

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

Item 1, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted, as amended, by the Council of the City of Vaughan on June 27, 2017, as follows:

***By approving the following in accordance with Communication C1 from the Chief Financial Officer and City Treasurer and Director of City Financial Services/Deputy Treasurer, dated June 12, 2017:***

1. ***That the Draft Consolidated Statement of Cash Flows (Page 1.13) be replaced with the updated version that changes the supplemental cash flow information for interest paid to \$2,753,846;***
2. ***That Note 15(b) (Page 1.41) be replaced with the updated version that provides more informative disclosure on loans guaranteed by the City.***

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### 2016 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer and City Treasurer and the Director of City Financial Services/Deputy Treasurer, dated June 6, 2017:

#### Recommendation

The Chief Financial Officer and City Treasurer and the Director of City Financial Services/Deputy Treasurer recommend:

1. That the 2016 Draft Consolidated Financial Statements, Vaughan Public Library Board, Kleinburg Business Improvement Area, Trust Fund Financial Statements and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Golf and Gala Events (Attachment 1) be approved; and
2. That the KPMG Audit Findings Report for the year ended December 2016 (Attachment 2) be received.

#### Contribution to Sustainability

The statutory financial statements are a requirement prescribed by the *Municipal Act, 2001* that show the results of operations for the fiscal year and the financial position at the end of the fiscal year.

The objective of the City's financial planning process is to develop a multi-year budget that balances the need to maintain existing services, accommodate growth requirements and undertake corporate initiatives against the City's capacity to fund them. The City's financial management policies and practices are based on best practices to maintain the City's strong financial position.

These statutory financial statements illustrate the success of the City of Vaughan in achieving their financial goals and maintaining the City's strong financial position.

#### Economic Impact

There is no incremental economic impact from this report. The financial statements are prepared on a different basis than the annual budget and the quarterly fiscal health report. Note 13 to the Consolidated Financial Statements provides a reconciliation of the approved Council budgets to the budget figures reported in the consolidated financial statements. The statutory financial statements are a requirement of the *Municipal Act, 2001*. These financial statements present the financial position of the City at the end of the 2016 fiscal year, the results of operations for the

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017**

#### **Item 1, Finance Report No. 6 – Page 2**

2016 fiscal year, the change in net financial assets and the change in the City's cash flow in 2016 with additional detail provided in the notes to the financial statements. Statutory financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

#### **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 2016 Consolidated Financial Statements and Trust Fund Statement are available for pick up at City Hall. In addition the financial statements will be published on the City's web page at <https://www.vaughan.ca/cityhall/accounting>.

#### **Purpose**

The purpose of this report is to request Council approval of the City's 2016 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Kleinburg Business Improvement Area Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Golf and Gala Events, and the Trust Fund Financial Statements and to provide an opportunity to review KPMG's Audit Findings Report for 2016.

#### **Background - Analysis and Options**

The City's Draft Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

The City's Draft Consolidated Financial Statements incorporate the financial results of

- The City of Vaughan
- Vaughan Public Library Board
- Kleinburg Business Improvement Area
- Hydro Vaughan Corporations
  - PowerStream Inc. (45.315% ownership through Vaughan Holdings Inc.)
  - Vaughan Holdings Inc. (100% owned by the City of Vaughan)
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  - 1446631 Ontario Inc. (100% owned by the City of Vaughan)

The City's Trust Financial Statements are separate and are not included in the City's consolidated financial results. These statements are not part of the Consolidated Statements because they include assets held in trust by the City for other uses (ie. cemetery perpetual care).

Also included are separate Financial Statements for the Library Board and the Board of Management for the Kleinburg Business Improvement Area as well as a Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events.

The Mayor's Gala and Golf Events statement includes funds raised and administered by the City of Vaughan for the 2016 Mayor's Gala and Golf events. The audited statement does not include \$1.6 million in additional funds raised through the Live Auction at the Mayor's Gala on May 25, 2016 on behalf of the MacKenzie Health Care Foundation. Those funds were directed to and administered by the MacKenzie Health Care Foundation.

#### **Unqualified Audit Opinion**

The City has received an "unqualified" audit opinion from KPMG on all of the statutory financial statements. This means that the City has followed all of the rules, and our financial statements

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

#### Item 1, Finance Report No. 6 – Page 3

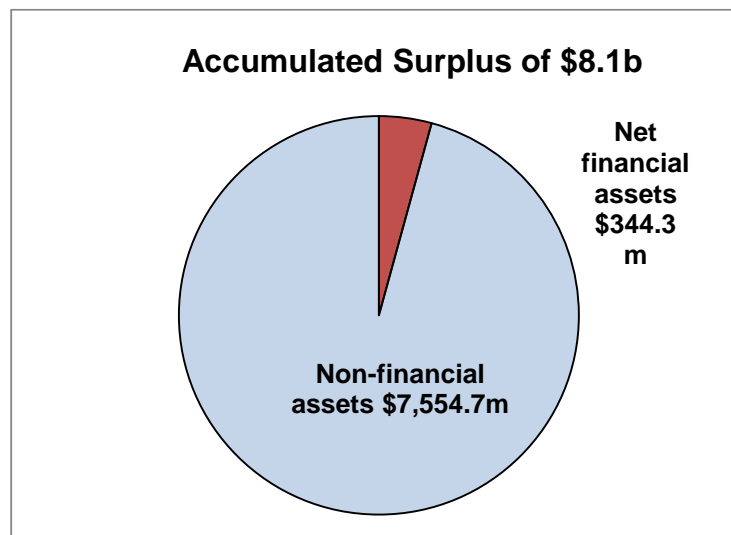
present fairly, in all material respects, the financial position of the entity audited as at December 31, 2016 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for the 2016 year in accordance with public sector accounting standards.

#### **2016 Draft Financial Statements:**

##### Consolidated Statement of Financial Position:

The statement of financial position highlights four key figures that describe the financial position of the City at the financial statement date:

- a) The cash resources of the City are its cash and cash equivalents ending 2016 at \$539.5m (2015 – \$477.1m). The increase relative to 2015 is primarily a result of increased cash flow from City operations.
- b) The net financial resources/net debt position of the City is calculated as the difference between its financial assets and financial liabilities. Unlike many governments, the City is in a positive and stable net financial resource position at December 31, 2016 of \$344.3m (2015 - \$343.3m).
- c) The non-financial assets of the City are assets that are, by nature, normally held for use in the provision of services and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies, and prepaid expenses. At the end of 2016, the City has non-financial assets totalling \$7.8b (2015 \$7.6b).
- d) The total net assets is the sum of the City's net financial resources and the total non-financial assets and is also called the accumulated surplus (explained below).



##### Consolidated Statement of Financial Activities:

The statement of operations reports the surplus or deficit from operations in the accounting period. The statement displays the revenues that it has recognized in the period, the cost of City services provided and the difference between them. Our annual surplus for 2016 for statutory purposes was \$126.0m (2015 - \$303.7m). This is almost \$178M lower than 2015 primarily due to receiving fewer contributed assets in 2016. In 2016, there were 17 assumptions valued at \$128.1m versus 26 assumptions in 2015 at \$319.6m.

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

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This statement also presents the City's accumulated surplus which is equal to the total net assets on the Statement of Financial Position. The accumulated surplus or deficit of the city is calculated as the sum of the net financial assets (debt) of the City and its non-financial assets and is also calculated by adding the 2016 annual surplus to the 2015 accumulated surplus. The City's Net Asset/Accumulated Surplus position at the end of 2016 is \$8.1b (2015 - \$8.0b) itemized as follows:

	2016 (\$b)	2015 (\$b)
Investment in tangible capital assets	7.7	7.6
Investment in Hydro Vaughan Corporations	0.4	0.4
Discretionary Reserves	0.2	0.2
Amounts to be recovered in future years	(0.1)	(0.1)
Other	(0.1)	(0.1)
	<u>8.1</u>	<u>8.0</u>

#### Consolidated Statement of Change in Net Financial Assets:

The statement of change in net financial assets reports information that is important in understanding changes in the financial assets and liabilities of the City. This measure is displayed by reporting the items that explain the difference between the operating surplus or deficit and the change in net financial assets for the period.

#### Cash Flow:

The statement of cash flow reports the change in cash and cash equivalents in the accounting period, and how the City financed its activities in the period and met its cash requirements. The City cash and cash equivalent position continues to be strong as illustrated below:

	2016 (\$m)	2015 (\$m)
Cash provided by (used in):		
Operating Activities	147.3	71.0
Capital Activities (acquisition & disposal of tangible capital assets)	(68.1)	(55.2)
Financing Activities (debt incurred and repaid)	(2.6)	(13.4)
Investment Activities (changes in investment portfolio and hydro)	(14.2)	5.9
Net Change in Cash	<u>62.4</u>	<u>8.3</u>
Cash, Beginning of the Year	<u>477.1</u>	<u>468.8</u>
Cash, End of the Year	<u>539.5</u>	<u>477.1</u>

#### Budget Presentation vs. Statutory Presentation

The City's statutory financial statements are presented in a different manner than the 2016 Budget and 2017-18 Plan.

