable at $0.5m (2011, $0.8m) is reducing each year as property owners make annual payments over time for capital improvement works on their street.

Investment in Hydro Vaughan Corporations

The Hydro Vaughan Corporations consist of: Vaughan Holdings Inc. (which owns 45.3% share of PowerStream), Hydro Vaughan Holdings Inc., Hydro Vaughan Energy Corporation and 1446631 Ontario Inc. The consolidation is based on the modified equity basis and is consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. In 2012 PowerStream Inc. adopted the international financial reporting standard IFRS. As a result the 2011 financial results for PowerStream have been restated in the new reporting standard.

The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its Consolidated Statement of Operations and Accumulated Surplus with a corresponding increase or decrease in its investment asset account.

The City has established corporations under the provisions of the Ontario Business Corporation Act and the City's ownership is as follows:

- Hydro Vaughan Energy Corporation; 100%
- Hydro Vaughan Holdings Inc. 100%
- 1446631 Ontario Inc. 100%
- Vaughan Holdings Inc 100% (PowerStream Inc. 45.3%)

In 2013, a slight restructuring of the Hydro corporations is planned.

Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals $299.5m (2011 restated, $275.7m) and is comprised of share capital of $105.7m consisting of common and common A shares, notes receivable from PowerStream Inc. of $84.1m, accrued interest note receivable of $9.9m, IFRS adjustment for $21.9m, accumulated earnings as at December 31, 2012 of $56.6m and $21.3m in dividends received from PowerStream Inc. retained by Vaughan Holdings Inc.

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Equity Change in Hydro Vaughan Corporations

The annual net increase of $23.8m in the equity share of the Hydro Corporations is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of $16.5m, equity investment common shares class A $12.8m, interest earned on the PowerStream note receivable $4.8m and reductions of equity due to cash received for dividends ($5.5m) and accrued interest on the note receivable of ($4.8m).

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2012 the total current liability balance was $67.9m (2011, $77.4m) a decrease of $9.5m. The change in accounts payable is generally due to the timing of the receipt of supplier's invoices and the amount of operational or capital works activity. These City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards.

Employee Future Benefit Liability

These liabilities total $75.5m (2011, $65.2m) consisting of post-employment retirement benefits of $70.4m (2011, $60.5m), vacation pay entitlements $4.6m (2011, $4.2m), and Workers Safety Insurance Board (WSIB) obligations $0.5m (2011, $0.4m).
Post retirement employee benefits are based on a 2011 actuarial study and the valuation represents the retirement benefits that have accrued over the service life of the city employees' to-date but not yet paid. The costs of these benefits are recognized in the financial statements each year as the employees render their service. The portion of these liabilities that are not funded annually are netted against the accumulated surplus. As a financial strategy for the future, Council approved the creation of a reserve for post employee's retirement benefits, which now totals $21.7m.

Vacation entitlement is earned during the course of employment and the fully funded liability represents the unused portion. WSIB liability represents the future expected claims and is fully funded. The WSIB valuation is based on a 2010 actuarial study.

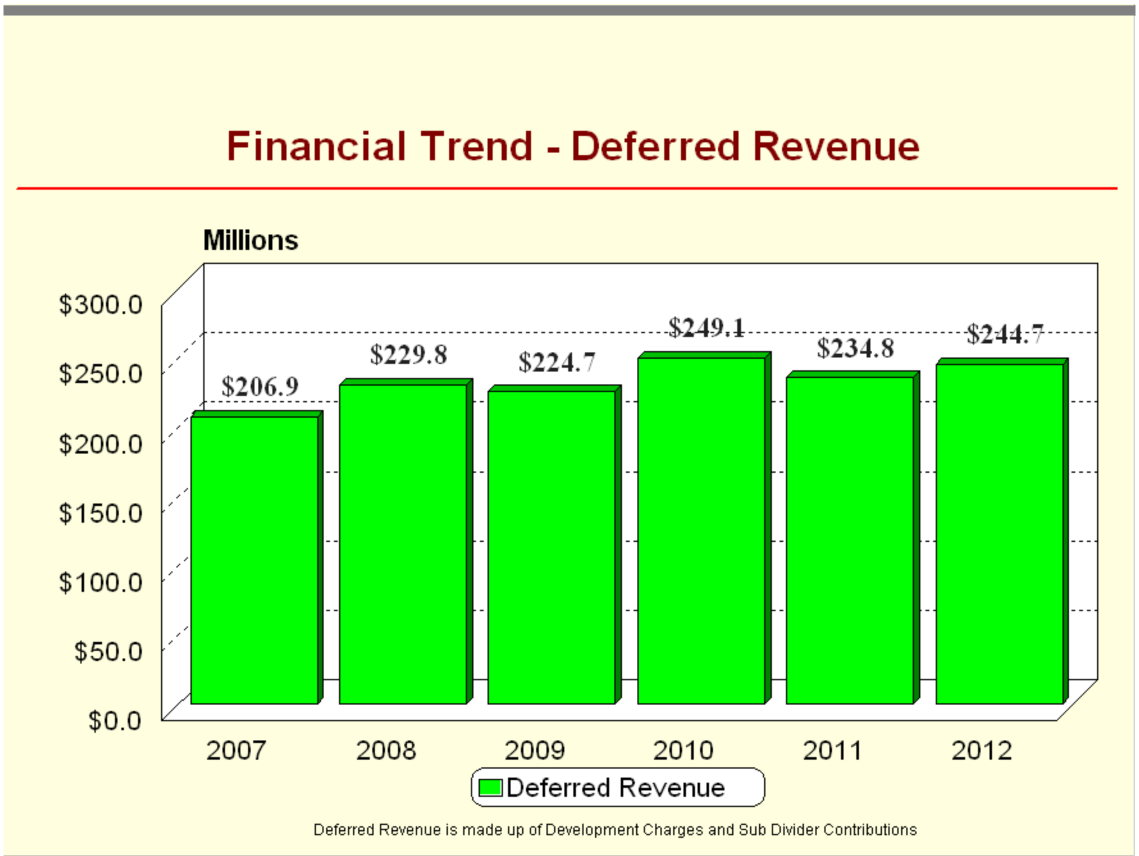
Deposits and Deferred Revenue

Deposits and deferred revenue total $22.5m (2011, $20.5m). This amount represents pre-paid funds that held by the City for capital projects to be constructed or various City services to be rendered in the future.

Deferred Revenue – Obligatory Reserve Fund

Development charges and obligatory reserves in 2012, Exhibit #2, totals $244.7m (2011, $234.8m) an increase of $9.9m over 2011 as a result of increased funding for capital works. These funds are considered liabilities as they are non discretionary in terms of use and represent capital work obligations to be constructed by the City in the future. Deferred revenues are mainly derived from the receipt of development charges, recreational land cash in-lieu receipts and funds received related to building permits per the Building Standards Act, federal gas tax grants and other government grants. The grants applied for and received consist of the federal gas tax, provincial roads and bridge grant and the Investing in Ontario Act. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

EXHIBIT 2



Debenture and Other Debt

Long-term liabilities consist of sinking fund debentures, serial debentures, other debt and totals $77.2m (2011 $62.9m). The net increase is mainly the result of acquiring additional serial debenture debt for capital works in 2012. The annual 2012 principal and interest payments that service the debt total $11.0m (2011, $10.0m) are well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%. These limits are calculated based on the annual total Debt and Interest payment as a percentage of Own Source Revenues. The 2012 City Debt stands at 4.9% (2011, 4.3%) well within the City's debt limit policy.

Non–Financial Assets

Non-financial assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan. Tangible capital assets, comprised of capital assets and capital work in progress were developed using actual or estimated historical costs. When historical cost records were not available, other methods were used to estimate the costs and the accumulated amortization of the assets.

The City's net tangible capital assets as at December 31, 2012 total $6,989,498,913 (2011, $6,868,427,436). The net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service. The 2012 amortization expense was $65.5m (2011, $62.0m). Assets under construction totalling $53.1m (2011, $64.9m) are not amortized until the assets are brought into service.

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The 2012 tangible capital assets net book value with 2011 comparable are as follows:

	2012	2011
Assets		
Land	$ 4,869,609,691	$ 4,729,102,109
Land Improvements	91,297,273	97,672,434
Buildings and Building Improvements	220,560,183	218,084,653
Machinery and Equipment	14,087,149	13,642,754
Vehicles	13,967,477	12,670,099
Furniture and Fixtures	5,289,941	5,533,925
Information Technology	1,254,016	1,487,477
Leasehold Improvements	1,293,463	1,467,499
Roads Infrastructure	508,583,182	508,918,695
Water & Sewer/Storm Infrastructure	1,210,433,661	1,214,922,329
Assets under Construction	53,122,877	64,925,462
Total	$ 6,989,498,913	$ 6,868,427,436

Accumulated Surplus

The accumulated surplus of $7.3b (2011, $7.1b) as shown below consists of tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances, reserve balances less the amounts to be recovered in the future. The tangible capital assets are held for the use in the provision of City services however the net balance consisting of future liabilities, future capital works funding, Hydro Investments and reserves represents a municipality's ability to meet the current and future financial needs of the community.

	2011	**2010**
Investment in Tangible Capital Assets	$6,989,498,913	$6,868,427,436
*Other (Fund Balances)	(76,838,399)	(130,533,465)
*Amounts to be Recovered in Future Years		
From future revenues	(114,784,543)	(100,003,398)
From reserves & reserve funds	(21,783,999)	(11,198,981)
Total	(136,568,542)	(111,202,379)
Investment in Hydro Vaughan Corporations	299,574,803	275,700,834
Reserves set aside by Council (Exhibit #3)	228,283,206	225,119,360
Accumulated Surplus	$7,303,949,981	$7,127,511,786

* The Other Fund balances representing the Operating and Capital Funds total ($76.8m). This amount consists of the operating fund surplus of $2.9m less PowerStream unpaid note interest of ($9.9m), purchase of Vaughan Holdings Inc. shares ($2.2m) and the

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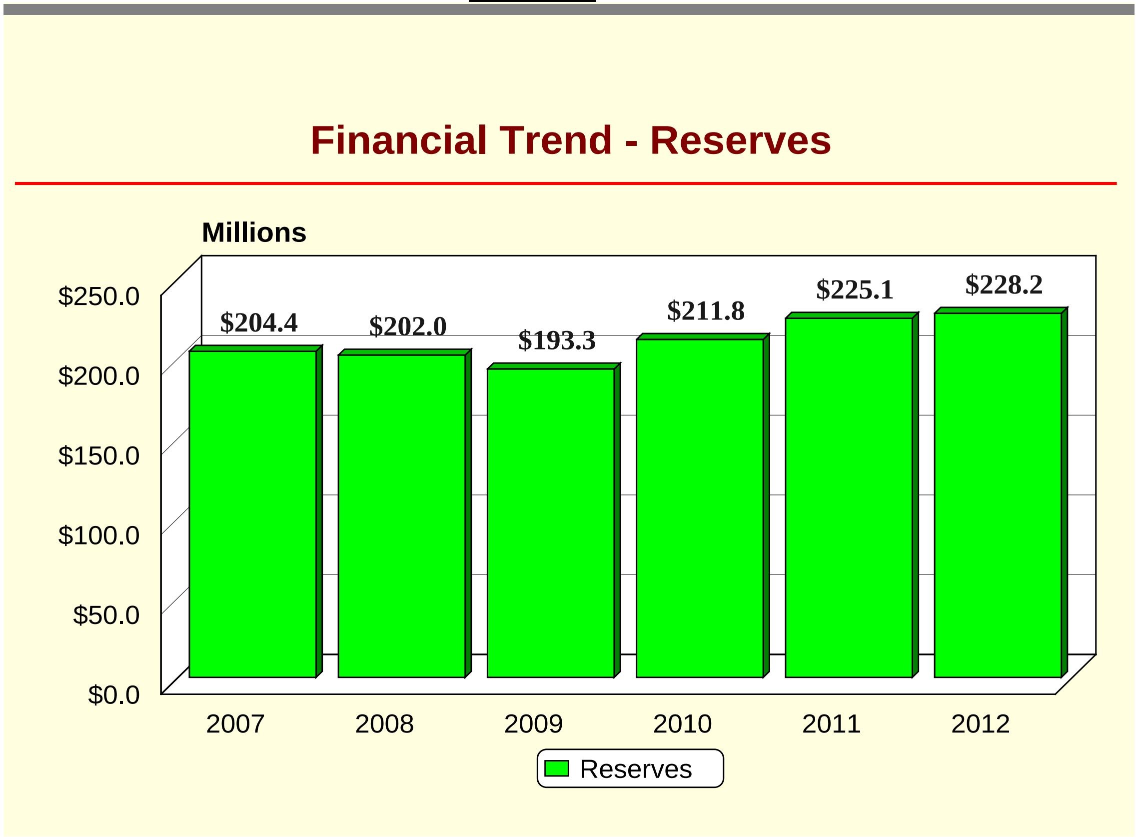
capital fund unfinanced balance of ($67.6m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

Amounts to be recovered in future years are liabilities for post-retirement employee future benefits and debenture payments which have been expensed but have not been fully funded.

Reserve fund balance continues to be steady as shown in Exhibit #3 below.

EXHIBIT 3



The year-end funds on hand have not been adjusted for outstanding budgetary commitments. Reserve balances are expected to decline as these commitments are fulfilled.

Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund unforeseen or extraordinary expenses, infrastructure renewal or when revenues decline. Reserves can assist in moderating changes in the tax rate and are also established to provide adequate funding for the financial obligations and significant infrastructure replacement requirements in the future.

The increase in reserves over the past number of years was possible as a result of Council's adoption of financial policies. These policies and others will continue to contribute to the financial well-being of the City as shown in 2012 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus

The "Consolidated Statement of Operations and Accumulated Surplus" now required under PSAB is a significant change from the pre-2009 budget-based "Consolidated Statement of Financial Activities". The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council's approved budget in Note 13 on page 35 of the Consolidated Financial Statements.

The Council approved 2012 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. The primary purpose of the Operating and Capital Budget process is to develop the levy requirement and associated tax rates. In the revised budget for financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of $52.4. The actual financial statements include revenues not budgeted, such as contributed assets and the share of the net income of the hydro companies and include expenditures not funded through the tax levy such as amortization and post-employment benefits.

The most significant differences in reviewing the 2012 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total $159.4m (2011, $91.0m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. These items are not provided for in the City's budget as they are controlled by the developer until transferred.

- Expenses – Variance between budgeted expense of $280.3m and reported expense of $360.2m. The most significant difference here relates to amortization expense for 2012 of $65.5m, which must be reported under the new municipal reporting regime, but is only partially funded within the budget through established reserve contributions and financing arrangements. Given municipalities must balance their budget, budgeting for amortization would be treated as a significant increase in expenses that would require a funding source, most likely taxation.

- Annual Surplus – The annual surplus of $176.4m (2011, $94.0m, restated) reported in 2012 is primarily influenced by the unbudgeted Contributed Assets of $159.5m.

Relationship to Vaughan Vision 2020

This report is consistent with and supports the Vaughan Vision 2020 strategic initiatives under Organizational Excellence that ensures financial sustainability and manages corporate assets.

Regional Implications

There are no Regional implications.

Conclusion

As a direct result of Council policies and Management's efforts, the financial resources of the municipality continue to be strong.