The statutory financial statements must comply with Provincial Statutory Reporting and use an accrual basis of accounting whereas the Operating, Water and Wastewater and Capital Budgets approved by Council are intended to set tax and utility rates and are prepared on a cash basis of accounting.

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The major differences between the two presentations are:

1. The City's 2016 Budget and 2017-18 Plan is developed excluding amortization on tangible capital assets. The statutory financial statements present the net book value of the City's tangible capital assets on the Statement of Financial Position and includes annual amortization to recognize the use of tangible capital assets in the current year in the Statement of Operations and Accumulated Surplus.
2. Council has chosen not to include amortization expense in the tax levy requirements in accordance with *Regulation 284/09 of the Municipal Act, 2001*. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of these assets be raised through taxation each year to help smooth out potential large tax increases in the years of replacement.
3. The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.
4. The City's 2016 Budget and 2017-18 Plan excludes future post-employment benefit costs except for actual post-employment benefit payments as they are funded from taxation. However, post-employment benefits on the statutory financial statements represent the retirement benefits that have accrued over the service life of the City's employees to date but not yet paid. These are expensed over the life of the employees as they render the service. The result is a difference between the budget and the statutory statements due to the gap between the current funding and the liability for post-employment benefits.
5. The City's 2016 Budget and 2017-18 Plan includes dividends paid by the Hydro Corporations to the City. The consolidated financial statements exclude dividends received, but include an equity pickup of the 2016 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Consolidated 4<sup>th</sup> Quarter Report ending December 31, 2016 and the Consolidated Statement of Financial Position is provided below:

#### **Reconciliation of the City of Vaughan's PSAB Surplus to Operating Surplus**

<b>2016 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements</b>	<b>\$ -</b>
<b>Revenue</b>	
Contributed tangible capital assets	128.1
Water & wastewater revenue	132.2
Other: capital revenues, VBEC	34.0
Share of net earnings of Hydro Vaughan Corporations	10.0
Vaughan Holdings Inc. dividends paid to City of Vaughan	(6.9)
Investment in Hydro Vaughan Corporations	(1.8)
<b>Expenses</b>	
Amortization	(69.0)
Other PSAB Adjustments	(10.3)
Water & wastewater expenditures	(109.3)
Post employment benefits	(6.3)
Other: financing and transfers	25.3
<b>2016 City of Vaughan Annual Surplus on PSAB Basis - Statutory F/S</b>	<b>\$ 126.0</b>

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**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017**

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**Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

On Sept. 30, 2015, Council approved a refreshed strategic plan. The plan provides a focused set of priorities for the corporation to deliver on our mission of citizens first through service excellence. The refreshed direction is presented in the form of a Service Excellence Strategy Map. The 2016 Draft Consolidated Financial Statements indicate that the City continues to follow sustainable fiscal policies and manage City assets while meeting Council's target tax rates (no greater than 3%).

**Regional Implications**

There are no Regional implications associated in the report.

**Conclusion**

The City of Vaughan's 2016 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, the Trust Fund and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events present fairly, in all material respects, the financial position of each entity as at December 31, 2016 and the results of operations and accumulated surplus, the change in net financial assets and the cash flows for each entity for the year ended December 31, 2016 in accordance with public sector accounting standards.

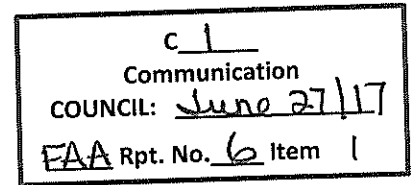
**Attachments**

1. 2016 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Golf and Gala Events, the Kleinburg Business Improvement Area Financial Statements. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements.
2. 2016 Audit Findings Report – KPMG LLP

**Report prepared by:**

Nancy Yates, CPA, CA, BComm  
Accounting Manager

(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.)



**DATE:** June 12, 2017

**TO:** Mayor and Members of Council

**FROM:** Laura Mirabella-Siddall, Chief Financial Officer and City Treasurer and Dean  
Ferraro, Director of City Financial Services/Deputy Treasurer

**RE:** **Finance, Administration and Audit Committee – Item 1 - Updates to 2016  
Draft Consolidated Financial Statements Attachment 1**

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### **Recommendation**

The Chief Financial Officer and City Treasurer and the Director of City Financial Services/Deputy Treasurer recommend:

1. That the Draft Consolidated Statement of Cash Flows (Page 1.13) be replaced with the updated version that changes the supplemental cash flow information for interest paid to \$2,753,846.
2. That Note 15(b) (Page 1.41) be replaced with the updated version that provides more informative disclosure on loans guaranteed by the City.

### **Contribution to Sustainability**

Same as the 2016 Draft Consolidated Financial Report.

### **Economic Impact**

There is no incremental economic impact from this communication. The 2016 Draft Consolidated Financial Statements are subject to change by KPMG until final approval by Council on June 27<sup>th</sup>, 2017. These changes reflect additional information acquired after the original publication of the Draft Consolidated Financial Statements for the June 6<sup>th</sup> Finance, Administration and Audit Committee meeting.

### **Communications Plan**

Same as the 2016 Draft Consolidated Financial Report.



# memorandum

## **Purpose**

The purpose of this communication is to make two changes to the 2016 Draft Consolidated Financial Statements that are subject to change by KPMG until final approval by Council.

## **Background**

The 2016 Draft Consolidated Financial Statements are subject to change by KPMG until final approval by Council. There are two changes in Attachment 1 that were made subsequent to the publication of the Draft Consolidated Financial Statements for the June 6<sup>th</sup> Finance, Administration and Audit Committee meeting.

The first change is on page 1.13, Consolidated Statement of Cash Flow. The interest paid has been corrected from \$2,847,348 to \$2,753,846 which reflects the interest paid in cash.

The second change is in Note 15 Commitments: (b) Loan Guarantees on page 1.41. We have provided more fulsome disclosure by providing the upset limit of the City's Loan guarantees with the Ontario Soccer Association and the Mentana Development Group as well as the loan balance outstanding as at December 31, 2016.

## **Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

Same as the 2016 Draft Consolidated Financial Report.

## **Regional Implications**

There are no Regional implications associated with the communication.





# memorandum

## **Conclusion**

The 2016 Draft Consolidated Financial Statements are subject to change by KPMG until final approval by Council. There are two changes in Attachment 1 that were made subsequent to the publication of the Draft Consolidated Financial Statements for the June 6<sup>th</sup> Finance, Administration and Audit Committee meeting.

Pages 1.13 and 1.41 in Attachment 1 of the 2016 Draft Consolidated Financial Statements presented at the June 6<sup>th</sup>, Finance, Administration and Audit Committee should be replaced by the pages in Attachment 1 of this communication.

## **Attachment**

1. Replacement pages 1.13 and 1.41 for Attachment 1 of the 2016 Draft Consolidated Financial Statements report.

## **Communication prepared by:**

Nancy Yates CPA, CA, BComm  
Accounting Manager

Respectfully submitted,

Laura Mirabella-Siddall, CPA, CA  
Chief Financial Officer and City Treasurer

Dean Ferraro, CPA, CA  
Director of City Financial Services/Deputy Treasurer

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 126,040,508	\$ 303,703,208
Items not involving cash:		
Amortization of tangible capital assets	68,983,367	67,864,956
Loss on disposal of tangible capital assets	1,420,589	9,023,284
Contributed tangible capital assets	(128,328,832)	(319,564,543)
Deduct share of net earnings of Hydro Vaughan Corporations	(9,957,612)	(11,055,474)
Decrease (increase) of the City's equity interest in the net assets of PowerStream Holdings Inc.	1,812,600	(3,988,470)
Change in non-cash assets and liabilities:		
Accounts receivable	3,054,468	7,525,260
Accounts payable and accrued liabilities	6,259,913	(7,234,019)
Accrued interest on long-term liabilities	(103,255)	9,753
Prepaid expenses	742,543	(1,253,167)
Taxes receivable	3,707,893	(3,540,892)
Water and sewer billings receivable	(1,101,911)	1,964,074
Deferred revenue - obligatory reserve funds	62,469,628	21,961,084
Employee future benefits	7,038,251	6,139,374
Deposits and deferred revenue	4,972,979	(587,830)
	147,011,129	70,966,598
Capital activities:		
Proceeds on disposal of tangible capital assets	9,537	296,105
Cash used to acquire tangible capital assets	(67,826,669)	(55,480,123)
	(67,817,132)	(55,184,018)
Financing activities:		
Debenture and other debt repaid	(15,641,794)	(13,383,520)
Debenture and other debt incurred	13,028,000	—
	(2,613,794)	(13,383,520)
Investing activities:		
Increase (decrease) in investments	(22,903,487)	1,429,324
Investment in Hydro Vaughan Corporations	8,700,593	4,452,910
	(14,202,894)	5,882,234
Increase in cash and cash equivalents	62,377,309	8,281,294
Cash and cash equivalents, beginning of year	477,086,983	468,805,689
Cash and cash equivalents, end of year	\$ 539,464,292	\$ 477,086,983
Supplemental cash flow information:		
Interest paid	\$ 2,753,846	\$ 3,006,246
Interest and dividends received	19,684,596	20,739,297

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 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. Expenses relating to these agreements are recorded in the year in which the payments are made. For these lease and operating commitments, minimum payments have been estimated as follows:

2017	\$ 32,355,000
2018	17,962,000
2019	14,080,000
2020	10,964,000
2021	10,073,000
Thereafter	52,786,000
	<u>\$ 138,220,000</u>

#### (b) Loan guarantees:

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

- (i) for the accumulated sum, not exceeding \$5.0 million with the Ontario Soccer Association. The loan balance as at December 31, 2016 is \$4.4 million (2015 - \$4.8 million).
- (ii) for the accumulated sum, not exceeding \$4.5 million with the Mentena Development Group. The loan balance as at December 31, 2016 is \$4.4 million (2015 - \$4.5 million).

#### (c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, PowersStream charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The total commitment under the agreement for 2016 is \$1.7 million in charges to the City by PowerStream. A new five-year agreement was finalized in 2016 and subsequently continues under Alectra (see note 17).

**2016 DRAFT CONSOLIDATED FINANCIAL STATEMENTS****Recommendation**

The Chief Financial Officer and City Treasurer and the Director of City Financial Services/Deputy Treasurer recommend:

1. That the 2016 Draft Consolidated Financial Statements, Vaughan Public Library Board, Kleinburg Business Improvement Area, Trust Fund Financial Statements and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Golf and Gala Events(Attachment 1) be approved; and
2. That the KPMG Audit Findings Report for the year ended December 2016 (Attachment 2) be received.

**Contribution to Sustainability**

The statutory financial statements are a requirement prescribed by the *Municipal Act, 2001* that show the results of operations for the fiscal year and the financial position at the end of the fiscal year.

The objective of the City's financial planning process is to develop a multi-year budget that balances the need to maintain existing services, accommodate growth requirements and undertake corporate initiatives against the City's capacity to fund them. The City's financial management policies and practices are based on best practices to maintain the City's strong financial position.

These statutory financial statements illustrate the success of the City of Vaughan in achieving their financial goals and maintaining the City's strong financial position.

**Economic Impact**

There is no incremental economic impact from this report. The financial statements are prepared on a different basis than the annual budget and the quarterly fiscal health report. Note 13 to the Consolidated Financial Statements provides a reconciliation of the approved Council budgets to the budget figures reported in the consolidated financial statements. The statutory financial statements are a requirement of the *Municipal Act, 2001*. These financial statements present the financial position of the City at the end of the 2016 fiscal year, the results of operations for the 2016 fiscal year, the change in net financial assets and the change in the City's cash flow in 2016 with additional detail provided in the notes to the financial statements. Statutory financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

**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 2016 Consolidated Financial Statements and Trust Fund Statement are available for pick up at City Hall. In addition the financial statements will be published on the City's web page at <https://www.vaughan.ca/cityhall/accounting>.

**Purpose**

The purpose of this report is to request Council approval of the City's 2016 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Kleinburg Business

Improvement Area Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Golf and Gala Events, and the Trust Fund Financial Statements and to provide an opportunity to review KPMG's Audit Findings Report for 2016.

### **Background - Analysis and Options**

The City's Draft Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

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### **Unqualified Audit Opinion**

The City has received an "unqualified" audit opinion from KPMG on all of the statutory financial statements. This means that the City has followed all of the rules, and our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2016 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for the 2016 year in accordance with public sector accounting standards.

### **2016 Draft Financial Statements:**

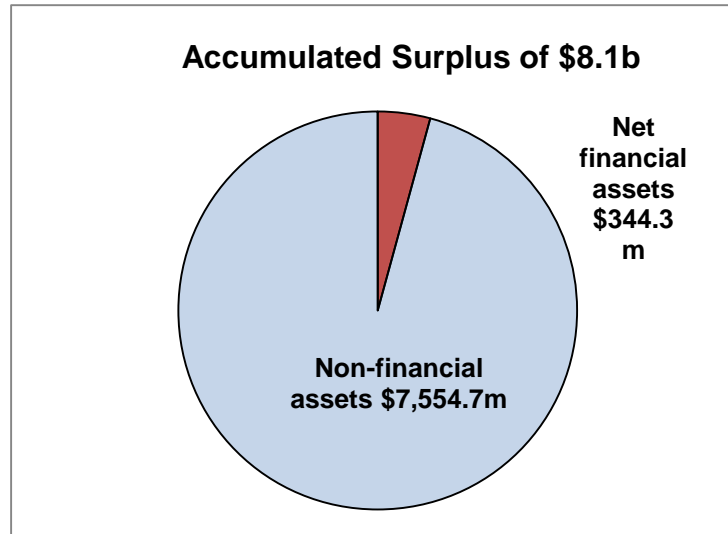
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in a positive and stable net financial resource position at December 31, 2016 of \$344.3m (2015 - \$343.3m).

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Consolidated Statement of Financial Activities:

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This statement also presents the City's accumulated surplus which is equal to the total net assets on the Statement of Financial Position. The accumulated surplus or deficit of the city is calculated as the sum of the net financial assets (debt) of the City and its non-financial assets and is also calculated by adding the 2016 annual surplus to the 2015 accumulated surplus. The City's Net Asset/Accumulated Surplus position at the end of 2016 is \$8.1b (2015 - \$8.0b) itemized as follows:

	2016 ( \$b)	2015 ( \$b)
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**Consolidated Statement of Change in Net Financial Assets:**

The statement of change in net financial assets reports information that is important in understanding changes in the financial assets and liabilities of the City. This measure is displayed by reporting the items that explain the difference between the operating surplus or deficit and the change in net financial assets for the period.

**Cash Flow:**

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Investment Activities (changes in investment portfolio and hydro)	(14.2)	5.9
Net Change in Cash	62.4	8.3
Cash, Beginning of the Year	477.1	468.8
Cash, End of the Year	539.5	477.1

**Budget Presentation vs. Statutory Presentation**

The City's statutory financial statements are presented in a different manner than the 2016 Budget and 2017-18 Plan.

The statutory financial statements must comply with Provincial Statutory Reporting and use an accrual basis of accounting whereas the Operating, Water and Wastewater and Capital Budgets approved by Council are intended to set tax and utility rates and are prepared on a cash basis of accounting.

The major differences between the two presentations are:

1. The City's 2016 Budget and 2017-18 Plan is developed excluding amortization on tangible capital assets. The statutory financial statements present the net book value of the City's tangible capital assets on the Statement of Financial Position and includes annual amortization to recognize the use of tangible capital assets in the current year in the Statement of Operations and Accumulated Surplus.
2. Council has chosen not to include amortization expense in the tax levy requirements in accordance with *Regulation 284/09 of the Municipal Act, 2001*. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of these assets be raised through taxation each year to help smooth out potential large tax increases in the years of replacement.
3. The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.

4. The City's 2016 Budget and 2017-18 Plan excludes future post-employment benefit costs except for actual post-employment benefit payments as they are funded from taxation. However, post-employment benefits on the statutory financial statements represent the retirement benefits that have accrued over the service life of the City's employees to date but not yet paid. These are expensed over the life of the employees as they render the service. The result is a difference between the budget and the statutory statements due to the gap between the current funding and the liability for post-employment benefits.
5. The City's 2016 Budget and 2017-18 Plan includes dividends paid by the Hydro Corporations to the City. The consolidated financial statements exclude dividends received, but include an equity pickup of the 2016 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Consolidated 4<sup>th</sup> Quarter Report ending December 31, 2016 and the Consolidated Statement of Financial Position is provided below:

### **Reconciliation of the City of Vaughan's PSAB Surplus to Operating Surplus**

<b>2016 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements</b>	<b>\$</b>	<b>-</b>
<b>Revenue</b>		
Contributed tangible capital assets		128.1
Water & wastewater revenue		132.2
Other: capital revenues, VBEC		34.0
Share of net earnings of Hydro Vaughan Corporations		10.0
Vaughan Holdings Inc. dividends paid to City of Vaughan		(6.9)
Investment in Hydro Vaughan Corporations		(1.8)
<b>Expenses</b>		
Amortization		(69.0)
Other PSAB Adjustments		(10.3)
Water & wastewater expenditures		(109.3)
Post employment benefits		(6.3)
Other: financing and transfers		25.3
<b>2016 City of Vaughan Annual Surplus on PSAB Basis - Statutory F/S</b>	<b>\$</b>	<b>126.0</b>

### **Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

On Sept. 30, 2015, Council approved a refreshed strategic plan. The plan provides a focused set of priorities for the corporation to deliver on our mission of citizens first through service excellence. The refreshed direction is presented in the form of a Service Excellence Strategy Map. The 2016 Draft Consolidated Financial Statements indicate that the City continues to follow sustainable fiscal policies and manage City assets while meeting Council's target tax rates (no greater than 3%).