Financial stability and strong reserve balances assists in creating the following:

- Financial flexibility for the municipality;
- Increased control over the municipal portion of the property tax rate;
- Effective timing of capital projects;
- Generally sound municipal fiscal environment; and
- Provides a positive awareness amongst the private sector, government and the community.

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Notwithstanding the on-going financial improvements that have been made, continued investment in the areas of buildings & facilities, roads, parks and water/wastewater/storm infrastructure must continue so as to secure the City of Vaughan's financial future as outlined in the Vaughan Vision 2020.

Attachments

Attachment 1 - 2012 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements

Attachment 2 - 2012 Audit Findings Report KPMG

Report Prepared by:

Barry Jackson, CGA
Director of Financial Services, ext. 8272

Nancy Yates, CPA, CA, BComm
Accounting Manager, ext 8984

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

VAUGHAN

memorandum

C 11
Item # 1
Report No. 8 (F&A)
Council - June 25/13

June 21, 2013

To: MAYOR AND MEMBERS OF COUNCIL

From: Barry Jackson, Director of Financial Services

Re: **COMMUNICATION**
Finance and Administration Committee - June 10, 2013
Item Number 1, Report No. 8
2012 Consolidated Financial Statements- Vaughan Public Library Board Financial Statements

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For information purposes the Vaughan Public Library Board's 2012 Financial Statements were approved by the Library Board on June 20th, 2013.

Respectfully submitted

Barry Jackson
Director of Financial Services

c: Barbara Cribbett, Interim City Manager
John Henry, Acting Commissioner of Finance & City Treasurer
Margie Singleton, CEO, Vaughan Public Libraries
Nancy Yates, Accounting Manager
Jeffrey Abrams, City Clerk
Kevin Travers, KPMG

C1
F&A
June 10/13
Item #1

2012 Consolidated Financial Statements

VAUGHAN

2012 Consolidated Financial Statements

- Includes
  - City of Vaughan
  - Vaughan Public Library Board
  - Kleinburg Business Improvement Area (KBIA)
  - Hydro Vaughan Corporations

- Excludes
  - City of Vaughan Trust Funds

- Clean audit opinion from KPMG on all 2012 financial statements

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VAUGHAN

Financial Statement Presentation – Differences from Budget Presentation

Fund Accounting	Accrual Accounting
Financial Presentation by Fund	One Set of Summary Financial Statements
Presents Partial Financial Picture	Presents Full Financial Picture
Expense TCA	Capitalize TCA
Reserve Contributions/No Amortization	Amortization over TCA useful life
Excludes Unfunded Liabilities	Includes Unfunded Liabilities

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Financial Assets - Highlights

- Strong Cash and Cash investments position
  - 2012 - $437.1m versus 2011 $370.5m
- Taxes receivable lower in 2012 due to smaller supplemental tax billing at year end
  - 2012 - $36m versus 2011 $43.1m
- Water and wastewater receivable increase due to large year end billing accrual
  - 2012 - $17m versus 2011 $15.8m

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VAUGHAN

Financial Assets – Investments in Hydro Vaughan Corporations as at 12/31/12 (Note 4)

- PowerStream IFRS adjustment resulted in an adjustment of $21.9m in the 2011 and 2012 Investment
- Increased investment in PowerStream's solar business of $12/
- 2012 Net Earnings of Hydro Vaughan Corps is $16.5m
- Investment in Hydro Vaughan Corp - $299.5m (2011 restated - $275.7m)

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VAUGHAN

Financial Liabilities – Highlights (Note 5)

- Employee Future Benefits $75.5 (2011 - $65.2) includes:
  - Post-employment retirement benefits - $70.4 m
  - Vacation pay entitlements - $4.6m
  - Workers Safety Insurance Board (WSIB) - $0.5m
- Post-employment retirement benefits
  - Cost recognized over service life of employees
  - Valuation based on 2011 actuarial study
  - Current reserve balance of $21.7m set aside
  - Unfunded portion of $48.7 netted against Accumulated Surplus

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VAUGHAN

Financial Liabilities – Highlights (Notes 6 & 7)

- Deposits and Deferred Revenue - $22.5m (2011 - $20.5m)
- Deferred Revenue – Obligatory Reserves - $244.7m
  - Recreational Land - $38.6
  - DC's - $163.3
  - Federal Gas Tax - $14.4
  - Building Standards Act $17.0
  - Other - $11.4
- Debentures and Other Debt - $77.2m – includes sinking fund and serial debentures and other debt

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VAUGHAN

Non Financial Assets – Highlights (Note 9)

- **Land and capital assets available and used to provide services to residents**
- **Net Book Value is $7.0 billion (2011 - $6.9 billion) and comprised of:**
  - **Cost**
  - **Plus Additions**
  - **Less Disposals**
  - **Less Accumulated Amortization**
- **Figure includes $4.9 billion of land that is not amortized**

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VAUGHAN

Accumulated Surplus (Note 10)

	2012 ($b)	2011 ($b)
Tangible Capital Assets	6.989	6.868
Investment in Hydro Vaughan Corporations	0.300	0.276
Discretionary Reserves	0.228	0.225
Amounts to be Recovered in Future Years	(0.136)	(0.111)
Other	(0.077)	(0.130)
	7.304	7.128

- Annual Surplus is $176.4 m (2011 revised - $94.0 m)

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VAUGHAN

Statement of Operations

- Revenue of $523.9m is a $191.2m difference from budget due to unbudgeted contributed assets from assumed development - $159.5m
- Expenditures of $360.3m is a $80m difference primarily due to unbudgeted amortization of $65.1m and unbudgeted loss on disposal of tangible capital assets of $11.6m

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VAUGHAN

Conclusion – Good News Story

- Clean Audit Opinion from KPMG
- Reserves strong
- Cash and investment position is strong
- Strong financial position reflects commitment to sound fiscal policy

Going Forward

- need to address funding issues for amortization and post retirement benefits

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VAUGHAN

2012 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

Recommendation

The Acting Commissioner of Finance & City Treasurer and the Director of Financial Services recommends:

1. That the report "2012 Draft Consolidated Financial Statements" be received; and
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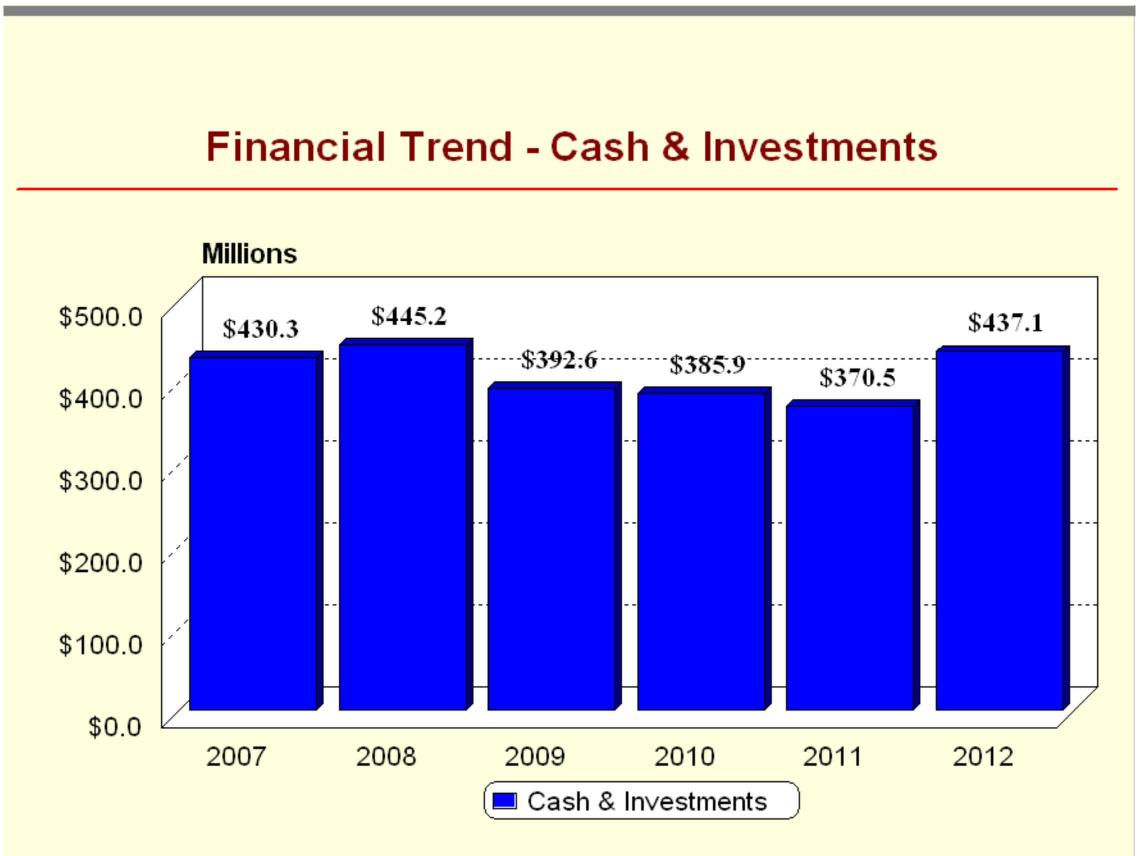


Taxes Receivable

In 2012, taxes receivable totalled $36.0m (2011, $43.1m) a decrease of $7.1 million. This decrease in receivables is partially attributable to a smaller supplemental tax billing at the end of 2012 compared to last year's (2011) supplemental billing. In addition collections were strong throughout the year. The collection process includes six arrears notices mailed at strategic points during the year. Business accounts not only receive a collection letter but are also contacted directly by phone. Emphasis is also placed on those properties nearing the tax sale time frame of three years. This approach provides the owner with the opportunity to enter into a payment plan thereby avoiding the tax sale process.

Water and Wastewater Receivable

In 2012, the water and wastewater receivables totalled $17.0m (2011, $15.8m) an increase of $1.2m over 2011. The increase is due to a larger than normal year end billing accrual (revenue earned but not yet billed) this is the result of increased consumption in 2012 and the annual growth in the customer base.

Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling $15.7m (2011, $17.5m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. Local improvement receivable at $0.5m (2011, $0.8m) is reducing each year as property owners make annual payments over time for capital improvement works on their street.

Investment in Hydro Vaughan Corporations

The Hydro Vaughan Corporations consist of: Vaughan Holdings Inc. (which owns 45.3% share of PowerStream), Hydro Vaughan Holdings Inc., Hydro Vaughan Energy Corporation and 1446631 Ontario Inc. The consolidation is based on the modified equity basis and is consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. In 2012 PowerStream Inc. adopted the international financial reporting standard IFRS. As a result the 2011 financial results for PowerStream have been restated in the new reporting standard.

The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its Consolidated Statement of Operations and Accumulated Surplus with a corresponding increase or decrease in its investment asset account.

The City has established corporations under the provisions of the Ontario Business Corporation Act and the City's ownership is as follows:

- Hydro Vaughan Energy Corporation; 100%
- Hydro Vaughan Holdings Inc. 100%
- 1446631 Ontario Inc. 100%
- Vaughan Holdings Inc. 100% (PowerStream Inc. 45.3%)

In 2013, a slight restructuring of the Hydro corporations is planned.

Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals $299.5m (2011 restated, $275.7m) and is comprised of share capital of $105.7m consisting of common and common A shares, notes receivable from PowerStream Inc. of $84.1m, accrued interest note receivable of $9.9m, IFRS adjustment for $21.9m, accumulated earnings as at December 31, 2012 of $56.6m and $21.3m in dividends received from PowerStream Inc. retained by Vaughan Holdings Inc.

Equity Change in Hydro Vaughan Corporations

The annual net increase of $23.8m in the equity share of the Hydro Corporations is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of $16.5m, equity investment common shares class A $12.8m, interest earned on the PowerStream note receivable $4.8m and reductions of equity due to cash received for dividends ($5.5m) and accrued interest on the note receivable of ($4.8m).

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2012 the total current liability balance was $67.9m (2011, $77.4m) a decrease of $9.5m. The change in accounts payable is generally due to the timing of the receipt of supplier's invoices and the amount of operational or capital works activity. These City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards.

Employee Future Benefit Liability

These liabilities total $75.5m (2011, $65.2m) consisting of post-employment retirement benefits of $70.4m (2011, $60.5m), vacation pay entitlements $4.6m (2011, $4.2m), and Workers Safety Insurance Board (WSIB) obligations $0.5m (2011, $0.4m).

Post retirement employee benefits are based on a 2011 actuarial study and the valuation represents the retirement benefits that have accrued over the service life of the city employees' to-date but not yet paid. The costs of these benefits are recognized in the financial statements each year as the employees render their service. The portion of these liabilities that are not funded annually are netted against the accumulated surplus. As a financial strategy for the future, Council approved the creation of a reserve for post employee's retirement benefits, which now totals $21.7m.

Vacation entitlement is earned during the course of employment and the fully funded liability represents the unused portion. WSIB liability represents the future expected claims and is fully funded. The WSIB valuation is based on a 2010 actuarial study.

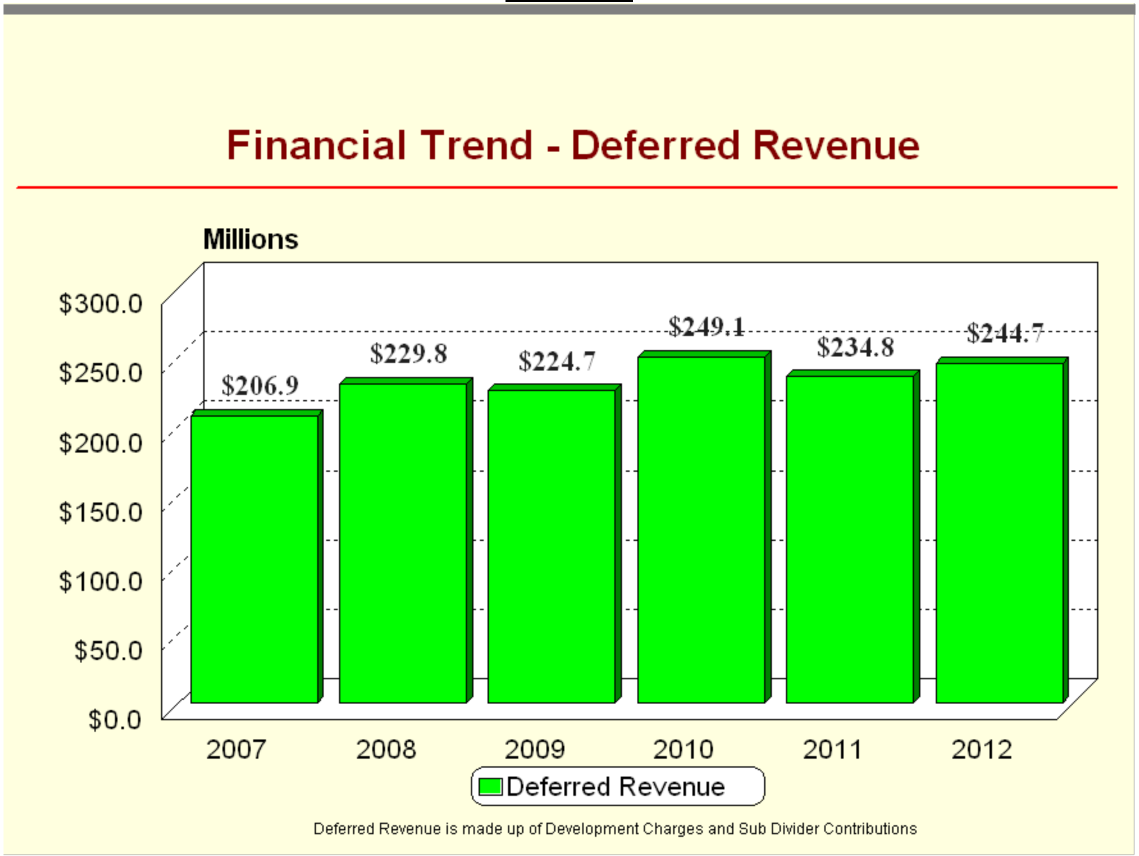
Deposits and Deferred Revenue

Deposits and deferred revenue total $22.5m (2011, $20.5m). This amount represents pre-paid funds that held by the City for capital projects to be constructed or various City services to be rendered in the future.