### **Regional Implications**

There are no Regional implications associated in the report.

### **Conclusion**

The City of Vaughan's 2016 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, the Trust Fund and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events present fairly, in all material respects, the financial position of each



entity as at December 31, 2016 and the results of operations and accumulated surplus, the change in net financial assets and the cash flows for each entity for the year ended December 31, 2016 in accordance with public sector accounting standards.

**Attachments**

1. 2016 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Golf and Gala Events, the Kleinburg Business Improvement Area Financial Statements. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements.
2. 2016 Audit Findings Report – KPMG LLP

**Report prepared by:**

Nancy Yates, CPA, CA, BComm  
Accounting Manager

Respectfully submitted,

Laura Mirabella-Siddall, CPA, CA  
Chief Financial Officer & City Treasurer

Dean Ferraro, CPA, CA  
Director of City Financial Services/Deputy Treasurer

***DRAFT #9***  
***May 9, 2017***

Consolidated Financial Statements of

**THE CORPORATION OF THE  
CITY OF VAUGHAN**

Year ended December 31, 2016

## 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, 2016, 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, 2016, 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 Professional Accountants, Licensed Public Accountants

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Vaughan, Canada

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 539,464,292	\$ 477,086,983
Taxes receivable	37,491,990	41,199,883
Water and sewer billings receivable	18,385,122	17,283,211
Accounts receivable	14,839,339	17,893,807
Investments (note 3)	42,751,293	19,847,806
Investment in Hydro Vaughan Corporations (note 4)	370,552,708	371,108,289
	<u>1,023,484,744</u>	<u>944,419,979</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	118,489,137	112,229,224
Accrued interest on long-term liabilities	111,324	214,579
Employee future benefits (note 5)	105,877,775	98,839,524
Deposits and deferred revenue	27,941,335	22,968,356
Deferred revenue - obligatory reserve funds (note 6)	371,647,956	309,178,328
Debenture and other debt (note 7)	51,771,447	54,385,241
Note payable (note 8)	3,303,523	3,303,523
	<u>679,142,497</u>	<u>601,118,775</u>
Net financial assets	344,342,247	343,301,204
<b>Non-Financial Assets</b>		
Tangible capital assets (note 9)	7,754,069,606	7,628,327,598
Prepaid expenses	613,400	1,355,943
	<u>7,754,683,006</u>	<u>7,629,683,541</u>
Commitments (note 15)		
Contingencies (note 16)		
Subsequent event (notes 4, 15(c) and 17)		
Accumulated surplus (note 10)	\$ 8,099,025,253	\$ 7,972,984,745

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, 2016, with comparative information for 2015

	Budget (note 13) (note 1(o))	2016	2015
Revenue:			
Property taxation	\$ 184,050,025	\$ 182,556,293	\$ 176,315,063
Taxation from other governments	1,500,000	1,452,411	1,442,479
User charges	44,791,944	59,913,954	45,390,370
Water and sewer billings	129,843,009	132,172,202	116,821,822
Government transfers (note 11)	8,216,427	7,347,025	6,787,287
Investment income	3,430,000	5,025,622	4,481,137
Penalties and interest on taxes	5,150,000	5,018,783	5,138,681
Other fees and services	301,900	5,428,540	7,349,071
Contributions from developers	30,953,510	21,872,934	26,985,061
Contributed assets (note 9(b))	—	128,328,832	319,564,543
Hydro Vaughan Corporations (note 4):			
Share of net earnings	6,135,000	9,957,612	11,055,474
Interest on notes receivable	4,700,000	4,730,859	4,717,933
	419,071,815	563,805,067	726,048,921
Expenses:			
General government	32,060,655	30,357,293	32,517,882
Protection to persons and property	76,615,682	77,521,266	69,779,170
Transportation services	66,465,546	61,630,670	67,030,868
Environmental services	151,732,887	156,246,882	153,091,328
Health services	168,354	159,872	137,073
Social and family services	319,218	159,054	1,199,782
Recreation and cultural services	92,328,315	91,224,713	85,271,628
Planning and development	22,074,138	18,652,209	17,306,452
	441,764,795	435,951,959	426,334,183
	(22,692,980)	127,853,108	299,714,738
Adjustment for the increase (decrease) of the City's equity interest in the net assets of PowerStream Holdings Inc. (note 4)	—	(1,812,600)	3,988,470
Annual surplus (deficit)	(22,692,980)	126,040,508	303,703,208
Accumulated surplus, beginning of year	7,972,984,745	7,972,984,745	7,669,281,537
Accumulated surplus, end of year	\$ 7,950,291,765	\$ 8,099,025,253	\$ 7,972,984,745

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, 2016, with comparative information for 2015

	Budget (note 13) (note 1(o))	2016	2015
Annual surplus (deficit)	\$ (22,692,980)	\$ 126,040,508	\$ 303,703,208
Amortization of tangible capital assets	—	68,983,367	67,864,956
Proceeds on disposal of tangible capital assets	—	9,537	296,105
Loss on disposal of tangible capital assets	—	1,420,589	9,023,284
Acquisition of tangible capital assets	—	(196,155,501)	(375,044,666)
	(22,692,980)	298,500	5,842,887
Use (acquisition) of prepaid expenses	—	742,543	(1,253,167)
Increase (decrease) in net financial assets	(22,692,980)	1,041,043	4,589,720
Net financial assets, beginning of year	343,301,204	343,301,204	338,711,484
Net financial assets, end of year	\$ 320,608,224	\$ 344,342,247	\$ 343,301,204

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 126,040,508	\$ 303,703,208
Items not involving cash:		
Amortization of tangible capital assets	68,983,367	67,864,956
Loss on disposal of tangible capital assets	1,420,589	9,023,284
Contributed tangible capital assets	(128,328,832)	(319,564,543)
Deduct share of net earnings of Hydro Vaughan Corporations	(9,957,612)	(11,055,474)
Decrease (increase) of the City's equity interest in the net assets of PowerStream Holdings Inc.	1,812,600	(3,988,470)
Change in non-cash assets and liabilities:		
Accounts receivable	3,054,468	7,525,260
Accounts payable and accrued liabilities	6,259,913	(7,234,019)
Accrued interest on long-term liabilities	(103,255)	9,753
Prepaid expenses	742,543	(1,253,167)
Taxes receivable	3,707,893	(3,540,892)
Water and sewer billings receivable	(1,101,911)	1,964,074
Deferred revenue - obligatory reserve funds	62,469,628	21,961,084
Employee future benefits	7,038,251	6,139,374
Deposits and deferred revenue	4,972,979	(587,830)
	147,011,129	70,966,598
Capital activities:		
Proceeds on disposal of tangible capital assets	9,537	296,105
Cash used to acquire tangible capital assets	(67,826,669)	(55,480,123)
	(67,817,132)	(55,184,018)
Financing activities:		
Debenture and other debt repaid	(15,641,794)	(13,383,520)
Debenture and other debt incurred	13,028,000	—
	(2,613,794)	(13,383,520)
Investing activities:		
Increase (decrease) in investments	(22,903,487)	1,429,324
Investment in Hydro Vaughan Corporations	8,700,593	4,452,910
	(14,202,894)	5,882,234
Increase in cash and cash equivalents	62,377,309	8,281,294
Cash and cash equivalents, beginning of year	477,086,983	468,805,689
Cash and cash equivalents, end of year	\$ 539,464,292	\$ 477,086,983
Supplemental cash flow information:		
Interest paid	\$ 2,847,348	\$ 3,006,246
Interest and dividends received	19,684,596	20,739,297

See accompanying notes to consolidated financial statements.



# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements

Year ended December 31, 2016

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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 for governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies adopted by the City are as follows:

#### **(a) Basis of consolidation:**

##### **(i) Consolidated entities:**

The consolidated financial statements reflect the assets, liabilities, revenue, expenses and accumulated surplus of the reporting entity. The reporting entity comprises 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 upon consolidation.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

---

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

#### **(ii) Investments in government business enterprises:**

The City's investments in Hydro Vaughan Energy Corporation, Vaughan Holdings Inc., 1446631 Ontario Inc. and PowerStream Holdings Inc. ("PowerStream"), 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 interorganizational 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. Information on the City's investments in Hydro Vaughan Corporations is provided in note 4.

#### **(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. Information on amounts collected and remitted to the Region is provided in note 2.

#### **(iv) Trust funds:**

Trust funds and their related operations administered by the City are not included in these consolidated financial statements. Information on trust funds balances is provided in note 14.

#### **(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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

---

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

#### **(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 it is 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) 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

---

### 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 bylaws and federal gas tax revenue under a Municipal Funding Agreement with the Association of Municipalities of Ontario for the transfer of federal gas tax revenue. 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 expensed.

#### (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 prorated 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 bylaw and do not meet the definition of a plan asset under PS 3250, Retirement Benefits. Therefore, for the purposes of these consolidated financial statements, the plans are considered unfunded.

A full actuarial valuation of the post-retirement non-pension benefits was completed in December 2014, in accordance with the financial reporting guidelines established by PSAB. An actuarial valuation of the WSIB obligation was done as at December 31, 2013.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

---

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

#### **(j) Taxation and related revenue:**

Property tax bills are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation. 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 10% 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 revenue is 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. This revenue is 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.

#### **(l) Segment disclosures:**

The City adopted PS 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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

#### **(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, is amortized on a straight-line basis over their estimated useful lives as follows:

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

#### **(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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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

#### (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 the carrying values of taxes receivable and accounts receivable, provisions for accrued liabilities and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of PS 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.

#### (o) Presentation of budget information:

The 2016 budget figures, as presented in these consolidated financial statements, consist of the operating, capital, and water and wastewater budgets as approved by City Council.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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

#### **(p) Future accounting pronouncements:**

These standards and amendments are not yet effective for the year ended December 31, 2016, and have, therefore, not been applied in preparing these consolidated financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements.

PS 3450, Financial Instruments ("PS 3450"), establishes recognition, measurement and disclosure requirements for derivative and non-derivative financial instruments for public sector entities. The standard requires fair value measurement of derivatives and portfolio investments that are equity instruments quoted in an active market. All other non-derivative financial instruments will be measured at cost or amortized cost. A government can elect to record other financial assets or liabilities on a fair value basis, if they manage and evaluate the asset and liability groups on that basis. Unrealized gains and losses are presented in the new statement of remeasurement gains and losses. New requirements clarify when financial liabilities can be derecognized. Disclosure of the nature and extent of risks arising from holding financial instruments is also required. This section is effective for fiscal years beginning on or after April 1, 2019. Early adoption is permitted.

PS 2601, Foreign Currency Translation ("PS 2601"), was issued in June 2011 and replaces the existing PS 2600, Foreign Currency Translation. This standard has been revised to ensure consistency with the financial instruments standard. The standard requires that non-monetary items denominated in a foreign currency that are included in the fair value category are adjusted to reflect the exchange rate at the consolidated financial statement date. Unrealized exchange gains and losses are presented in the new statement of remeasurement gains and losses. This section is effective for fiscal years beginning on or after April 1, 2019. Early adoption is permitted.

PS 1201, Financial Statement Presentation, was issued in June 2011. This standard requires entities to present a new statement of remeasurement gains and losses separate from the consolidated statement of operations and accumulated surplus. This new statement includes unrealized gains and losses arising from remeasurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This section is effective for fiscal years beginning on or after April 1, 2019 and applies when PS 3450 and PS 2601 are adopted.



# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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

During 2016, requisitions were made by the district school boards and the Region of York requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are not recorded in these consolidated financial statements and are summarized below:

	District school boards	The Region
Property taxes	\$ 291,809,403	\$ 318,462,324
Taxation from other governments	477,231	668,875
Amounts requisitioned and remitted	\$ 292,286,634	\$ 319,131,199

## 3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 1.90% to 5.03% (2015 - 3.65% to 5.03%) with maturity dates from May 30, 2017 to June 2, 2025 (2015 - March 5, 2016 to June 30, 2021). Market value of investments costing \$42,751,293 (2015 - \$19,847,806) is \$43,005,476 (2015 - \$20,434,788) at December 31, 2016.

## 4. Investment in Hydro Vaughan Corporations:

The City has incorporated corporations under the provisions of the Ontario Business Corporations Act. The corporations are collectively referred to as Hydro Vaughan Corporations.

The City of Vaughan's ownership of the Hydro Vaughan Corporations is as follows:

	2016	Interest held 2015
Vaughan Holdings Inc. (including 100% ownership of Hydro Vaughan Energy Corporation and 45.315% share interest in PowerStream)	100%	100%
1446631 Ontario Inc.	100%	100%

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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## 4. Investment in Hydro Vaughan Corporations (continued):

The shareholders of 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.

As at December 31, 2016, PowerStream's authorized share capital is made up of an unlimited number of common shares and an unlimited number of Class A non-voting shares, all of which are without nominal or par value. Subsequent to year end, PowerStream merged with certain other hydro holding companies to form Alectra Utilities Inc. ("Alectra"). Refer to note 17 for additional information.

The number of common shares issued to each shareholder of PowerStream as at December 31, 2016 and 2015 is as follows:

	2016	2015
Vaughan Holdings Inc.	53,931	53,931
Markham Enterprises Corporation	40,684	40,684
Barrie Hydro Holdings Inc.	24,398	24,398
	119,013	119,013

The maximum amount of Class A common shares that were available under a subscription agreement with the shareholders was 100,000. The number of Class A common shares issued to each shareholder of PowerStream for 2016 and 2015 is as follows:

	2016	2015
Vaughan Holdings Inc.	45,313	45,313
Markham Enterprises Corporation	34,184	34,184
Barrie Hydro Holdings Inc.	20,500	20,500

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 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.

	2016	2015
<b>Assets</b>		
Current assets	\$ 295,802,972	\$ 257,922,088
Capital assets	1,203,054,000	1,125,171,000
Investment in joint venture	8,216,000	8,169,000
Other assets	212,574,904	212,650,957
Goodwill	44,562,000	42,605,000
	<u>1,764,209,876</u>	<u>1,646,518,045</u>
<b>Liabilities</b>		
Current liabilities	491,832,146	403,746,641
Long-term debt	347,528,000	347,408,000
Employee future benefits and other liabilities	20,301,000	18,311,000
Promissory note due to the City of Markham	75,451,000	75,451,000
Promissory note due to the City of Barrie	20,000,000	20,000,000
Deferred revenue	158,386,000	138,405,000
Other	26,816,000	17,711,000
	<u>1,140,314,146</u>	<u>1,021,032,641</u>
Net assets	623,895,730	625,485,404
Less proportionate share of the net assets of PowerStream attributable to other shareholders:		
City of Markham	(158,370,943)	(159,017,381)
City of Barrie	(94,972,079)	(95,359,734)
City's equity interest in net assets	<u>\$ 370,552,708</u>	<u>\$ 371,108,289</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 4. Investment in Hydro Vaughan Corporations (continued):

	2016	2015
Revenue	\$ 1,357,512,168	\$ 1,215,810,284
Expenses	1,335,318,787	1,191,375,031
Net earnings	22,193,381	24,435,253
Less earnings attributable to other shareholders:		
City of Markham	(7,648,894)	(8,364,044)
City of Barrie	(4,586,875)	(5,015,735)
City's share of net earnings	\$ 9,957,612	\$ 11,055,474

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

	2016	2015
Share capital	\$ 170,771,959	\$ 174,397,159
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	9,902,383	9,902,383
Retained earnings and contributed surplus:		
Opening balance	79,266,106	78,141,667
Net earnings	9,957,612	11,055,474
Less dividends	(9,183,991)	(9,931,035)
Closing balance	80,039,727	79,266,106
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	25,705,614	23,409,616
Equity in Hydro Vaughan Corporations	\$ 370,552,708	\$ 371,108,289

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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### **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. The deferred interest was renegotiated in 2013 to defer eight quarterly interest payments for a period of five years at a reduced interest rate of 4.03%. The remaining \$5,896,740 portion of the note receivable represents an amount due from Vaughan Holdings Inc. without interest and no specified terms of repayment.

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

Subsequently on February 1, 2017, as part of the merger described in note 17, the note receivable from PowerStream was assigned to Alectra.

### **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 \$26,012,546 in 2016 (2015 - \$26,327,509), of which \$12,911,593 (2015 - \$13,112,771) represented the City's portion.

#### **(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 \$1,108,237 (2015 - \$983,465) 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 5. Employee future benefits (continued):

#### (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 \$5,695,538 (2015 - \$5,130,059).

#### (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, 2016 of \$99,074,000 (2015 - \$92,726,000) and the expense for the year ended December 31, 2016 of \$7,818,000 (2015 - \$7,339,000) was determined by actuarial valuation using a discount rate of 4.25% (2015 - 4.25%).

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

	2016	2015
Accrued benefit obligation:		
Balance, end of prior year	\$ 92,726,000	\$ 86,720,000
Actuarial gain	(7,264,000)	(7,924,000)
Service cost	4,678,000	4,488,000
Interest cost	3,800,000	3,511,000
Unamortized actuarial gain	6,604,000	7,264,000
Benefits paid	(1,470,000)	(1,333,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 99,074,000	\$ 92,726,000

Components of benefit expense:

	2016	2015
Service cost	\$ 4,678,000	\$ 4,488,000
Interest cost	3,800,000	3,511,000
Amortization of actuarial gain	(660,000)	(660,000)
Benefit expense	\$ 7,818,000	\$ 7,339,000

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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### **5. Employee future benefits (continued):**

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% in 2016 and thereafter.