Deferred Revenue – Obligatory Reserve Fund

Development charges and obligatory reserves in 2012, Exhibit #2, totals $244.7m (2011, $234.8m) an increase of $9.9m over 2011 as a result of increased funding for capital works. These funds are considered liabilities as they are non discretionary in terms of use and represent capital work obligations to be constructed by the City in the future. Deferred revenues are mainly derived from the receipt of development charges, recreational land cash in-lieu receipts and funds received related to building permits per the Building Standards Act, federal gas tax grants and other government grants. The grants applied for and received consist of the federal gas tax, provincial roads and bridge grant and the Investing in Ontario Act. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

EXHIBIT 2



Debenture and Other Debt

Long-term liabilities consist of sinking fund debentures, serial debentures, other debt and totals $77.2m (2011 $62.9m). The net increase is mainly the result of acquiring additional serial debenture debt for capital works in 2012. The annual 2012 principal and interest payments that service the debt total $11.0m (2011, $10.0m) are well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%. These limits are calculated based on the annual total Debt and Interest payment as a percentage of Own Source Revenues. The 2012 City Debt stands at 4.9% (2011, 4.3%) well within the City's debt limit policy.

Non–Financial Assets

Non-financial assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan. Tangible capital assets, comprised of capital assets and capital work in progress were developed using actual or estimated historical costs. When historical cost records were not available, other methods were used to estimate the costs and the accumulated amortization of the assets.

The City's net tangible capital assets as at December 31, 2012 total $6,989,498,913 (2011, $6,868,427,436). The net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service. The 2012 amortization expense was $65.5m (2011, $62.0m). Assets under construction totalling $53.1m (2011, $64.9m) are not amortized until the assets are brought into service.

The 2012 tangible capital assets net book value with 2011 comparable are as follows:

Assets		2012		2011
Land	$	4,869,609,691	$	4,729,102,109
Land Improvements		91,297,273		97,672,434
Buildings and Building Improvements		220,560,183		218,084,653
Machinery and Equipment		14,087,149		13,642,754
Vehicles		13,967,477		12,670,099
Furniture and Fixtures		5,289,941		5,533,925
Information Technology		1,254,016		1,487,477
Leasehold Improvements		1,293,463		1,467,499
Roads Infrastructure		508,583,182		508,918,695
Water & Sewer/Storm Infrastructure		1,210,433,661		1,214,922,329
Assets under Construction		53,122,877		64,925,462
Total	$	6,989,498,913	$	6,868,427,436

Accumulated Surplus

The accumulated surplus of $7.3b (2011, $7.1b) as shown below consists of tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances, reserve balances less the amounts to be recovered in the future. The tangible capital assets are held for the use in the provision of City services however the net balance consisting of future liabilities, future capital works funding, Hydro Investments and reserves represents a municipality's ability to meet the current and future financial needs of the community.

	2011	**2010**
Investment in Tangible Capital Assets	$6,989,498,913	$6,868,427,436
*Other (Fund Balances)	(76,838,399)	(130,533,465)
*Amounts to be Recovered in Future Years		
From future revenues	(114,784,543)	(100,003,398)
From reserves & reserve funds	(21,783,999)	(11,198,981)
Total	(136,568,542)	(111,202,379)
Investment in Hydro Vaughan Corporations	299,574,803	275,700,834
Reserves set aside by Council (Exhibit #3)	228,283,206	225,119,360
Accumulated Surplus	$7,303,949,981	$7,127,511,786

* The Other Fund balances representing the Operating and Capital Funds total ($76.8m). This amount consists of the operating fund surplus of $2.9m less PowerStream unpaid note interest of ($9.9m), purchase of Vaughan Holdings Inc. shares ($2.2m) and the capital fund unfinanced balance of ($67.6m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

Amounts to be recovered in future years are liabilities for post-retirement employee future benefits and debenture payments which have been expensed but have not been fully funded.

Reserve fund balance continues to be steady as shown in Exhibit #3 below.

EXHIBIT 3

The year-end funds on hand have not been adjusted for outstanding budgetary commitments. Reserve balances are expected to decline as these commitments are fulfilled.

Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund unforeseen or extraordinary expenses, infrastructure renewal or when revenues decline. Reserves can assist in moderating changes in the tax rate and are also established to provide adequate funding for the financial obligations and significant infrastructure replacement requirements in the future.

The increase in reserves over the past number of years was possible as a result of Council's adoption of financial policies. These policies and others will continue to contribute to the financial well-being of the City as shown in 2012 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus

The “Consolidated Statement of Operations and Accumulated Surplus” now required under PSAB is a significant change from the pre-2009 budget-based “Consolidated Statement of Financial Activities”. The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council’s approved budget in Note 13 on page 35 of the Consolidated Financial Statements.

The Council approved 2012 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. The primary purpose of the Operating and Capital Budget process is to develop the levy requirement and associated tax rates. In the revised budget for financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of $52.4. The actual financial statements include revenues not budgeted, such as contributed assets and the share of the net income of the hydro companies and include expenditures not funded through the tax levy such as amortization and post employment benefits.

The most significant differences in reviewing the 2012 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total $159.4m (2011, $91.0m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. These items are not provided for in the City’s budget as they are controlled by the developer until transferred.

- Expenses – Variance between budgeted expense of $280.3m and reported expense of $360.2m. The most significant difference here relates to amortization expense for 2012 of $65.5m, which must be reported under the new municipal reporting regime, but is only partially funded within the budget through established reserve contributions and financing arrangements. Given municipalities must balance their budget, budgeting for amortization would be treated as a significant increase in expenses that would require a funding source, most likely taxation.

- Annual Surplus – The annual surplus of $176.4m (2011, $94.0m, restated) reported in 2012 is primarily influenced by the unbudgeted Contributed Assets of $159.5m.

Relationship to Vaughan Vision 2020

This report is consistent with and supports the Vaughan Vision 2020 strategic initiatives under Organizational Excellence that ensures financial sustainability and manages corporate assets.

Regional Implications

There are no Regional implications.

Conclusion

As a direct result of Council policies and Management’s efforts, the financial resources of the municipality continue to be strong.

Financial stability and strong reserve balances assists in creating the following:

- Financial flexibility for the municipality;
- Increased control over the municipal portion of the property tax rate;
- Effective timing of capital projects;
- Generally sound municipal fiscal environment; and
- Provides a positive awareness amongst the private sector, government and the community.

Notwithstanding the on-going financial improvements that have been made, continued investment in the areas of buildings & facilities, roads, parks and water/wastewater/storm infrastructure must continue so as to secure the City of Vaughan's financial future as outlined in the Vaughan Vision 2020.

Attachments

Attachment 1 - 2012 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements

Attachment 2 - 2012 Audit Findings Report KPMG

Report Prepared by:

Barry Jackson, CGA
Director of Financial Services, ext. 8272

Nancy Yates, CPA, CA, BComm
Accounting Manager, ext 8984

Respectfully submitted,

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John Henry, CMA
Acting Commissioner of Finance & City Treasurer

____
Barry Jackson, CGA
Director of Financial Services

DRAFT #4
May 31, 2013

Consolidated Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Mayor, Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Vaughan

We have audited the accompanying consolidated financial statements of The Corporation of the City of Vaughan (the "City"), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider internal control relevant to the City'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 City'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 consolidated financial position of The Corporation of the City of Vaughan as at December 31, 2012, and its consolidated results of operations and accumulated surplus, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants, Licensed Public Accountants

June 25, 2013
Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Financial Position

December 31, 2012 with comparative figures for 2011

		2012		2011
				(Restated - note 4)
Financial Assets				
Cash and cash equivalents	$	360,570,265	$	270,897,304
Taxes receivable		36,006,088		43,156,462
Water and sewer billings receivable		17,026,368		15,790,192
Accounts receivable		15,714,082		17,579,355
Investments (note 3)		76,566,802		99,751,047
Local improvement charges receivable		515,983		811,061
Other assets		132,781		125,422
Investment in Hydro Vaughan Corporations (note 4)		299,574,803		275,700,834
		806,107,172		723,811,677
Financial Liabilities				
Accounts payable and accrued liabilities		67,957,429		77,427,649
Accrued interest on long-term liabilities		309,913		308,885
Employee future benefits (note 5)		75,507,126		65,281,400
Deposits and deferred revenue		22,547,214		20,550,852
Deferred revenue - obligatory reserve funds (note 6)		244,761,626		234,879,385
Debenture and other debt (note 7)		77,269,273		62,975,633
Note payable (note 8)		3,303,523		3,303,523
		491,656,104		464,727,327
Net financial assets		314,451,068		259,084,350
Non-Financial Assets				
Tangible capital assets (note 9)		6,989,498,913		6,868,427,436
Commitments (note 15)				
Contingencies (note 16)				
Accumulated surplus (note 10)	$	7,303,949,981	$	7,127,511,786

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget	2012	2011
	(Unaudited - note 13)		(Restated - note 4)
Revenue:			
Property taxation	$ 155,583,883	$ 155,063,428	$ 147,545,293
Taxation from other governments	1,500,000	1,420,296	1,576,847
User charges	35,549,496	43,336,211	40,053,383
Water and sewer billings	94,838,580	95,266,351	84,426,652
Government transfers (note 11)	7,019,300	12,246,085	9,794,005
Investment income	3,721,000	6,257,296	7,227,442
Penalties and interest on taxes	4,800,000	5,063,458	4,945,697
Other fees and services	3,452,850	4,820,982	6,346,666
Contributions from developers	16,974,380	19,515,944	44,725,207
Contributed assets (note 9(b))	–	159,498,001	91,044,264
Hydro Vaughan Corporations (note 4):			
Share of net earnings	4,425,000	16,497,242	11,194,121
Interest on notes receivable	4,853,450	4,866,748	4,853,451
	332,717,939	523,852,042	453,733,028
Expenses:			
General government	13,676,757	27,141,899	25,355,414
Protection to persons and property	54,509,862	58,997,931	54,074,360
Transportation services	28,727,707	58,823,137	74,176,334
Environmental services	106,922,963	123,125,155	114,396,838
Health services	148,520	111,130	152,224
Social and family services	338,859	300,893	313,513
Recreational and cultural services	60,070,847	76,286,914	77,453,115
Planning and development	15,894,530	15,470,988	14,839,418
	280,290,045	360,258,047	360,761,216
	52,427,894	163,593,995	92,971,812
Adjustment for the increase of the City's equity interest in the net assets of PowerStream (note 4)	–	12,844,200	1,059,600
Annual surplus	52,427,894	176,438,195	94,031,412
Accumulated surplus, beginning of year	7,127,511,786	7,127,511,786	7,033,480,374
Accumulated surplus, end of year	$ 7,179,939,680	$ 7,303,949,981	$ 7,127,511,786

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2012, with comparative figures for 2011

	Budget (Unaudited - note 13)	2012	2011 (Restated - note 4)
Annual surplus	$ 52,427,894	$ 176,438,195	$ 94,031,412
Amortization of tangible capital assets	–	65,531,916	62,073,412
Proceeds on disposal of tangible capital assets	–	203,078	76,964
Loss on disposal of tangible capital assets	–	11,512,290	19,111,778
Acquisition of tangible capital assets, net of transfers from assets under construction	(70,111,871)	(198,318,761)	(156,056,521)
Increase (decrease) in net financial assets	(17,683,977)	55,366,718	19,237,045
Net financial assets, beginning of year	259,084,350	259,084,350	239,847,305
Net financial assets, end of year	$ 241,400,373	$ 314,451,068	$ 259,084,350

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
		(Restated - note 4)
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 176,438,195	$ 94,031,412
Items not involving cash:		
Amortization	65,531,916	62,073,412
Loss on disposal of tangible capital assets	11,582,338	19,111,778
Contributed tangible capital assets	(159,498,001)	(91,044,264)
Deduct share of net earnings of Hydro Vaughan Corporations	(16,497,242)	(11,194,121)
Adjustment for the increase of the City's equity interest in the net assets of PowerStream Inc. (note 4)	(12,844,200)	(1,059,600)
Change in non-cash assets and liabilities:		
Decrease in taxes receivables	7,150,374	5,664,551
Increase in water and sewer billings receivable	(1,236,176)	(1,613,384)
Decrease (increase) in accounts receivable	1,865,273	(1,243,853)
Decrease in local improvement charges receivable	295,078	321,600
Increase in other assets	(7,359)	(51,094)
Decrease in accounts payable and accrued liabilities	(9,470,220)	(36,028,532)
Increase (decrease) in accrued interest on long-term liabilities	1,028	(5,049)
Increase in employee future benefits	10,225,726	12,483,515
Increase in deposits and deferred revenue	1,996,362	2,087,733
Increase (decrease) in deferred revenue - obligatory reserve funds	9,882,241	(14,291,054)
	85,415,333	39,243,050
Capital activities:		
Proceeds on disposal of tangible capital assets	203,078	76,964
Cash used to acquire tangible capital assets	(38,890,808)	(65,012,257)
	(38,687,730)	(64,935,293)
Financing activities:		
Debenture and other debt repaid	(8,450,144)	(7,763,135)
Debenture and other debt incurred	22,743,784	15,555,213
	14,293,640	7,792,078
Investing activities:		
Increase in investments	23,184,245	26,848,366
Decrease in investment in Hydro Vaughan Corporations (note 4)	5,467,473	2,546,497
	28,651,718	29,394,863
Increase in cash and cash equivalents	89,672,961	11,494,698
Cash and cash equivalents, beginning of year	270,897,304	259,402,606
Cash and cash equivalents, end of year	$ 360,570,265	$ 270,897,304
Supplemental cash flow information:		
Interest paid	$ 2,643,901	$ 2,320,102
Interest and dividends received	20,531,627	21,964,976
Supplemental disclosure of non-cash transactions:		
Tangible capital assets transferred from assets under construction to other asset categories	41,578,635	196,288,452

See accompanying notes to consolidated financial statements.

The City of Vaughan is a lower-tier municipality located in the Regional Municipality of York, Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act, Municipal Affairs Act and related legislation.

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the City of Vaughan (the "City" or "City of Vaughan") are prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for governments as recommended by the Public Sector Accounting Board ("PSAB") of The Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

The consolidated financial statements reflect the financial assets, liabilities, revenue and accumulated surplus of the reporting entity. The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the City and which are owned or controlled by the City, except for the City's government business enterprises which are accounted for on the modified equity basis of accounting.