(ii) Interest (discount) rate:

The discount rate for 2016 corresponds to the assumed CPI rate plus an assumed real rate of return of 2.25% (2015 - 2.25%).

(iii) Salary levels:

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

(iv) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 4.40% in 2016 graded down by 0.30% in 2017 and thereafter.

(v) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.60% thereafter.

(vi) Expected average remaining service life of the current active group is assumed to be 11 years.

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

	2016	2015
Post-retirement non-pension benefits	\$ 99,074,000	\$ 92,726,000
Vacation entitlements	5,695,538	5,130,059
WSIB	1,108,237	983,465
	<u>\$ 105,877,775</u>	<u>\$ 98,839,524</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 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:

	2016	2015
Recreational land (The Planning Act)	\$ 68,122,322	\$ 66,314,933
Development Charges Act	249,043,454	193,819,217
Sub-divider contributions	10,823,228	9,965,098
Federal gas tax	25,121,115	22,792,894
Building Standards Act	16,541,843	13,710,629
Ontario Roads and Bridges Fund	634,426	671,015
Investing in Ontario Act	1,361,568	1,904,542
	<b>\$ 371,647,956</b>	<b>\$ 309,178,328</b>

Deferred revenue - obligatory reserve funds continuity schedule:

	Opening balance	Received	Recognized as revenue	Other	Closing balance
Recreational land (The Planning Act)	\$ 66,314,933	\$ 11,551,088	\$ (11,414,818)	\$ 1,671,119	\$ 68,122,322
Development Charges Act	193,819,217	62,074,743	(9,151,045)	2,300,539	249,043,454
Sub-divider contributions	9,965,098	1,073,548	(860,228)	644,810	10,823,228
Federal gas tax	22,792,894	8,765,268	(6,684,937)	247,890	25,121,115
Building Standards Act	13,710,629	4,955,691	(2,257,645)	133,168	16,541,843
Ontario Roads and Bridges Fund	671,015	—	(36,589)	—	634,426
Investing in Ontario Act	1,904,542	—	(547,735)	4,761	1,361,568
	<b>\$ 309,178,328</b>	<b>\$ 88,420,338</b>	<b>\$ (30,952,997)</b>	<b>\$ 5,002,287</b>	<b>\$ 371,647,956</b>



# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 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:

	2016	2015
Debenture debt issued by the Region:		
Serial debt	\$ 42,860,985	\$ 35,098,883
Sinking fund debt	1,823,489	10,086,643
	44,684,474	45,185,526
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 \$5,413,221 and \$1,673,752, respectively	7,086,973	9,147,848
Debt payable to Bellshire Woods Estate Inc., principal portion	—	51,867
	\$ 51,771,447	\$ 54,385,241

Debenture and other debt has been approved by bylaw. 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 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 7. Debenture and other debt (continued):

Principal payments in the amount of \$51,771,447, less interest earned on sinking funds, are repayable as follows:

	Block 11 Landowners' Group	York Region	Total
2017	\$ 6,789,473	\$ 7,775,795	\$ 14,565,268
2018	148,750	6,638,698	6,787,448
2019	148,750	6,678,698	6,827,448
2020	—	5,733,698	5,733,698
2021	—	5,733,698	5,733,698
2022 - 2028	—	11,475,495	11,475,495
Interest on sinking funds	—	648,392	648,392
	<b>\$ 7,086,973</b>	<b>\$ 44,684,474</b>	<b>\$ 51,771,447</b>

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

	2016	2015
Principal payments, including contributions to the sinking fund	\$ 15,641,794	\$ 13,383,520
Interest	2,753,846	3,015,999
	<b>\$ 18,395,640</b>	<b>\$ 16,399,519</b>

### 8. Note 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, 2016

### 9. Tangible capital assets:

2016	Cost				Accumulated amortization		Net book value, December 31, 2016
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Amortization	Disposals and adjustments	
Land	\$ 5,380,712,743	\$ 102,913,055	\$ —	\$ 5,483,625,798	\$ —	\$ —	\$ 5,483,625,798
Land improvements	170,360,859	3,624,240	729,880	173,255,219	5,507,722	665,187	94,325,222
Buildings and building improvements	337,769,824	16,436,779	1,045,143	353,161,460	10,188,426	606,979	234,904,184
Machinery and equipment	35,039,791	3,948,960	1,562,930	37,425,821	3,036,665	1,562,930	20,914,227
Vehicles	30,761,419	2,255,434	682,579	32,334,274	1,833,775	682,579	11,548,437
Furniture and fixtures	10,231,402	849,995	—	11,081,397	541,307	—	5,474,278
Information technology	5,611,056	905,121	38,481	6,477,696	1,027,557	26,902	1,917,045
Leasehold improvements	3,110,393	—	—	3,110,393	177,238	—	615,819
Roads infrastructure	931,240,692	24,172,383	69,621	955,343,454	26,680,253	55,689	522,581,045
Water and sewer infrastructure	1,616,297,169	35,771,577	983,474	1,651,085,272	19,990,424	469,323	1,292,352,357
Assets under construction	85,323,487	5,277,957	387,617	90,213,827	—	—	90,213,827
	\$ 8,606,458,835	\$ 196,155,501	\$ 5,499,725	\$ 8,797,114,611	\$ 68,983,367	\$ 4,069,599	\$ 7,754,069,606

2015	Cost				Accumulated amortization		Net book value, December 31, 2015
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Amortization	Disposals and adjustments	
Land	\$ 5,159,041,716	\$ 221,903,941	\$ 232,914	\$ 5,380,712,743	\$ —	\$ —	\$ 5,380,712,743
Land improvements	165,923,500	5,035,204	597,845	170,360,859	5,705,341	467,618	96,273,397
Buildings and building improvements	328,452,736	9,693,651	376,563	337,769,824	10,056,225	272,805	229,093,995
Machinery and equipment	33,793,305	3,215,077	1,968,591	35,039,791	2,977,522	1,940,990	15,599,299
Vehicles	29,041,662	2,343,819	624,062	30,761,419	1,983,119	624,063	11,126,778
Furniture and fixtures	9,703,021	528,381	—	10,231,402	518,859	—	5,165,590
Information technology	4,469,047	1,421,991	279,982	5,611,056	635,239	279,983	2,051,060
Leasehold improvements	3,110,393	—	—	3,110,393	177,239	—	793,057
Roads infrastructure	894,965,279	47,823,574	11,548,161	931,240,692	26,227,774	4,667,439	525,102,837
Water and sewer infrastructure	1,550,123,446	66,543,378	369,655	1,616,297,169	19,583,638	222,348	1,277,085,355
Assets under construction	70,584,699	16,535,650	1,796,862	85,323,487	—	—	85,323,487
	\$ 8,249,208,804	\$ 375,044,666	\$ 17,794,635	\$ 8,606,458,835	\$ 67,864,956	\$ 8,475,246	\$ 7,628,327,598

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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## 9. Tangible capital assets (continued):

### (a) Assets under construction:

Assets under construction having a value of \$90,213,827 (2015 - \$85,323,487) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Tangible capital assets transferred from assets under construction to other asset categories during the year is \$27,946,794 (2015 - \$23,407,080).

### (b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair value at the date of contribution. The value of contributed assets received during the year is \$128,328,832 (2015 - \$319,564,543), comprising land and land improvements of \$92,716,625 (2015 - \$223,802,777), roads infrastructure of \$9,883,182 (2015 - \$38,423,454), water and sewer infrastructure of \$25,729,025 (2015 - \$53,361,043), building and building improvements of nil (2015 - \$3,977,269).