The consolidated financial statements include:

- The Corporation of the City of Vaughan Public Library Board; and
- Board of Management for the Kleinburg Business Improvement Area.

Interdepartmental and inter-organizational transactions and balances between these entities have been eliminated.

1. Significant accounting policies (continued):

(ii) Investments in Government Business Enterprises:

The City's investments in Hydro Vaughan Energy Corporation, Hydro Vaughan Holdings Inc., Vaughan Holdings Inc., 1446631 Ontario Inc. and PowerStream Inc., collectively referred to as "Hydro Vaughan Corporations", are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its consolidated statement of operations and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City receives from the Hydro Vaughan Corporations are reflected as reductions in the investment asset account.

(iii) Accounting for Regional Municipality of York (the "Region" or "Region of York") and school board transactions:

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the Region and the schools boards are not reflected in these consolidated financial statements.

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in these consolidated financial statements.

(v) Sinking funds:

Sinking funds and their related operations are administered by the Region and, as such, are not included in these consolidated financial statements.

(b) Basis of accounting:

The City follows the accrual method of accounting for revenue and expenses. Revenue is normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

1. Significant accounting policies (continued):

The annual cost of owning and using tangible capital assets (estimated amortization) is deducted from annual results. That is, a portion of the cost of the asset is recognized in annual results in each of the periods of its useful life.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of deposits in banks, certificates of deposits and investments with original maturities of three months or less.

(d) Investments:

Investments are recorded at cost or amortized cost. Investment earnings are accounted for on the accrual basis. Premiums and discounts are amortized over the life of the investment.

(e) Long-term debt:

Long-term debt is recorded net of related sinking fund balances.

(f) Government transfers:

Government transfers are recognized in the consolidated financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be made.

(g) Deposits and deferred revenue:

Deposits and deferred revenue represent user fees and charges that have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenue in the fiscal year the services are performed.

1. Significant accounting policies (continued):

(h) Deferred revenue - obligatory reserve funds:

The City receives development charge contributions and payments in lieu of parkland under the authority of provincial legislation and City by-laws and Federal Gas Tax Revenues under a Municipal Funding Agreement with the Association of Municipalities of Ontario for the transfer of Federal Gas Tax Revenues. These funds, by their nature, are restricted in their use and, until applied to applicable capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal period they are expended.

(i) Pension, vacation entitlements and employee benefits:

The City accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund as a defined contribution plan. Vacation entitlements are accrued for as the entitlements are earned. Other post-employment benefits and compensated absences are accrued in accordance with the projected benefit method pro rated on service and management's best estimate of salary escalation and retirement ages of employees. Actuarial valuations, where necessary for accounting purposes, are performed triennially. The discount rate used to determine the accrued benefit obligation is determined by reference to the market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Unamortized actuarial gains or losses are amortized on a straight line basis over the expected average remaining service life of the related employee groups.

Unamortized actuarial gains/losses for event-triggered liabilities, such as those determined as claims related to the Workplace Safety and Insurance Board ("WSIB") are amortized over the average expected period during which the benefits will be paid.

Costs related to prior period employee services arising out of plan amendments are recognized in the period in which the plan is amended. Where applicable, the City has set aside reserve funds intended to fund these obligations either in full or in part. These reserve funds were created under municipal by-law and do not meet the definition of a plan asset under PSAB Standard 3250, Retirement Benefits. Therefore, for the purposes of these consolidated financial statements, the plans are considered, unfunded.

1. Significant accounting policies (continued):

(j) Taxation and related revenues:

Property tax bills are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by City Council, incorporating amounts to be raised for local services, the requisition made by the Region in respect of regional services and amounts the City is required to collect on behalf of the Province of Ontario in respect of education taxes. The Province of Ontario has enacted legislation known as "Continued Protection for Property Taxpayers" which, commencing with the 2005 tax year, limits assessment-related increases in property tax bills to ten percent annually for commercial, industrial and multi-residential classes of property until the affected properties are taxed at a level equivalent to the tax otherwise calculated based on their current value assessment.

The assessment process includes the issuance of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued. Property assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

The City is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

(k) Investment income:

Investment income earned on surplus funds is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue - obligatory reserve fund balances.

1. Significant accounting policies (continued):

(l) Segment disclosures:

Effective January 1, 2008, the City adopted PSAB Standard 2700, Segment Disclosures. A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. The additional disclosure required as a result of this standard is included in note 12.

(m) Non-financial assets:

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

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

Land improvements	2 - 100 years
Buildings and building improvements	20 - 60 years
Machinery and equipment	5 - 35 years
Vehicles	7 - 18 years
Roads infrastructure	8 - 75 years
Water and wastewater infrastructure	20 - 95 years
Furniture and fixtures	7 - 15 years
Information technology	2 - 6 years
Leasehold improvements	5 - 50 years

Annual amortization is charged in the year that the asset is available for productive use and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

1. Significant accounting policies (continued):

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

(iii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

(iv) Interest capitalization:

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets:

Leases, which transfer substantially all of the benefits and risks incidental to ownership of property, are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(n) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of the PSAB Standard 3150, Tangible Capital Assets, requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

1. Significant accounting policies (continued):

(o) Presentation of budget information:

City of Vaughan's Council completes a review for its operating and capital budgets each year. The approved operating and capital budgets for 2012 are included in the budget figures presented in the consolidated statement of operations and accumulated surplus.

2. Operations of school boards and the Region of York:

During 2012, requisitions were made by the district school boards and the Region requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	District School Boards	The Region
Property taxes	$ 261,821,986	$ 277,220,269
Taxation from other governments	682,654	712,914
Amounts requisitioned and remitted	$ 262,504,640	$ 277,933,183

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 2.31% to 5.03% (2011 - 2.19% to 5.03%) with maturity dates from March 14, 2013 to June 30, 2021 (2011 - May 7, 2012 to June 30, 2021). Market value of investments costing $76,566,802 (2011 - $99,751,047) is $79,753,371 (2011 - $104,840,072) at December 31, 2012.

4. Investment in Hydro Vaughan Corporations:

The City has incorporated corporations under the provisions of the Ontario Business Corporations Act. The corporations collectively referred to as Hydro Vaughan Corporations and the City's share ownership interest are as follows:

	Interest held 2012	2011
Hydro Vaughan Energy Corporation	100%	100%
Hydro Vaughan Holdings Inc.	100%	100%
Vaughan Holdings Inc., including 45.315% (2011 - 45.315%) share interest in PowerStream Inc.	100%	100%
1446631 Ontario Inc.	100%	100%

The shareholders of PowerStream Inc. ("PowerStream") are the City of Vaughan (through its wholly owned subsidiary Vaughan Holdings Inc.), the City of Markham (through its wholly owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly owned subsidiary Barrie Hydro Holdings Inc.) with share interests of 45.315%, 34.185% and 20.5% respectively.

On January 1, 2009, the City of Vaughan (through its wholly owned subsidiary Vaughan Holdings Inc.), the City of Markham (through its wholly owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly owned subsidiary Barrie Hydro Holdings Inc.) agreed to amalgamate PowerStream and Barrie Hydro Distribution Inc. and continue as a corporation amalgamated under the laws of Ontario. The amalgamated corporation retained the PowerStream corporate name. Upon amalgamation, shares of PowerStream held by Vaughan Holdings Inc., Markham Enterprises Corporation and Barrie Hydro Holdings Inc. were exchanged for shares of the newly amalgamated PowerStream. The number of shares issued to each shareholder of the amalgamated PowerStream is as follows:

	Number of shares
Vaughan Holdings Inc.	45,315
Markham Enterprises Corporation	34,185
Barrie Hydro Holdings Inc.	20,500

4. Investment in Hydro Vaughan Corporations (continued):

The closing adjustment relating to the formation of the newly amalgamated PowerStream on the contribution of net assets at their carrying value of the predecessor corporations resulted in a reduction of the City's equity interest of $2,735,145 in 2010. This reduction was recorded as an adjustment of the City's proportionate share of PowerStream's retained earnings and contributed surplus in 2010.

On November 23, 2010, the City of Vaughan (through its wholly owned subsidiary Vaughan Holdings Inc.), the City of Markham (through its wholly owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly owned subsidiary Barrie Hydro Holdings Inc.) (collectively, the "Shareholders") signed a subscription agreement with PowerStream for new Class A common shares for the purpose of the Shareholders providing equity for PowerStream's solar business. PowerStream's articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. During 2010, PowerStream issued 4,056 of the Class A common shares under the subscription agreement for an amount of $2,434,908. This subscription agreement expired on December 31, 2011 and a revised subscription agreement was signed between PowerStream and the Shareholders on January 1, 2012 to extend the equity financing in respect of PowerStream's solar business. During 2012, the Board of Directors of PowerStream, under the revised subscription agreement noted above, authorized the issuance of a further 21,407 (2011 - 1,766) Class A common shares to the City of Vaughan for $12,844,200 (2011 - $1,059,600). The maximum amount of Class A common shares that are available under the revised subscription agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest for 2012 and 2011 is as follows:

2012	Number of Class A common shares	Share interest
Vaughan Holdings Inc.	21,407	45.315%
Markham Enterprises Corporation	16,149	34.185%
Barrie Hydro Holdings Inc.	9,684	20.500%

4. Investment in Hydro Vaughan Corporations (continued):

2011	Number of Class A common shares	Share interest
Vaughan Holdings Inc.	1,766	45.315%
Markham Enterprises Corporation	1,333	34.185%
Barrie Hydro Holdings Inc.	800	20.500%

Total number of Class A common shares issued:

	2012	2011
Vaughan Holdings Inc.	25,011	3,604
Markham Enterprises Corporation	18,869	2,720
Barrie Hydro Holdings Inc.	11,315	1,631

During 2011, the Board of Directors of Vaughan Holdings Inc. authorized the issuance of a further 2,162,978 common shares to the City of Vaughan for $2,162,978. No new common shares were issued in 2012.

PowerStream adopted International Financial Reporting Standards ("IFRS") effective January 1, 2012 as its basis of accounting. The adoption of IFRS requires retrospective application of the new accounting framework to January 1, 2011, which is considered to be the date of transition. As a result, the amounts reported by PowerStream for its December 31, 2011 year end and the opening balance sheet at the date of transition have been restated from Canadian GAAP to IFRS.

4. Investment in Hydro Vaughan Corporations (continued):

The following table provides condensed supplementary financial information in respect to the City's investment accounted for on a modified equity basis in Hydro Vaughan Corporations:

	2012	2011 (Restated)
Assets		
Current assets	$ 227,868,833	$ 215,512,114
Capital assets	820,923,000	719,194,000
Investment in joint venture	8,243,000	–
Other assets	157,929,703	146,831,525
Goodwill	42,543,000	42,543,000
	1,257,507,536	1,124,080,639
Liabilities		
Current liabilities	333,245,057	296,059,280
Long-term debt	217,207,000	193,376,000
Employee future benefits and other liabilities	18,048,000	16,811,000
Promissory note due to the City of Markham	67,865,715	75,451,000
Promissory note due to the City of Barrie	20,000,000	20,000,000
Deferred revenue	82,759,000	56,166,000
Other	1,615,000	–
	740,739,772	657,863,280
Net assets	516,767,764	466,217,359
City of Markham's proportionate share of the net assets of PowerStream	(135,772,906)	(119,096,780)
City of Barrie's proportionate share of the net assets of PowerStream	(81,420,055)	(71,419,745)
City's equity interest in net assets	$ 299,574,803	$ 275,700,834

4. Investment in Hydro Vaughan Corporations (continued):

	2012	2011 (Restated)
Revenue	$ 990,580,090	$ 929,297,660
Expenses	954,109,152	904,502,312
Net earnings	36,470,938	24,795,348
City of Markham's share of the net earnings of PowerStream	(12,486,071)	(8,502,483)
City of Barrie's share of the net earnings of PowerStream	(7,487,625)	(5,098,744)
City's share of net earnings	$ 16,497,242	$ 11,194,121

A summary of the City's investment in Hydro Vaughan Corporations is as follows:

	2012	2011 (Restated)
Share capital:		
Investment in common shares of the Hydro Vaughan Corporations	$ 101,324,557	$ 88,480,357
Investment in Vaughan Holdings Inc. Class A common shares	2,162,978	2,162,978
Vaughan Holdings Inc. investment in PowerStream Class A common shares	2,162,978	2,162,978
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	9,925,030	9,925,030
IFRS adjustment	21,940,617	21,940,617
Retained earnings and contributed surplus:		
Opening balance	47,418,068	42,503,247
Net earnings	16,497,242	11,194,121
Less dividends	7,289,962	6,279,300
Closing balance	56,625,348	47,418,068
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	21,300,270	19,477,781
Equity in Hydro Vaughan Corporations	$ 299,574,803	$ 275,700,834

4. Investment in Hydro Vaughan Corporations (continued):

Notes receivable of $84,133,025 includes an unsecured note receivable from PowerStream in the amount of $78,236,285, repayable 90 days following demand by the City. The note receivable bears interest at an annual rate of 5.58% and at the City's request, the interest for eight quarters commencing October 1, 2006 on the note receivable has been deferred for five years, subject to the same interest and conditions as the original note. The remaining $5,896,740 portion of the note receivable represents an amount due from Hydro Vaughan Holdings without interest and no specified terms of repayment.

The following table reconciles the City's equity interest in the annual income or loss of the Hydro Vaughan Corporations and the change in equity from the Hydro Vaughan Corporations recorded in these consolidated financial statements:

	2012	2011 (Restated)
Equity in Hydro Vaughan Corporations, beginning of year	$ 275,700,834	$ 244,052,993
IFRS adjustment	–	21,940,617
Equity in Hydro Vaughan Corporation, beginning of year, restated	275,700,834	265,993,610
Change in equity:		
Equity interest in the cumulative income of Hydro Vaughan Corporations for the year ended December 31	16,497,242	11,194,121
Vaughan Holdings Inc. equity purchase in Class A common shares - PowerStream Inc.	12,844,200	1,059,600
Equity purchase in Class A common shares - Vaughan Holdings Inc.	–	2,162,978
Interest earned on notes receivable	4,866,748	4,853,451
Cash received for:		
Accrued interest receivable on notes	(4,866,748)	(4,853,451)
Dividends	(5,467,473)	(4,709,475)
	23,873,969	9,707,224
Equity in Hydro Vaughan Corporations, end of year	$ 299,574,803	$ 275,700,834

4. Investment in Hydro Vaughan Corporations (continued):

A summary of the City's investment in Hydro Vaughan Corporations presented on the consolidated statement of cash flows is as follows:

	2012	2011
Decrease (increase) in investment:		
Interest earned on notes	$ (4,866,748)	$ (4,853,451)
Equity purchase in Vaughan Holdings Inc. of Class A common shares	–	(2,162,978)
Cash received for accrued interest on unpaid notes payable interest	4,866,748	4,853,451
Dividends received	5,467,473	4,709,475
Decrease in investment in Hydro Vaughan Corporations	$ 5,467,473	$ 2,546,497

The obligations of Hydro Vaughan Corporations for the notes payable to the City are subordinated to secure credit agreements of PowerStream.

5. Employee future benefits:

(a) Pension:

The City provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The plan is a defined benefit pension plan, which specifies the amount of the retirement benefit to be received by employees based on the length of credited service and average earnings. No past service liability exists.

Total OMERS contributions amounted to $18,933,689 in 2012 (2011 - $15,782,603), of which $9,447,139 (2011 - $7,879,025) represented the City's portion.

5. Employee future benefits (continued):

(b) Workplace safety and insurance obligations:

Under the provision of the WSIB, the City is a self-insured Schedule 2 employer.

An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability of $482,025 (2011 - $455,600) reported in these consolidated financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to $1,000,000.

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is $4,645,101 (2011 - $4,278,800).

(d) Post retirement non-pension benefits:

The City pays certain health, dental and life insurance benefits on behalf of its retired employees. The City recognizes these post retirement non-pension benefit costs in the period in which the employee renders the services.

The projected benefit obligation for active employees and retirees at December 31, 2012 of $70,380,000 (2011 - $60,547,000) and the expense for the year ended December 31, 2012 of $11,114,000 (2011 - $8,782,000) were determined by actuarial valuation using a discount rate of 4.25%.

5. Employee future benefits (continued):

Information about the City's defined plan is as follows:

	2012	2011
Accrued benefit obligation:		
Balance, end of prior year	$ 60,547,000	$ 48,409,000
Actuarial loss	24,359,000	29,591,000
Service cost for the year	5,279,000	4,226,000
Interest cost for the year	3,805,000	3,504,000
Unamortized actuarial loss	(22,329,000)	(24,359,000)
Benefits paid for the year	(1,281,000)	(824,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	$ 70,380,000	$ 60,547,000

Components of benefit expense:

	2012	2011
Service costs for the year	$ 5,279,000	$ 4,226,000
Interest cost for the year	3,805,000	3,504,000
Amortization of actuarial loss	2,030,000	1,052,000
Benefit expense	$ 11,114,000	$ 8,782,000

The main actuarial assumptions employed with the valuation are as follows:

(i) General:

Future general inflation levels, measured by changes in the Consumer Price Index ("CPI"), were assumed as 2.0% in 2012 and thereafter.

(ii) Interest (discount) rate:

The projected benefit obligation as at December 31, 2012 and the expense for the year ended December 31, 2012, were determined by using a discount rate of 4.25% (2011 - 4.25%). The discount rate for 2012 corresponds to the assumed CPI rate plus an assumed real rate of return of 3.0%.

5. Employee future benefits (continued):

(iii) Salary levels:

Future general salary and wage levels were assumed to increase at a rate that management believes fairly reflects inflation.

(iv) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 7.63% in 2012 graded down by 0.38% in 2013 and thereafter.

(v) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 3.0% thereafter.

(vi) Expected average remaining service life ("EARSL") of the current active group is assumed to be 12 years.

Shown below are the components of the liability for employee future benefits:

	2012	2011
Post retirement non-pension benefits	$ 70,380,000	$ 60,547,000
Vacation entitlements	4,645,101	4,278,800
WSIB	482,025	455,600
	$ 75,507,126	$ 65,281,400

6. Deferred revenue - obligatory reserve funds:

Under PSAB accounting principles, obligatory reserve funds are to be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and, under certain circumstances, these funds may possibly be refunded. The balances in the obligatory reserve funds of the City are summarized below:

	2012	2011
Recreational land (The Planning Act)	$ 38,623,969	$ 34,367,077
Development Charges Act	163,276,848	152,203,594
Subdivider contributions	8,663,926	8,066,068
Federal Gas Tax Revenue	14,363,918	18,734,635
Building Standards Act	17,048,643	18,408,952
Ontario Roads and Bridges Fund	764,669	874,269
Investing in Ontario Act	2,019,653	2,224,790
	$ 244,761,626	$ 234,879,385

7. Debenture and other debt:

The balance of the municipal debt reported on the consolidated statement of financial position is made up of the following:

	2012	2011
Debenture debt issued by the Region:		
Serial debt	$ 40,132,372	$ 19,791,000
Sinking fund debt	25,746,257	30,555,493
Debt payable to York Major Holdings Inc. for McNaughton Road extension, principal portion	359,529	62,718
Debt payable to Block 11 Landowners' Group for Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain, principal portion is $8,640,178 and $1,177,030 respectively	9,817,208	9,817,208
Debt payable to Bellshire Woods Estate Inc., principal portion	332,490	415,379
Debt payable to Ventana Homes, principal portion	881,417	2,333,835
	$ 77,269,273	$ 62,975,633

Debenture and other debt has been approved by by-law. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

In 2005, the City entered into an agreement with York Major Holdings Inc. for the City to pay its share of the construction of the McNaughton Road extension. The obligation is without interest and there is one payment of $359,529 remaining in 2013. The agreement included $1,500,000 in development charge credits to be applied against future building permits. Development charge credits of $1,109,962 have been reallocated to accounts payable and accrued liabilities.

7. Debenture and other debt (continued):

In 2009, the City entered into an agreement to pay its share of the construction of Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain. The obligation is without interest and is payable in instalments through 2019 as noted below.

In 2011, the City entered into a promissory note agreement with Bellshire Woods Estate Inc. for the City to pay for the annual shelter leasehold improvements. The obligation will bear interest at six (6.0%) percent per annum, calculated monthly. The principal and interest payments are due monthly, with the first payment being made on July 1, 2011 and the last payment to be made on June 1, 2016.

In 2011, the City entered into an agreement with Ventana Homes for the City to pay for the design and construction of a (600/450 mm) diameter sanitary sewer on Dufferin Street, Teston Road and within an easement on City owned lands at the southeast corner of Dufferin Street and Teston Road as a component of the external municipal services for the lands. The obligation is without interest and is payable in instalments through 2016 as noted below.

Principal payments in the amount of $77,269,273, net long-term liabilities reported above, are repayable as follows:

	Region	York Major Holdings Inc.	Block 11 Landowners' Group	Bellshire Woods Estates	Ventana Homes	Total
2013	$ 9,531,428	$ 359,529	$ 1,403,938	$ 88,002	$ –	$ 11,382,897
2014	9,556,428	–	1,613,783	93,429	293,806	11,557,446
2015	9,585,428	–	1,788,010	99,192	293,806	11,766,436
2016	8,396,198	–	1,670,492	51,867	293,805	10,412,362
2017	5,567,395	–	1,670,492	–	–	7,237,887
2018 - 2022	18,195,882	–	1,670,493	–	–	19,866,375
Interest on sinking funds	5,045,870	–	–	–	–	5,045,870
	$ 65,878,629	$ 359,529	$ 9,817,208	$ 332,490	$ 881,417	$ 77,269,273

7. Debenture and other debt (continued):

Total charges for the year for net debenture and other debt were as follows:

	2012	2011
Principal payments, including contributions to the sinking fund	$ 8,450,144	$ 7,763,135
Interest	2,643,901	2,320,102
	$ 11,094,045	$ 10,083,237

8. Notes payable:

Effective November 1, 2000, the City issued a non-interest bearing note payable with no fixed terms of repayment in the amount of $3,303,523 to Hydro Vaughan Energy Corporation, for the book value of the capital assets less the net long-term debt related thereto retained by the City on the dissolution of Vaughan Hydro Commission.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Tangible capital assets:

2012	Cost: Balance, beginning of year	Cost: Acquisitions	Cost: Disposals and adjustments	Cost: Balance, end of year	Accumulated amortization: Balance, beginning of year	Accumulated amortization: Amortization	Accumulated amortization: Disposals and adjustments	Accumulated amortization: Balance, end of year	Net book value, December 31, 2012
Land	$ 4,729,102,109	$ 140,639,569	$ 131,987	$ 4,869,609,691	$ –	$ –	$ –	$ –	$ 4,869,609,691
Land improvement	156,574,076	3,910,148	9,741,926	150,742,298	58,901,642	608,990	65,607	59,445,025	91,297,273
Buildings and buildings improvements	288,361,809	21,778,535	8,369,842	301,770,502	70,277,156	16,115,936	5,182,773	81,210,319	220,560,183
Machinery and equipment	34,237,810	3,520,776	5,185,561	32,573,025	20,595,056	2,964,665	5,073,845	18,485,876	14,087,149
Vehicles	25,974,965	3,472,828	226,199	29,221,594	13,304,866	2,175,450	226,199	15,254,117	13,967,477
Furniture and fixtures	8,562,121	295,900	7,528	8,850,493	3,028,196	538,793	6,437	3,560,552	5,289,941
Information technology	5,049,667	493,613	370,801	5,172,479	3,562,190	727,075	370,802	3,918,463	1,254,016
Leasehold improvements	3,085,971	–	–	3,085,971	1,618,472	174,036	–	1,792,508	1,293,463
Roads infrastructure	824,587,558	23,843,004	352,784	848,077,778	315,668,863	24,033,406	207,673	339,494,596	508,583,182
Water and sewer infrastructure	1,480,026,814	14,010,661	686,754	1,493,350,721	265,104,485	18,193,565	380,990	282,917,060	1,210,433,661
Assets under construction	64,925,462	28,002,410	39,804,995	53,122,877	–	–	–	–	53,122,877
	$ 7,620,488,362	$ 239,967,444	$ 64,878,377	$ 7,795,577,429	$ 752,060,926	$ 65,531,916	$ 11,514,326	$ 806,078,516	$ 6,989,498,913

2011	Cost: Balance, beginning of year	Cost: Acquisitions	Cost: Disposals and adjustments	Cost: Balance, end of year	Accumulated amortization: Balance, beginning of year	Accumulated amortization: Amortization	Accumulated amortization: Disposals and adjustments	Accumulated amortization: Balance, end of year	Net book value, December 31, 2011
Land	$ 4,652,523,984	$ 76,578,125	$ –	$ 4,729,102,109	$ –	$ –	$ –	$ –	$ 4,729,102,109
Land improvement	152,027,281	8,205,056	3,658,261	156,574,076	56,697,798	5,128,226	2,924,382	58,901,642	97,672,434
Buildings and buildings improvements	178,056,654	112,097,114	1,791,959	288,361,809	62,767,549	8,417,430	907,823	70,277,156	218,084,653
Machinery and equipment	33,483,530	3,948,789	3,194,509	34,237,810	20,634,219	3,090,867	3,130,030	20,595,056	13,642,754
Vehicles	24,089,271	2,450,189	564,495	25,974,965	11,964,869	1,903,566	563,569	13,304,866	12,670,099
Furniture and fixtures	4,365,611	4,196,510	–	8,562,121	2,532,282	495,914	–	3,028,196	5,533,925
Information technology	4,380,970	785,546	116,849	5,049,667	3,079,166	598,336	115,312	3,562,190	1,487,477
Leasehold improvements	2,181,191	904,780	–	3,085,971	1,343,405	275,067	–	1,618,472	1,467,499
Roads infrastructure	806,468,831	19,325,380	1,206,653	824,587,558	292,382,467	24,218,426	932,030	315,668,863	508,918,695
Water and sewer infrastructure	1,457,275,709	24,524,066	1,772,961	1,480,026,814	247,554,740	17,945,580	395,835	265,104,485	1,214,922,329
Assets under construction	177,736,532	99,329,418	212,140,488	64,925,462	–	–	–	–	64,925,462
	$ 7,492,589,564	$ 352,344,973	$ 224,446,175	$ 7,620,488,362	$ 698,956,495	$ 62,073,412	$ 8,968,981	$ 752,060,926	$ 6,868,427,436

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of $53,122,877 (2011 - $64,925,462) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is $159,498,001 (2011 - $91,044,264) comprised of land and land improvements of $141,738,019 (2011 - $61,661,258), roads infrastructure of $8,396,850 (2011 - $9,132,134) and water and wastewater infrastructure of $9,363,132 (2011 - $20,250,872).

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

(d) Works of art and historical treasures:

The City manages and controls various works of art and non-operational historical cultural assets including buildings, artifacts, paintings and sculptures located at City sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

10. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves as follows:

	2012	2011 (Restated - note 4)
Surplus:		
Investment in tangible capital assets	$ 6,989,498,913	$ 6,868,427,436
Amounts to be recovered in future years:		
From future revenues	(114,784,543)	(100,003,398)
From reserves and reserve funds on hand	(21,783,999)	(11,198,981)
Investment in Hydro Vaughan Corporations (note 4)	299,574,803	275,700,834
Other	(76,838,399)	(130,533,465)
	7,075,666,775	6,902,392,426
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	5,151,619	3,253,265
Fire equipment replacement	3,581,167	3,133,913
General working capital	23,100,996	28,284,259
Tax rate stabilization	23,117,827	23,120,444
Waterworks	33,525,812	30,596,504
Wastewater (sanitary sewers)	32,235,055	25,775,678
Keele Valley landfill	2,181,413	2,301,955
Heritage Fund	2,389,454	872,929
Employee benefits	21,783,999	11,198,981
Buildings	15,532,093	16,632,623
Road infrastructure	7,146,087	6,998,171
Sale of public lands	5,644,039	5,631,999
Parks infrastructure	7,816,158	962,144
Winterization	5,301,805	6,013,419
Other	8,453,260	4,584,142
Debenture payments	13,568,199	33,602,683
Engineering	13,420,062	13,205,998
Planning	961,028	949,108
City Hall Funding	9,843	4,910,997
Expenditure reserve	3,363,290	3,090,148
	228,283,206	225,119,360
	$ 7,303,949,981	$ 7,127,511,786

11. Government transfers:

The City recognizes the transfer of government funding as revenue in the year that the events giving rise to the transfer occurred. The government transfers reported on the consolidated statement of operations and accumulated surplus are:

	2012	2011
Provincial grants:		
General government	$ 12,455	$ 21,289
Transportation services	(197,392)	1,071,803
Environmental services	216,015	–
Recreation and cultural services	129,608	1,034,808
Planning and development	112,350	–
	273,036	2,127,900
Federal grants:		
General government	6,664,005	1,275,305
Protection services	21,218	–
Transportation services	4,711,662	1,723,093
Environmental services	539,557	3,708,758
Recreation and cultural services	36,607	958,949
	11,973,049	7,666,105
	$ 12,246,085	$ 9,794,005

12. Segmented information:

The City is a diversified municipal government that provides a wide range of services to its citizens and holds a significant investment in the Hydro Vaughan Corporations. For management reporting purposes, the City's operations and activities are organized functionally based on services provided.

The segmented information with a brief description of the services area is as follows:

(a) General government:

General government service area includes the governance of the City, corporate administration and supporting services.

12. Segmented information (continued):

(b) Protection to persons and property:

Protection is comprised of the administration and operations of the Fire department that delivers fire suppression services, rescue services and fire prevention education. Enforcement services provide by-law enforcement throughout the City. The Building Standards department provides inspection services, plan examination services, plumbing services and the issuance of building permits.

(c) Transportation services:

Transportation services area includes the administration and operations of the Public Works Department as it relates to the delivery of road maintenance services, winter control and street lighting maintenance.

(d) Environmental services:

Environmental services area includes the administration and the operation of the water, wastewater, storm water distribution system as provided by the Public Works and Engineering Services departments. This section also includes the cost of potable water and wastewater services. The collection of waste and recycling materials is provided by the Public Works department.