### (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.

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 10. Accumulated surplus (deficit):

Accumulated surplus (deficit) consists of individual fund surplus and reserves as follows:

	2016	2015
Surplus (deficit):		
Investment in tangible capital assets	\$ 7,754,069,606	\$ 7,628,327,598
Amounts to be recovered in future years:		
From future revenue	(121,728,165)	(115,508,964)
From reserves and reserve funds on hand	(22,141,333)	(22,617,141)
Investment in Hydro Vaughan Corporations (note 4)	370,552,708	371,108,289
Other	(128,378,594)	(105,322,937)
	7,852,374,222	7,755,986,845
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	3,943,785	4,805,354
Fire equipment replacement	5,141,770	4,283,564
General working capital	15,342,710	19,587,395
Tax rate stabilization	60,296	59,697
Waterworks	54,535,516	48,008,537
Wastewater (sanitary sewers)	59,350,833	46,322,464
Keele Valley landfill	1,683,738	1,623,739
Heritage Fund	2,939,580	2,728,165
Employee benefits	22,141,333	22,617,141
Buildings	20,369,270	19,455,209
Roads infrastructure	7,919,106	7,647,216
Sale of public lands	6,636,745	6,386,789
Parks infrastructure	6,998,715	7,784,572
Winterization	—	679,738
Other	13,022,834	12,235,613
Debenture payments	3,508,125	5,958,926
Engineering	1,936,524	2,834,633
Planning	1,006,667	996,663
City Hall Funding	28,308	27,925
Expenditure reserve	2,899,563	2,954,560
Capital from taxation	17,185,613	—
	246,651,031	216,997,900
	\$ 8,099,025,253	\$ 7,972,984,745

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 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:

	2016	2015
Provincial grants:		
General government	\$ 70,585	\$ 111,491
Protection services	—	(433,665)
Recreation and cultural services	249,337	217,097
Planning and development	310,073	312,859
	629,995	207,782
Federal grants:		
General government	474,016	3,171
Transportation services	4,621,160	4,653,878
Environmental services	1,181,356	1,590,928
Recreation and cultural services	428,034	321,528
Planning and development	12,464	10,000
	6,717,030	6,579,505
	<u>\$ 7,347,025</u>	<u>\$ 6,787,287</u>

### 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 CORPORATION OF THE CITY OF VAUGHAN

## DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 12. Segmented information (continued):

2016	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
<b>Revenue:</b>									
Property and other taxation	\$ 26,838,841	\$ 30,039,860	\$ 23,882,177	\$ 60,546,411	\$ 123,585	\$ 35,350,011	\$ 7,227,819	\$ -	\$ 184,008,704
User charges	6,283,186	4,137,442	2,078,052	1,963,569	89,012	20,103,281	25,259,412	-	59,913,954
Water and sewer billings	-	-	-	132,172,202	-	-	-	-	132,172,202
Investment income	733,019	820,445	652,267	1,653,636	3,375	965,475	197,405	-	5,025,622
Other fees and services	1,348,091	1,277,685	51,989	(33,134)	-	1,190,525	1,593,384	-	5,428,540
Government transfers	544,601	-	4,621,160	1,181,356	-	677,371	322,537	-	7,347,025
Penalties and interest on taxes	732,021	819,328	651,380	1,651,385	3,371	964,161	197,137	-	5,018,783
Contributions from developers	-	1,940,711	5,644,379	(4,511,458)	-	17,495,617	1,303,685	-	21,872,934
Hydro Vaughan Corporations	-	-	-	-	-	-	-	14,688,471	14,688,471
Contributed assets	-	-	-	-	-	-	-	128,328,832	128,328,832
	36,479,759	39,035,471	37,581,404	194,623,967	219,343	76,746,441	36,101,379	143,017,303	563,805,067
<b>Expenses:</b>									
Salaries and benefits	36,538,993	59,070,824	8,410,638	9,220,478	46,344	47,212,145	15,588,547	-	176,067,969
Goods and services	21,763,671	3,679,898	20,984,568	110,581,949	201,587	17,453,914	1,311,454	-	175,977,041
Long-term debt interest	-	911	2,648,475	104,460	-	-	-	-	2,753,846
Other	649,167	5,065,071	(4,472,488)	(295,420)	35,430	627,404	14,776	-	1,623,940
Corporate support allocation	2,353,431	7,665,705	3,699,228	15,089,595	35,565	8,025,268	2,034,585	(38,903,377)	-
Loss on disposal of tangible capital assets	11,579	(4,262)	167,861	512,903	-	732,508	-	-	1,420,589
Amortization of tangible capital assets	5,970,109	1,722,975	27,810,790	20,433,857	-	13,045,636	-	-	68,983,367
Other capital related	1,973,720	320,144	2,381,598	599,060	-	4,127,838	(277,153)	-	9,125,207
	69,260,670	77,521,266	61,630,670	156,246,882	318,926	91,224,713	18,652,209	(38,903,377)	435,951,959
Annual surplus (deficit) before the undernoted	(32,780,911)	(38,485,795)	(24,049,266)	38,377,085	(99,583)	(14,478,272)	17,449,170	181,920,680	127,853,108
Adjustment for the decrease of the City's equity interest in the net assets of PowerStream (note 4)	-	-	-	-	-	-	-	(1,812,600)	(1,812,600)
Annual surplus (deficit)	\$ (32,780,911)	\$ (38,485,795)	\$ (24,049,266)	\$ 38,377,085	\$ (99,583)	\$ (14,478,272)	\$ 17,449,170	\$ 180,108,080	\$ 126,040,508

# THE CORPORATION OF THE CITY OF VAUGHAN

## DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 12. Segmented information (continued):

2015	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
<b>Revenue:</b>									
Property and other taxation	\$ 26,784,022	\$ 26,750,561	\$ 25,696,971	\$ 58,689,132	\$ 512,497	\$ 32,689,754	\$ 6,634,605	\$ -	\$ 177,757,542
User charges	5,323,601	3,209,498	2,275,682	1,828,713	112,135	19,240,325	13,400,416	-	45,390,370
Water and sewer billings	-	-	-	116,821,822	-	-	-	-	116,821,822
Investment income	675,206	674,362	647,802	1,479,508	12,920	824,085	167,254	-	4,481,137
Other fees and services	806,710	307,406	(182,145)	436,381	3,320,242	872,281	1,788,196	-	7,349,071
Government transfers	114,662	(433,665)	4,653,878	1,590,928	-	538,625	322,859	-	6,787,287
Penalties and interest on taxes	774,282	773,315	742,858	1,696,607	14,815	945,008	191,796	-	5,138,681
Contributions from developers	-	414,573	4,037,901	10,055,076	-	11,592,724	884,787	-	26,985,061
Hydro Vaughan Corporations	-	-	-	-	-	-	-	15,773,407	15,773,407
Contributed assets	-	-	-	-	-	-	-	319,564,543	319,564,543
	<b>34,478,483</b>	<b>31,696,050</b>	<b>37,872,947</b>	<b>192,598,167</b>	<b>3,972,609</b>	<b>66,702,802</b>	<b>23,389,913</b>	<b>335,337,950</b>	<b>726,048,921</b>
<b>Expenses:</b>									
Salaries and benefits	35,743,988	56,566,646	8,247,275	7,971,944	43,140	45,575,162	14,083,816	-	168,231,971
Goods and services	22,126,441	3,983,307	16,805,586	108,752,841	216,877	17,117,031	907,471	-	169,915,554
Long-term debt interest	-	6,371	2,898,281	111,347	-	-	-	-	3,015,999
Other	531,171	100,275	56,822	(44,537)	927,735	811,035	20,653	-	2,403,154
Corporate support allocation	2,478,792	7,370,335	3,139,179	14,631,266	149,103	7,777,544	1,802,348	(37,348,567)	-
Loss on disposal of tangible capital assets	800	(6,192)	7,086,215	1,563,526	-	378,935	-	-	9,023,284
Amortization of tangible capital assets	5,566,809	1,688,069	27,370,803	20,025,823	-	13,229,669	3,783	-	67,864,956
Other capital related	3,418,448	84,359	1,426,707	79,118	-	382,252	488,381	-	5,879,265
	<b>69,866,449</b>	<b>69,779,170</b>	<b>67,030,868</b>	<b>153,091,328</b>	<b>1,336,855</b>	<b>85,271,628</b>	<b>17,306,452</b>	<b>(37,348,567)</b>	<b>426,334,183</b>
Annual surplus (deficit) before the undernoted	(35,387,966)	(38,083,120)	(29,157,921)	39,506,839	2,635,754	(18,568,826)	6,083,461	372,686,517	299,714,738
Adjustment for the increase of the City's equity interest in the net assets of PowerStream (note 4)	-	-	-	-	-	-	-	3,988,470	3,988,470
Annual surplus (deficit)	<b>\$ (35,387,966)</b>	<b>\$ (38,083,120)</b>	<b>\$ (29,157,921)</b>	<b>\$ 39,506,839</b>	<b>\$ 2,635,754</b>	<b>\$ (18,568,826)</b>	<b>\$ 6,083,461</b>	<b>\$ 376,674,987</b>	<b>\$ 303,703,208</b>



# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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### **12. Segmented information (continued):**

A brief description of the services area for segmented information is as follows:

(a) General government:

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

(b) Protection to persons and property:

Protection comprises the administration and operations of the Fire Department that delivers fire suppression services, rescue services and fire prevention education. Enforcement services provide bylaw 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

**DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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## 12. Segmented information (continued):

### (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.

### (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, payments-in-lieu of taxes and investment income are allocated to the segments based on the actual 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.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

### 13. Budget data:

The audited budget data presented in these consolidated financial statements is based upon the 2016 operating and capital budgets approved by City Council on December 15, 2015. 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	\$ 265,179,272
Water budget	56,010,465
Wastewater budget	74,913,666
Capital budget	82,327,741
Less:	
Transfers from other funds	(51,509,345)
Proceeds from debt issue	(8,809,323)
Hospital levy	7,094,339
Hydro dividends	(6,135,000)
	419,071,815
Expenses:	
Operating budget	265,179,272
Water budget	48,993,218
Wastewater budget	65,700,545
Capital budget	82,327,741
Less:	
Transfers to other funds	(17,240,125)
Debt principal payments	(10,290,195)
Transfer of hospital levy	7,094,339
	441,764,795
Annual deficit	\$ (22,692,980)

### 14. Trust funds:

Trust funds administered by the City amounting to \$1,326,744 (2015 - \$586,567) are presented in a separate financial statement 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 consolidated financial activities.