(e) Health services, social and family services:

This area consists of the maintenance of the City's cemeteries and funding for assistance to aged persons.

(f) Recreation and cultural services:

The recreation and cultural services area includes the delivery of recreational program services and cultural services provided by the Recreation and Culture department. The Corporation of the City of Vaughan Public Library Board provides library services through its various library facilities. The maintenance of the City's park network is provided by the Parks and Forestry Operations Department and maintenance of the City's recreation facilities is provided by the Building and Facilities department.

12. Segmented information (continued):

(g) Planning and development:

Planning and development consist of the administration and operations of the Planning department as it relates to the development of the City through development planning services, policy planning and urban design services.

Certain allocation methodologies are employed in the preparation of the segmented financial information. Taxation and payments-in-lieu of taxes are allocated to the segments based on the segment's budgeted net of expenses. User charges and other revenue have been allocated to the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made. Development charges earned and developer contributions received were allocated to the segment for which the charge was collected.

12. Segmented Information (continued):

2012	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	$ 22,273,342	$ 23,769,892	$ 23,699,468	$ 49,606,343	$ 166,002	$ 30,735,513	$ 6,233,164	$ –	$ 156,483,724
User charges	4,161,209	7,918,301	2,285,791	1,289,828	67,920	17,942,001	9,671,161	–	43,336,211
Water and sewer billings	–	–	–	95,266,351	–	–	–	–	95,266,351
Investment income	890,641	950,484	947,668	1,983,603	6,638	1,229,017	249,245	–	6,257,296
Other fees and services	8,155	258,658	896	–	–	2,773,316	1,779,957	–	4,820,982
Government transfers	6,676,460	21,218	4,514,270	755,572	–	166,215	112,350	–	12,246,085
Penalties and interest on taxes	720,715	769,140	766,861	1,605,149	5,371	994,531	201,691	–	5,063,458
Contributions from developers	–	1,256,599	9,573,518	1,904,497	–	6,363,755	417,575	–	19,515,944
Hydro Vaughan Corporations	–	–	–	–	–	–	–	21,363,990	21,363,990
Contributed assets	–	–	–	–	–	–	–	159,498,001	159,498,001
	34,730,522	34,944,292	41,788,472	152,411,343	245,931	60,204,348	18,665,143	180,861,991	523,852,042
Expenses (income):									
Salaries and benefits	29,151,240	48,099,367	7,589,212	4,881,694	25,909	41,143,398	12,943,851	–	143,834,671
Goods and services	14,184,291	3,177,700	14,875,726	86,486,670	198,878	14,869,897	924,428	–	134,717,590
Long-term debt interest	–	–	2,498,517	122,716	–	–	–	–	2,621,233
Other	146,363	92,286	(2,262)	274,769	143,378	912,405	4,803	–	1,571,742
Corporate support allocation	1,552,051	5,587,434	2,550,062	10,611,576	42,581	6,288,487	1,509,338	(28,141,529)	–
Loss on disposal of tangible capital assets	2,543,964	69,687	214,380	303,080	–	564,180	–	–	3,695,291
Amortization	5,128,807	1,544,754	25,035,223	18,581,771	–	15,237,579	3,783	–	65,531,917
Other capital related	2,576,712	426,703	6,062,279	1,862,879	1,277	(2,729,032)	84,785	–	8,285,603
	55,283,428	58,997,931	58,823,137	123,125,155	412,023	76,286,914	15,470,988	(28,141,529)	360,258,047
Annual surplus (deficit) before the undernoted	(20,552,906)	(24,053,639)	(17,034,665)	29,286,188	(166,092)	(16,082,566)	3,194,155	209,003,520	163,593,995
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)	–	–	–	–	–	–	–	12,844,200	12,844,200
Annual surplus (deficit)	$ (20,552,906)	$ (24,053,639)	$ (17,034,665)	$ 29,286,188	$ (166,092)	$ (16,082,566)	$ 3,194,155	$ 221,847,720	$ 176,438,195

12. Segmented information (continued):

2011	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total (Restated - note 4)
Revenue:									
Property and other taxation	$ 9,578,543	$ 34,383,539	$ 31,405,268	$ 7,593,916	$ 370,618	$ 39,259,919	$ 6,881,788	$ 19,648,549	$ 149,122,140
User charges	–	10,259,824	2,361,800	1,449,847	70,579	16,770,476	6,210,142	2,933,027	40,055,695
Water and sewer billings	–	–	–	84,426,652	–	–	–	–	84,426,652
Investment income	390,511	1,018,868	1,021,060	851,357	10,720	1,154,230	103,713	2,676,983	7,227,442
Other fees and services	189,021	3,233,841	1,741,375	67,486	–	1,007,179	348,447	2,518	6,589,867
Government transfers	1,296,594	–	2,794,896	3,708,758	–	1,748,244	–	–	9,548,492
Penalties and interest on taxes	419,844	1,095,399	1,097,756	915,306	11,525	1,240,929	111,504	53,434	4,945,697
Contributions from developers	–	3,079,077	13,857,537	1,882,570	–	25,457,494	448,529	–	44,725,207
Hydro Vaughan Corporations (restated - note 4)	–	–	–	–	–	–	–	16,047,572	16,047,572
Contributed assets	–	–	–	–	–	–	–	91,044,264	91,044,264
	11,874,513	53,070,548	54,279,692	100,895,892	463,442	86,638,471	14,104,123	132,406,347	453,733,028
Expenses:									
Salaries and benefits	9,540,772	43,990,172	7,164,698	4,732,381	25,340	39,960,694	12,355,659	17,351,574	135,121,290
Goods and services	1,874,817	3,268,931	18,885,755	78,397,342	246,406	15,517,779	880,733	12,617,001	131,688,764
Long-term debt interest	–	–	2,161,974	125,670	–	32,458	–	–	2,320,102
Other	173,742	90,031	(70,755)	245,209	142,485	728,902	10,865	30,945	1,351,424
Corporate support allocation	1,338,083	5,423,910	3,167,125	10,367,269	51,487	6,576,280	1,516,952	(28,441,106)	–
Loss (gain) on disposal of tangible capital assets	9,112	(5,016)	675,477	258,094	–	1,160,349	–	–	2,098,016
Amortization	4,779,775	1,394,155	25,330,256	18,325,539	–	12,239,904	3,783	–	62,073,412
Other capital related	6,080,698	(87,823)	16,861,804	1,945,334	19	1,236,749	71,426	1	26,108,208
	23,796,999	54,074,360	74,176,334	114,396,838	465,737	77,453,115	14,839,418	1,558,415	360,761,216
Annual surplus (deficit) before the undernoted	(11,922,486)	(1,003,812)	(19,896,642)	(13,500,946)	(2,295)	9,185,356	(735,295)	130,847,932	92,971,812
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)	–	–	–	–	–	–	–	1,059,600	1,059,600
Annual surplus (deficit)	$ (11,922,486)	$ (1,003,812)	$ (19,896,642)	$ (13,500,946)	$ (2,295)	$ 9,185,356	$ (735,295)	$ 131,907,532	$ 94,031,412

13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets approved by City Council in 2012. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget amount
Revenue:	
Operating budget	$ 327,336,038
Capital budget	50,015,280
Less:	
Transfers from other funds	16,303,150
Proceeds on debt issue	8,413,900
Hospital levy	5,728,049
Other capital funding and financing	14,188,280
	332,717,939
Expenses:	
Operating budget	327,336,038
Capital budget	50,015,280
Less:	
Transfers to other funds	15,453,625
Capital expenses	70,111,871
Debt principal payments	11,495,777
	280,290,045
Annual surplus	$ 52,427,894

14. Trust funds:

Trust funds administered by the City amounting to $427,908 (2011 - $390,688) are presented in separate financial statements of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and financial activities.

15. Commitments:

(a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments such as waste collection, snow clearing, etc., obtaining City Council and other approvals as required. For these lease and operating commitments, minimum payments have been estimated to aggregate $73.4 million over the next five years. Expenses relating to these agreements are recorded in the year in which the payments are made.

(b) Loan guarantees:

The City has entered into contracted agreements to guarantee loans for the following:

(i) For the accumulated sum, not exceeding $2.0 million with the Ontario Soccer Association.

(ii) For the accumulated sum, not exceeding $6.5 million with the Mentena Development Group.

(c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, PowerStream charged the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The net charge for services under these agreements were $1,599,271 (2011 - $1,558,191).

(d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining City Council and other approvals as required. The total value of approved and outstanding capital works at December 31, 2012 is approximately $137.5 million. Expenses relating to capital works are recorded in the year in which expenses are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation.

15. Commitments (continued):

(e) Vaughan Hospital:

In 2010, the City approved a grant in the amount of $80,000,000, being a contribution toward the local share for land acquisition and development of a hospital in Vaughan. In August 2010, the City purchased land for the hospital in the amount of $60,000,000. The cost of the land is included in the City's tangible capital assets. This cost is being recovered through phased tax rate increases over five years totaling 5.45% beginning in 2010.

16. Contingencies:

(a) Unsettled legal claims and potential other claims:

The City of Vaughan, in the course of its operations, is subject to claims, lawsuits and contingencies. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the City does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its consolidated financial position.

(b) Insurance claims:

PowerStream is a member of the Municipal Electric Association Reciprocal Insurance Exchange ("MEARIE"). A reciprocal insurance exchange is a group formed for the purpose of exchanging reciprocal contracts of indemnity or inter-insurance with each other. MEARIE is licensed to provide general liability insurance to member electric utilities.

Insurance premiums charged to each municipal electric utility consist of a levy per thousand dollars of service revenue subject to a credit or surcharge based on each electric utility's claims experience. Coverage is provided to a level of $20 million per incident.

PowerStream has been jointly named as a defendant in several actions. No provisions has been made for these potential liabilities in the financial statements of PowerStream for the year ended December 31, 2012 as PowerStream expects that these claims are adequately covered by its insurance.

16. Contingencies (continued):

(c) Other claims - Griffith et al v. Toronto-Hydro-Electric Commissions et al:

This action has been brought under the Class Proceedings Act, 1992. The Plaintiff class seeks $500 million in restitution for amounts paid to Toronto Hydro and other Ontario municipal electric utilities ("LDC's") who received late payment penalties which constitute interest at an effective rate in excess of 60% per year, contrary to section 347 of the Criminal Code. Pleadings have closed in this action. The action has not yet been certified as a class action and no discoveries have been held, as the parties are awaiting the outcome of a similar proceeding brought against Enbridge Gas Distribution Inc. (formerly Consumers Gas) ("Enbridge").

On April 22, 2004, the Supreme Court of Canada released a decision in the Consumers Gas case rejecting all of the defences which had been raised by Enbridge, although the Court did not permit the Plaintiff class to recover damages for any period prior to the issuance of the Statement of Claim in 1994 challenging the validity of late payment penalties. The Supreme Court remitted the matter back to the Ontario Supreme Court of Justice for determination of the damages. At the end of 2006, a mediation process resulted in the settlement of the damages payable by Enbridge and that settlement was approved by the Ontario Superior Court.

In 2007, Enbridge filed an application to the Ontario Energy Board ("OEB") to recover the Court-approved amount and related amounts from ratepayers. On February 4, 2008, the OEB approved recovery of the said amounts from ratepayers over a five year period.

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. To date, no formal steps have been taken to move the action forward. The electric utilities intend to respond to the action if and when it proceeds on the basis that the LDC's situation may be distinguishable from that of Consumers Gas.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

DRAFT #3
May 31, 2013

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Board Members, Members of Council, Inhabitants and
Ratepayers of The Corporation of the City of Vaughan

We have audited the accompanying statement of financial position of The Corporation of the City of Vaughan Public Library Board as at December 31, 2012, the statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Vaughan Public Library Board as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial Assets		
Cash	$ 22,206	$ 27,954
Due from the City of Vaughan	152,965	244,027
	175,171	271,981
Financial Liabilities		
Accounts payable and accrued liabilities	185,989	261,613
Employee future benefits (note 2(b))	5,448,000	4,742,000
Deferred revenue	40,329	46,194
	5,674,318	5,049,807
Net debt	(5,499,147)	(4,777,826)
Non-Financial Assets		
Prepaid expenses	51,147	35,826
Tangible capital assets (note 3)	5,510,164	5,557,278
	5,561,311	5,593,104
Accumulated surplus (note 4)	$ 62,164	$ 815,278

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012 (Unaudited - note 5)	Actual 2012	Actual 2011
Revenue:			
Municipal contributions for operations	$ 13,162,268	$ 12,589,342	$ 11,716,098
Province of Ontario grants	145,200	150,008	160,686
Fees, rental and sundry	301,300	296,137	319,007
	13,608,768	13,035,487	12,195,791
Expenses:			
Salaries and wages	10,089,818	7,874,061	7,400,017
Employee benefits	–	2,366,543	2,415,441
General administration	585,550	539,431	543,386
Maintenance and repairs	522,100	470,600	452,492
Utilities	310,400	244,670	248,007
Periodicals	1,715,400	214,800	191,641
Office resources	150,100	145,923	140,077
Cleaning services	101,000	93,396	93,396
Insurance	–	–	50,900
Programmes	49,500	42,791	36,152
Supplies	52,900	52,199	42,835
Consulting and outside services	32,000	9,591	17,564
Amortization of tangible capital assets (note 3)	–	1,733,505	1,831,643
	13,608,768	13,787,510	13,463,551
Annual deficit before the undernoted	–	(752,023)	(1,267,760)
Loss on disposal of capital assets	–	(1,091)	(7,015)
Annual deficit	–	(753,114)	(1,274,775)
Accumulated surplus, beginning of year	–	815,278	2,090,053
Accumulated surplus, end of year	$ –	$ 62,164	$ 815,278

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Change in Net Debt

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Annual deficit	$ (753,114)	$ (1,274,775)
Prepaid expenses	(15,321)	(35,826)
Acquisition of tangible capital assets	(1,687,482)	(1,449,883)
Amortization of tangible capital assets	1,733,505	1,831,643
Loss on disposal of tangible capital assets	1,091	7,015
Change in net debt	(721,321)	(921,826)
Net debt, beginning of year	(4,777,826)	(3,856,000)
Net debt, end of year	$ (5,499,147)	$ (4,777,826)

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual deficit	$ (753,114)	$ (1,274,775)
Items not involving cash:		
Amortization of tangible capital assets	1,733,505	1,831,643
Loss on disposal of tangible capital assets	1,091	7,015
Increase in employee future benefits	706,000	886,000
Change in non-cash assets and liabilities:		
Prepaid expenses	(15,321)	(35,826)
Due from the City of Vaughan	91,062	26,019
Accounts payable and accrued liabilities	(75,624)	21,663
Deferred revenue	(5,865)	(4,919)
Net change in cash from operating activities	1,681,734	1,456,820
Capital activities:		
Purchase of tangible capital assets	(1,687,482)	(1,449,883)
Increase (decrease) in cash	(5,748)	6,937
Cash, beginning of year	27,954	21,017
Cash, end of year	$ 22,206	$ 27,954

See accompanying notes to financial statements.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements of The Corporation of the City of Vaughan Public Library Board (the "Library") are prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of The Canadian Institute of Chartered Accountants.

(b) Basis of accounting:

The Library follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

The annual cost of owning and using tangible capital assets (estimated amortization) is deducted from annual results. That is, a portion of the cost of the asset is recognized in annual results in each of the periods of its useful life.

(c) Non-financial assets:

(i) Tangible capital assets:

Tangible capital assets are non-financial assets having physical substance that are not generally available to the Library for use in discharging its existing liabilities and are held for use in the provision of services. These assets are significant economic resources that are not intended for sale in the ordinary course of business and have an estimated useful life that extends beyond the current period.

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

Books	7 years
Audio visual material	7 years
Furniture and fixtures	10 years
Equipment	5 - 10 years

1. Significant accounting policies (continued):

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

(iii) Works of art and cultural and historic assets:

The Library does not own any notable works of art and historical treasures at their branches. Typically, these assets are deemed worthy of preservation because of the social rather than financial benefits that they provide to the community. The historic costs of art and treasures are not determinable or relevant to their significance, hence a valuation is not assigned to these assets nor would they be disclosed of in the financial statements

(iv) Leased tangible capital assets:

Leases, which transfer substantially all of the benefits and risks incidental to ownership of property, are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(v) Land and buildings:

The land and buildings that the Library use are owned by The Corporation of the City of Vaughan and are not recorded as tangible capital assets in the Library's financial statements.

(d) Government transfers:

Government transfers are recognized in the financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

1. Significant accounting policies (continued):

(e) Deferred revenue:

Contributions for which the related expenses have not been incurred are recorded as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.

(f) Vacation entitlements:

Vacation entitlements which have been earned but are untaken, form part of the employee future benefits in these financial statements.

(g) Pension and post retirement non-pension benefits:

The Library accounts for its participation in the Ontario Municipal Employees' Retirement System ("OMERS"), a multi-employer public sector pension fund as a defined contribution plan.

The Library actuarially determines the cost of the post retirement non-pension benefits using the projected benefit method prorated on service and based on management's best estimated assumptions. Under this method, the projected post retirement non-pension benefit is deemed to be earned on a pro rata basis over the years of service in the attribution period commencing at date of hire; and ended at the earliest age the employee could retire and qualify for benefits. Compensated absence and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts 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 expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the Library's implementation of the PASB Section 3150 requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

1. Significant accounting policies (continued):

(i) Presentation of budget information:

The Library completes an operating budget review for its operating and capital budgets each year. The approved budget figures for 2012 are reflected on the statement of operations and accumulated surplus and in note 5. Actual revenue and expenses may differ significantly from annual budgets. Budget figures are unaudited.

2. Employee future benefits:

(a) Pensions:

The Library provides a pension plan for its employees through OMERS. OMERS is a multi-employer pension plan which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by employees based on the length of credited service and average earnings. No past service liability exists.

Total OMERS contributions amounted to $1,180,910 in 2012 (2011 - $942,754), of which $590,455 (2011 - $471,377) represented the Library's portion.

(b) Post retirement non-pension benefits:

The Library pays certain health, dental and life insurance benefits on behalf of its retired employees. The Library recognizes these post retirement non-pension benefit costs in the period in which the employee rendered the services.

The projected benefit obligation for active employees and retirees at December 31, 2012 of $5,179,000 (2011 - $4,472,000) and the expense for the year ended December 31, 2012 of $808,000 (2011 - $635,000) was determined by actuarial valuation using a discount rate of 4.25% (2011 - 4.25%).

2. Employee future benefits (continued):

Information about the Library's defined benefit plan is as follows:

	2012	2011
Accrued benefit obligation:		
Balance, end of prior year	$ 4,472,000	$ 3,606,000
Actuarial loss	1,243,000	1,581,000
Service cost for the year	445,000	356,000
Interest cost for the year	259,000	238,000
Unamortized actuarial loss	(1,140,000)	(1,243,000)
Benefits paid for the year	(100,000)	(66,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	$ 5,179,000	$ 4,472,000

	2012	2011
Components of benefit expense:		
Service cost for the year	$ 445,000	$ 356,000
Interest cost for the year	259,000	238,000
Amortization of actuarial loss	104,000	41,000
Benefit expense	$ 808,000	$ 635,000

Shown below are the components of the liability for employee future benefits:

	2012	2011
Post retirement non-pension benefits	$ 5,179,000	$ 4,472,000
Vacation pay	269,000	270,000
	$ 5,448,000	$ 4,742,000

3. Tangible capital assets:

Cost	Balance at December 31, 2011	Additions	Disposals	Balance at December 31, 2012
Books	$ 9,155,924	$ 926,593	$ 2,761,546	$ 7,320,971
Audio visual materials	3,476,449	473,282	781,350	3,168,381
Furniture and fixtures	1,429,870	18,494	7,528	1,440,836
Equipment	363,213	269,113	30,217	602,109
Total	$ 14,425,456	$ 1,687,482	$ 3,580,641	$ 12,532,297

Cost	Balance at December 31, 2011	Amortization expense	Disposals	Balance at December 31, 2012
Books	$ 5,559,353	$ 1,138,810	$ 2,761,546	$ 3,936,617
Audio visual materials	1,900,734	450,672	781,350	1,570,056
Furniture and fixtures	1,084,362	98,091	6,437	1,176,016
Equipment	323,729	45,932	30,217	339,444
Total	$ 8,868,178	$ 1,733,505	$ 3,579,550	$ 7,022,133

	Net book value December 31, 2012	Net book value December 31, 2011
Books	$ 3,384,354	$ 3,596,571
Audio visual materials	1,598,325	1,575,715
Furniture and fixtures	264,820	345,508
Equipment	262,665	39,484
Total	$ 5,510,164	$ 5,557,278

4. Accumulated surplus:

Accumulated surplus consists of the following:

	2012	2011
Surplus invested in tangible capital assets (note 3)	$ 5,510,164	$ 5,557,278
Unfunded employee benefits (note 2)	(5,448,000)	(4,742,000)
	$ 62,164	$ 815,278

5. Budget data:

The unaudited budget data presented in these financial statements is based upon the 2012 operating and capital budgets approved by the Library in 2012. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Revenue:	
Operating budget	$ 13,608,768
Capital budget	19,157,950
Total revenue	32,766,718
Expenses:	
Operating budget	13,608,768
Capital budget	19,157,950
Total expenses	32,766,718
Annual surplus	$ –

DRAFT #1
May 31, 2013

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers of
The Corporation of the City of Vaughan

We have audited the accompanying financial statements of The Corporation of the City of Vaughan Trust Funds, which comprise the statement of financial position as at December 31, 2012, and the statement of financial activities and changes in fund balance for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Vaughan Trust Funds as at December 31, 2012, and its results of operations and its changes in fund balance for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

DRAFT Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial Assets		
Cash	$ 366,692	$ 345,916
Due from The Corporation of the City of Vaughan	30,966	16,287
Investments:		
Guaranteed investment certificates, at cost which approximates market value	30,250	28,485
	$ 427,908	$ 390,688
Fund Balance	$ 427,908	$ 390,688
	$ 427,908	$ 390,688

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

DRAFT Statement of Financial Activities and Changes in Fund Balance

Year ended December 31, 2012, with comparative figures for 2011

			2012	2011
	Cemetery perpetual care	Election surplus	Total	Total
Sources of funds:				
Capital receipts - sale of plots/markers	$ 37,220	$ –	$ 37,220	$ 22,153
Interest earned	6,254	–	6,254	5,968
Surplus election proceeds	–	–	–	34,998
	43,474	–	43,474	63,119
Use of funds:				
Maintenance	6,254	–	6,254	5,968
Transfer to The Corporation of the City of Vaughan	–	–	–	34,896
	6,254	–	6,254	40,864
Net activity	37,220	–	37,220	22,255
Fund balance, beginning of year	390,688	–	390,688	368,433
Fund balance, end of year	$ 427,908	$ –	$ 427,908	$ 390,688

See accompanying notes to financial statements.

1. Significant accounting policies:

(a) General:

These financial statements reflect the fund balance and operations of the trust funds administered by The Corporation of the City of Vaughan (the "City").

The City administers the Perpetual Care Trust Fund in accordance with the provisions of the Cemeteries Act of Ontario.

(b) Basis of accounting:

Capital receipts and withdrawals on the statement of financial activities and changes in fund balance are reported on the cash basis of accounting. Other items are reported on an accrual basis.

2. Election surplus:

The election surplus trust fund was established pursuant to the Municipal Elections Act. The trust funds contain surplus monies from the previous campaign which are available for the registered candidate to expend in whole or part, in the next election.

As 2010 was an election year, surplus election funds from the previous campaign were refunded to candidates.

DRAFT #1
May 31, 2013

Financial Statements of

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Year ended December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Board Members, Members of Council,
Inhabitants and Ratepayers of
The Corporation of the City of Vaughan

We have audited the accompanying statement of financial position of the Board of Management for the Kleinburg Business Improvement Area as at December 31, 2012 and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Board of Management for the Kleinburg Business Improvement Area as at December 31, 2012 and its results of operations, its change in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants, Licensed Public Accountants

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Toronto, Canada

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Financial Position

December 31, 2012, with comparative figures for 2011

	2012	2011
Financial Assets		
Cash	$ 1,656	$ 8,558
Sundry receivable	36,242	–
Other	871	878
Net financial assets, being accumulated surplus	$ 38,769	$ 9,436

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2012, with comparative figures for 2011

	Budget 2012 (Unaudited)	Actual 2012	Actual 2011
Revenue:			
Kleinburg Business Improvement Area special area levy	$ 36,242	$ 36,242	$ 21,800
Event dollars raised	–	2,800	5,728
	36,242	39,042	27,528
Expenses:			
Special events	10,000	4,428	11,076
Advertising	20,000	1,807	2,827
Liability insurance	1,500	1,404	1,404
Miscellaneous	500	926	3,239
Website	2,500	909	410
Sponsorship	500	–	350
Donation	–	–	6,251
Other	10,000	235	–
	45,000	9,709	25,557
Annual surplus (deficit)	(8,758)	29,333	1,971
Accumulated surplus, beginning of year	9,436	9,436	7,465
Accumulated surplus, end of year	$ 678	$ 38,769	$ 9,436

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Change in Net Financial Assets

Year ended December 31, 2012, with comparative figures 2011

	2012	2011
Annual surplus, being change in net financial assets	$ 29,333	$ 1,971
Net financial assets, beginning of year	9,436	7,465
Net financial assets, end of year	$ 38,769	$ 9,436

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Cash Flows

Year ended December 31, 2012, with comparative figures 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Annual surplus	$ 29,333	$ 1,971
Increase in sundry receivable	(36,242)	–
Change in non-cash other financial asset	7	(263)
Increase (decrease) in cash	(6,902)	1,708
Cash, beginning of year	8,558	6,850
Cash, end of year	$ 1,656	$ 8,558

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements

Year ended December 31, 2012

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1. Nature of operations:

The financial statements of the Board of Management for the Kleinburg Business Improvement Area (the "Board") was established by a City of Vaughan bylaw dated May 28, 1984. The principal purpose of the Board is to provide for beautification, maintenance and promotion of the Kleinburg Business Improvement Area.

The Board may not borrow money, and without the prior approval of Municipal Council, may not incur indebtedness beyond the current year.

2. Significant accounting policies:

(a) Basis of presentation:

The financial statements of the Board are prepared by management in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants.

(b) Accrual basis of accounting:

Revenue and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become available and measurable; expenses are the costs of goods or services and are recognized when acquired in the period, whether or not payments have been made or invoices received.

(c) Government transfers:

Government transfers are recognized in the financial statements as revenue in the year in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

2. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts 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 expenses during the year. Actual results could differ from those estimates.

(e) Budget information:

The Board's budget figures are presented in these financial statements as additional information and are unaudited.

AUDIT

The Corporation of the City of Vaughan

Audit Findings Report

For the year ended December 31, 2012

KPMG LLP

Chartered Accountants, Licensed Public Accountants

kpmg.ca

Contents

For KPMG's audit committee resources,
please visit kpmg.ca/auditcommittee

Executive summary

Overview

The purpose[1] of this Audit Findings Report is to assist you, as a member of the Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements of The Corporation of the City of Vaughan ("the City") as at and for the year ended December 31, 2012.

Status

As of the date of this report, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures which include:

- Receipt of third party confirmations for banks and investments
- Receipt of signed management representation letters (to be signed upon approval of the consolidated financial statements);
- Updating our discussions regarding subsequent events;
- Completing our discussions with the Finance and Administration Committee; and
- Obtaining evidence of City Council's approval of the consolidated financial statements (anticipated to be June 25, 2013).

We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the City's Finance and Administration Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion. We look forward to discussing these matters and our findings with you.

Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

Investment in PowerStream Inc.
• The shareholders of PowerStream Inc. ("PowerStream") are the City (through its wholly-owned subsidiary Vaughan Holdings Inc.), the City of Markham (through its wholly-owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly-owned subsidiary Barrie Hydro Holdings Inc.) with share interests of 45.315%, 34.185% and 20.5% respectively.
KPMG comments regarding effect on the audit
• During 2012, PowerStream issued an additional 21,407 of Class A common shares under an amended subscription agreement signed on January 1, 2012. The maximum amount of Class A common shares that are available under the amended subscription agreement is 100,000. The City, through Vaughan Holdings Inc. ("VHI"), now holds 25,011 of this class of shares (1,838 issued in 2010 and 1,766 in 2011), representing its continued 45.315% share of PowerStream. • The adjustment relating to the amended subscription agreement resulted in an addition to the City's equity interest by $12,844,200 to a total equity interest of $112,007,178 in PowerStream. This additional contribution is recorded as an adjustment to the City's proportionate share of PowerStream's retained earnings and share capital. • The shareholders continue to hold the same number of existing common shares that were held prior to the original and amended subscription agreements. • VHI received a dividend for $7,289,962 and paid to the City a dividend of $5,467,473. Actions Taken by Management • PowerStream is accounted for on a modified equity basis in the City's consolidated financial statements. Under this basis, the government business enterprise's accounting principles are not adjusted to conform with those of the City and inter-organizational transactions and balances are not eliminated. • The City's share of the net earnings of PowerStream for the year ended December 31, 2012 is approximately $16.6 million and has been recorded in the consolidated statement of operations and accumulated surplus. Effects on the audit • We are in agreement with the accounting treatment adopted by the City as at and for the year ended December 31, 2012. International Financial Reporting Standards • It was noted in 2010, that commencing with their 2011 financial statements, PowerStream would be adopting International Financial Reporting Standards (IFRS). PowerStream has since elected to take the eligible one year deferral for qualifying entities with rate-regulated activities and accordingly adopted IFRS on January 1, 2012. • As previously noted this adoption may cause more volatility in their reported results as IFRS, as it currently stands, does not support rate regulated accounting practices currently allowed under Canadian GAAP, which permits certain costs and revenues to be deferred on the balance sheet

when specifically approved by the Ontario Electricity Board.

Actions Taken by Management

- The adoption of IFRS by PowerStream has impacted the City's carrying value of the investment in PowerStream, through VHI, as well as the City's share of net earnings of PowerStream. Management has recorded the IFRS adjustments through retroactive restatement of the City's consolidated financial statements.
- Equity in PowerStream as at January 1, 2011, the date of transition, increased by $21,940,617, the City's share of net earnings for the year ended December 31, 2011 decreased by $2,467,121, and the City's share of net assets as at December 31, 2011 in PowerStream increased by $19,473,496, as disclosed in note 4 to the consolidated financial statements.

Effects on the audit

- We are in agreement with the retroactive restatements recorded by the City reflected in the December 31, 2012 consolidated financial statements.

Misstatements and significant deficiencies

- There were no misstatements.
- We concur with the restatement and disclosures made in the consolidated financial statements.

Contingent liabilities

- *PS3300 Contingent Liabilities*, of the CICA Handbook, requires that the City recognize a liability when "…it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated."
- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to, matters such as legal claims.

KPMG comments regarding effect on the audit

- We reviewed the City's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.
- As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates based on the information presently available.

Misstatements and significant deficiencies

- There were no misstatements.
- We concur with the disclosures made in the consolidated financial statements.

Future Employee Benefits
• The City provides certain employee benefits which will require funding in future periods. These benefits include sick leave, benefits under the Workplace Safety and Insurance Board ("WSIB") Act, life insurance, maternity leave top-up and extended health and dental benefits for early retirees. • The liability of these future benefits has been determined by actuarial valuation.
KPMG comments regarding effect on the audit
• KPMG obtained a copy of the most recent actuarial valuation update and evaluated management's expert and their work for use as audit evidence. • KPMG determined that the work of management's expert was reasonable and could be used as audit evidence.
Misstatements and significant deficiencies
• There were no misstatements. • We concur with the disclosures made in the consolidated financial statements.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Significant accounting policies	• The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB"), which is appropriate for the City. • The City's significant accounting policies are set out in note 1 to the financial statements. There were no changes in significant accounting policies adopted in the current year. • Refer to Appendix for current developments in accounting standards and policies.
Critical accounting estimates	• The following are the significant areas where management was required to make estimates in the preparation of the consolidated financial statements: o Assumptions that affect certain accrued liabilities and contingent liabilities; o Assumptions used in actuarial valuations of employee future benefits provisions. The same approach has been used to value employee future benefits as in the prior year; o Estimated useful lives of tangible capital assets and depreciation thereon; and o Disclosures of contingent liabilities. • The potential impact of measurement uncertainty on the financial statements has been disclosed in note 1 (n) of the consolidated financial statements.
Critical disclosures and financial statement presentation	• Critical disclosures in the financial statements are considered to be neutral, consistent, and clear. • There were no changes in critical disclosures.
Fraud and non-compliance with laws and regulations	• We did not identify, other than what was reported to us,: • any fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements • any matters related to fraud that are, in our judgment, relevant to your responsibilities

	• any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.
Significant unusual transactions	• We did not identify any significant unusual transactions, other than the matters discussed in this Audit Findings Report.
Modifications to the audit plan	• We conducted our audit in accordance with our audit plan.
Related parties and related party transactions	• We did not identify any related party transactions outside the normal course of business that involve significant judgments made by management concerning measurement and/or disclosure.

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosures
- uncorrected misstatements, including disclosures.

Corrected misstatements

We have not identified misstatements that were corrected.

Uncorrected misstatements

Refer to Management's representation letter and the Summary of Uncorrected Audit Misstatements in the Appendices (pg.17) for all uncorrected audit misstatements.

Professional standards require that we request of management and the Finance and Administration Committee that all uncorrected misstatements be corrected.

	Annual Surplus	Financial Position	Financial Position	Financial Position
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Opening Accumulated Surplus (Decrease) Increase**
To account for the adjustment recorded in 2012 relating to an uncorrected adjustment arising in 2011 for overstated loss on disposal of the walkway property.	($626,000)	-	-	$626,000

Based on both quantitative and qualitative considerations, management has decided not to correct certain misstatements and represented to us that the uncorrected misstatements—individually and in the aggregate—are, in their judgment, not material to the consolidated financial statements.

We concur with management's representation that the uncorrected misstatements are not material to the consolidated financial statements. Accordingly, the uncorrected misstatements have no effect on our auditors' report.

Control deficiencies

Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Designated public documents

When public documents issued by the City contain or incorporate by reference either full or summarized annual financial statements that we have audited, professional standards require the auditor to:

- determine whether the financial statements and the audit report have been accurately reproduced, including comparing the financial statements and the audit report ultimately posted on the City's web site to the original
- read the designated public document and assess whether any of the information appears to be inconsistent with the financial statements or the auditors’ knowledge obtained in the course of the audit
- discuss with management any information that appears to be inconsistent or a material misstatement of fact or a misrepresentation that auditors may become aware of upon reading the designated public document
- report any unresolved matters to the Finance and Administration Committee.

Professional standards do not require auditors to perform any other procedures.

Appendices

Independence letter

Management representation letter

Current developments

Thought leadership

KPMG's Audit Quality Framework

Independence letter

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Chartered Accountants
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www.kpmg.ca

PRIVATE & CONFIDENTIAL

Finance and Administration Committee
The Corporation of the City of Vaughan
2141 Major Mackenzie Drive,
Vaughan, Ontario L6A 1T1

May 21, 2013

Dear Members of the Finance and Administration Committee:

Professional standards specify that we communicate to you in writing all relationships between the Corporation of the City of Vaughan, the Corporation of the City of Vaughan Public Library Board, Board of Management for the Kleinberg Business Improvement Area, and Trust Funds (collectively referred to as the "City") (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- 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
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City (and its related entities) from January 1, 2012 up to the date of our auditors' report:

Description of Service
Audits of the annual financial statements of: • The Corporation of the City of Vaughan • The Corporation of the City of Vaughan Public Library Board

- Board of Management for the Kleinberg Business Improvement Area
- Trust Funds
- Hydro Vaughan Corporations:
    - Hydro Vaughan Energy Corporation
    - Hydro Vaughan Holdings Inc.
    - Vaughan Holdings Inc.
    - 1446631 Ontario Inc.

Other:
- Audit of the Gas Tax Expenditure Report
- Income tax compliance services for the Hydro Vaughan Corporations

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the City (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2012 up to the date of our auditors' report.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the City (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2012 up to the date of our auditors' report.

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Management representation letter

The Corporation of the City of Vaughan
2141 Major Mackenzie Drive
Vaughan, Ontario
L6A 1T1

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street, Suite 200
Toronto, Ontario M2P 2H3
Canada

June 25, 2013

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Vaughan ("the Entity") as at and for the year ended December 31, 2012.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

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:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 29, 2010, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of City Council and committees of City Council that may affect the financial statements, and access to such relevant information

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) 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 and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

EXPERTS/SPECIALISTS:

8) The information provided by us to Dion Durrell ("the expert") and used in the work and findings of the expert are complete and accurate. We agree with the findings of the expert in evaluating Dion Durrell and have adequately considered the qualifications of the expert in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to the expert with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence and objectivity of the expert.

MISSTATEMENTS:

9) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Yours very truly,

THE CORPORATION OF THE CITY OF VAUGHAN

____

By: Ms. Barbara Cribbett, Commissioner of Finance/City Treasurer and Acting City Manager

____

By: Mr. Barry Jackson, Director of Finance

cc: Finance and Administration Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Public Sector Accounting Standards, Section 4260.03, *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not for profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members (see paragraph .04).

In accordance with Public Sector Accounting Standards, Section 4260.03, a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II

Summary of uncorrected audit misstatement

Method used to evaluate audit differences: Income statement (Roll over)

Description	Statement of Financial Position			Statement of Operations
	Financial Assets	Financial Liabilities	Opening Accumulated Surplus	
To account for the adjustment recorded in 2012 relating to an uncorrected adjustment arising in 2011 for overstated loss on disposal of the walkway property.	-	-	$626,000	($626,000)
Total impact	**-**	**-**	**$626,000**	**($626,000)**

Current developments

Financial Instruments

- *PS 3450 – Financial Instruments* was approved by PSAB in March 2011.
- *Sets out principles to be used in establishing an accounting standard with respect to financial instruments and derivative instruments.*
- *Fair value measurement proposed for derivatives and portfolio investments that are equity instruments quoted in an active market. Fair value can be applied to non-equity instruments through an accounting policy choice. All other financial instruments are carried at cost or amortized cost.*
- *Transaction costs for instruments carried at fair value are expensed while transaction costs for instruments carried at cost or amortized cost are capitalized.*
- This standard is effective for fiscal years beginning on or after April 1, 2012, which for the City will be fiscal 2013.

Tax Revenue

- *PS 3510 – Tax Revenue* was approved by PSAB in November 2009.
- This standard sets out revenue recognition principles for tax revenue.
- Provides principles for recognition of taxes collected on behalf of others.
- This standard is effective for fiscal years beginning on or after April 1, 2012, which for the City will be fiscal 2013.

Government Transfers

- PS 3410 - Government Transfers was approved in June 2011.
- Sets out recognition principles for government transfers to individuals, organizations, governments from both a transferring government and receipt government perspective.
- Transferring governments recognize an expense when the transfer has been authorized and all eligibility criteria have been met by the recipient.
- Recipient governments recognize revenue when the transfer is authorized and all eligibility criteria have been met, except when a transfer gives rise to a liability.
- This standard is effective for fiscal years beginning on or after April 1, 2012, which for the City will be fiscal 2013.

Liability for Remediation and Mitigation of Contaminated Sites

- PS 3260 – Liability for Contaminated Sites was approved by PSAB in March 2010.
- A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
- This standard is effective for fiscal years beginning on or after April 1, 2014, which for the City will be fiscal 2015.

Thought leadership

KPMG's Public Sector and Not-for-Profit practice proudly provided numerous programs, webinars, publications and communications to Public Sector entities, Not-for-Profits and Charities during 2012. Below is a quick reference list for your convenience.

KPMG's Not-for-Profit Practice - Year in Review

Programs

- Community Shift
  Community Shift is an exclusive development program and network for C-level leaders of Canadian charities and Not-for-Profit organizations, founded by KPMG Enterprise™ and the Richard Ivey School of Business. A rigorous annual five-day developmental program for Canada's leaders of charities and Not-for-Profits, Community Shift has changed the way participants look at their operations and provides a catalyst for change.

Webinars

- Indirect Tax Issues & Public Sector Organizations
  This webinar discusses how indirect taxes in Canada continue to evolve, bringing additional compliance issues and increasing the risks of over or under paying taxes. It looks at a number of major GST/HST and PST changes and their impact on Public Sector organizations (e.g. Not-for-Profit organizations, Charities, Municipalities, Universities, Colleges, Hospitals, Schools and Associations). Also covered in this webinar are savings opportunities as well as risks in view of the Canada Revenue Agency's (CRA) focus on Public Sector organizations for purposes of conducting GST/HST audits.

- Current Tax Issues for NPOs and Charities
  Senior officers, board members and the Canada Revenue Agency (CRA) continue to be challenged by income tax and GST/HST issues relating to registered charities and not-for-profit entities. On one side, increased attention to governance matters by boards and executives requires more focus on some of the grey areas that historically have not been closely monitored. On the other side, tax authorities are increasingly scrutinizing these entities for non-compliance. This webinar discusses the current issues our tax professionals are noting in their practices.

Publications and Communications

- Integrating Human Services in an Age of Fiscal Restraint (A Shifting Gears Report)
  This report evaluates the ongoing initiative in Ontario's Peel Region – and offers a valuable roadmap to other Public Sector organizations undertaking large-scale service reform in this age of fiscal restraint.

- Mitigating your Exposure to Risk
  This communication discusses responsibilities of the auditor vs. the Audit Committee/Board of Directors, types of risk, and ideas for mitigating risks.

- Fiscal Sustainability & the Future of Public Services (A Shifting Gears Report)
  This progress report examines how well the Public Sector in Canada and across the OECD are doing in returning to fiscally sustainable positions. It points out that while Canadian governments are in better shape than many of their peers, complacency must be avoided; and Governments must think carefully about incentives, governance, accountability, transparency, and measurement grounded in evidence. These are five lenses through which Public Sector organizations can assess potential reform initiatives.

Audit Committee Resources

- *Ten To-Do's for Audit Committee in 2012*, Audit Committee Institute (Feb 2012) http://www.kpmg.com/Ca/en/Hidden/Documents/ACI-ten-to-dos-2012-English.pdf
- *What is the role of audit committee*, Audit Committee Institute (Jan 2012) http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Publications-surveys-and-resources.aspx
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Roundtables.aspx
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at www.kpmg.ca/accountability
- Audit Committee Institute Web site – www.kpmg.ca/auditcommittee

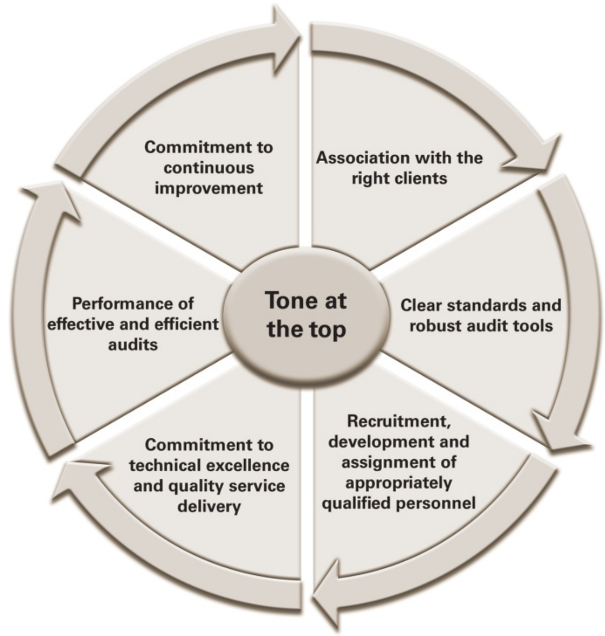
KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



The seven key drivers of audit quality

<table>
<tr><th>Driver</th><th>What it does</th><th>What it means to you</th></tr>
<tr><td>Tone at the top</td><td>Audit quality is part of our culture and our values and therefore non-negotiable

Allows the right behaviours to permeate across our entire organization and each of our engagements</td><td rowspan="5">Assures you that:

• Our culture supports our promise to you of excellent client service and a high quality audit—consistently

• You're receiving an independent, transparent, audit opinion

• You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements.

Provides you with:

• An engagement team handpicked for your business needs – a team with relevant professional and industry experience

• An audit engagement team whose qualifications evolve as your business grows and changes

• An audit opinion that</td></tr>
<tr><td>Association with the right clients</td><td>Ethics above all

Eliminates any potential independence and conflict-of-interest issues</td></tr>
<tr><td>Clear standards and robust audit tools</td><td>A solid rule book

Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality</td></tr>
<tr><td>Recruitment, development and assignment of appropriately qualified personnel</td><td>People who add value

Helps us attract and retain the best people and reinforces the importance of developing their talents

Assigns Partners' portfolios based on their specific skill sets</td></tr>
<tr><td>Commitment to technical</td><td>The right tools for the right job

Promotes technical excellence and</td></tr>
</table>

Driver	What it does	What it means to you
excellence and quality service delivery	quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes	continues to meet your needs as a participant in the capital markets **Assists you with:** • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
Performance of effective and efficient audits	**We understand that how an audit is conducted is as important as the final result.** A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality	
Commitment to continuous improvement	**Comprehensive and effective monitoring** We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.	

The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of our clients and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work – it is non-negotiable.