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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### 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. Expenses relating to these agreements are recorded in the year in which the payments are made. For these lease and operating commitments, minimum payments have been estimated as follows:

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2017	\$ 32,355,000
2018	17,962,000
2019	14,080,000
2020	10,964,000
2021	10,073,000
Thereafter	52,786,000
	<hr/>
	\$ 138,220,000

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#### (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; and
- (ii) For the accumulated sum, not exceeding \$4.5 million with the Mentena Development Group.

#### (c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, PowersStream charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The total commitment under the agreement for 2016 is \$1.7 million in charges to the City by PowerStream. A new five-year agreement was finalized in 2016 and subsequently continues under Alectra (see note 17).

# THE CORPORATION OF THE CITY OF VAUGHAN

## **DRAFT** Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

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### **15. Commitments (continued):**

#### (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, 2016 is approximately \$211.6 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 under/or the creation of a legal obligation.

#### (e) Vaughan Hospital Precinct Development Plan:

In 2009, the City approved a grant in the amount of \$80 million, 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 million. The cost of the land is included in the City's tangible capital assets. This cost will be recovered through a special tax levy of 5.45%.

### **16. Contingencies:**

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, City Council does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its consolidated financial position.

### **17. Subsequent event:**

On February 1, 2017, through a series of transactions, VHI became the owner of 21.49% of Alectra, an entity created through the merger of certain hydro holding companies. VHI exchanged all of its ownership in its operating company, PowerStream, for shares in the merged entity of Alectra. The City has subscribed for equity shares in VHI for the amount of \$69.51 million to complete the merger.

As part of the merger, the solar assets owned by the former PowerStream shareholders were separated out under a solar services and indemnity agreement with the other parties to the merger. VHI received Class S common shares of Alectra representing its 45.315% pro-rata ownership of PowerStream's solar assets.

***DRAFT #3***  
***May 3, 2017***

Financial Statements of

**THE CORPORATION OF THE  
CITY OF VAUGHAN PUBLIC  
LIBRARY BOARD**

Year ended December 31, 2016

## **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 financial statements of The Corporation of the City of Vaughan Public Library Board, which comprise the statement of financial position as at December 31, 2016, 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, 2016, and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

***DRAFT***

Chartered Professional Accountants, Licensed Public Accountants

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Vaughan, Canada



# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## ***DRAFT*** Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial Assets</b>		
Cash	\$ 4,154	\$ 3,714
Due from the City of Vaughan	150,385	28,465
	<u>154,539</u>	<u>32,179</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	138,651	90,561
Employee future benefits (note 2(b))	6,329,000	6,257,000
Deferred revenue	30,081	24,495
	<u>6,497,732</u>	<u>6,372,056</u>
Net debt	(6,343,193)	(6,339,877)
<b>Non-Financial Assets</b>		
Prepaid expenses	14,193	82,877
Tangible capital assets (note 3)	8,738,778	6,338,062
	<u>8,752,971</u>	<u>6,420,939</u>
Accumulated surplus (note 4)	<u>\$ 2,409,778</u>	<u>\$ 81,062</u>

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, 2016, with comparative information for 2015

	Budget 2016 (note 5)	Actual 2016	Actual 2015
Revenue:			
Municipal contributions	\$ 15,359,633	\$ 18,256,935	\$ 14,216,999
Province of Ontario grants	145,200	199,091	213,985
Fees, rental and sundry	397,900	366,046	308,523
	15,902,733	18,822,072	14,739,507
Expenses:			
Salaries and wages	10,767,366	9,837,466	8,716,737
Employee benefits	2,427,007	2,293,505	1,999,545
General administration	717,900	749,281	626,322
Maintenance and repairs	554,900	501,208	535,265
Periodicals	457,300	470,539	376,677
Utilities	449,960	370,236	314,104
Office furniture and technology	241,400	301,177	195,527
Cleaning services	142,400	114,511	94,525
Programmes	54,800	83,536	54,215
Supplies	65,900	58,660	47,536
Consulting and outside services	23,800	16,653	2,327
Amortization of tangible capital assets (note 3)	—	1,696,584	1,630,103
	15,902,733	16,493,356	14,592,883
Annual surplus	—	2,328,716	146,624
Accumulated surplus (deficit), beginning of year	81,062	81,062	(65,562)
Accumulated surplus, end of year	\$ 81,062	\$ 2,409,778	\$ 81,062

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, 2016, with comparative information for 2015

	2016	2015
Annual surplus	\$ 2,328,716	\$ 146,624
Net (increase) decrease in prepaid expenses	68,684	(72,046)
Acquisition of tangible capital assets	(4,097,300)	(1,852,727)
Amortization of tangible capital assets	1,696,584	1,630,103
Increase in net debt	(3,316)	(148,046)
Net debt, beginning of year	(6,339,877)	(6,191,831)
Net debt, end of year	\$ (6,343,193)	\$ (6,339,877)

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, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 2,328,716	\$ 146,624
Items not involving cash:		
Amortization of tangible capital assets	1,696,584	1,630,103
Increase in employee future benefits	72,000	76,000
Change in non-cash assets and liabilities:		
Accounts payable and accrued liabilities	48,090	(66,966)
Prepaid expenses	68,684	(72,046)
Due from the City of Vaughan	(121,920)	115,766
Deferred revenue	5,586	23,357
	<u>4,097,740</u>	<u>1,852,838</u>
Capital activities:		
Purchase of tangible capital assets	(4,097,300)	(1,852,727)
Increase in cash	440	111
Cash, beginning of year	3,714	3,603
Cash, end of year	<u>\$ 4,154</u>	<u>\$ 3,714</u>

See accompanying notes to financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## **DRAFT** Notes to Financial Statements

Year ended December 31, 2016

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### **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 Chartered Professional Accountants of Canada.

#### **(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 and services and are recognized when acquired in the year, whether or not payments have been made or invoices received.

#### **(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 year.

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:

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Books	7 years
Audiovisual materials	7 years
Furniture and fixtures	10 years
Equipment	5 - 10 years

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# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## ***DRAFT*** Notes to Financial Statements (continued)

Year ended December 31, 2016

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### **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 its 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 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.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

***DRAFT*** Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 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 year. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 1. Significant accounting policies (continued):

In addition, the Library's implementation of the PSAB Section 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.

### (i) Presentation of budget information:

The Library completes an operating budget review each year. The approved budget figures for 2016 are reflected on the statement of operations and accumulated surplus and in note 5. Actual revenue and expenses may differ significantly from annual budgets.

## 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 \$1,566,000 in 2016 (2015 - \$1,483,000), of which \$783,000 (2015 - \$741,500) 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 City 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, 2016 of \$5,965,000 (2015 - \$5,916,000) and the expense for the year ended December 31, 2016 of \$137,000 (2015 - \$118,000) was determined by actuarial valuation using a discount rate of 4.25% (2015 - 4.25%).



# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2016

## 2. Employee future benefits (continued):

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

	2016	2015
Accrued benefit obligation:		
Balance, beginning of year	\$ 5,916,000	\$ 5,881,000
Actuarial loss	(2,425,000)	(2,645,000)
Service	202,000	194,000
Interest	155,000	144,000
Unamortized actuarial gain	2,205,000	2,425,000
Benefits paid	(87,000)	(83,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 5,966,000	\$ 5,916,000
Components of benefit expense:		
Service	\$ 202,000	\$ 194,000
Interest	155,000	144,000
Amortization of actuarial loss	(220,000)	(220,000)
Benefit expense	\$ 137,000	\$ 118,000

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

	2016	2015
Post-retirement non-pension benefits	\$ 5,966,000	\$ 5,916,000
Vacation pay	363,000	341,000
	\$ 6,329,000	\$ 6,257,000

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## **DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2016

### 3. Tangible capital assets:

Cost	Balance, December 31, 2015	Additions	Disposals	Balance, December 31, 2016
Books	\$ 7,133,799	\$ 2,279,056	\$ 989,053	\$ 8,423,802
Audiovisual materials	3,477,795	889,313	418,742	3,948,366
Furniture and fixtures	1,835,597	711,753	—	2,547,350
Equipment	782,601	217,178	—	999,779
<b>Total</b>	<b>\$ 13,229,792</b>	<b>\$ 4,097,300</b>	<b>\$ 1,407,795</b>	<b>\$ 15,919,297</b>

Accumulated amortization	Balance, December 31, 2015	Amortization expense	Disposals	Balance, December 31, 2016
Books	\$ 3,398,976	\$ 1,059,959	\$ 989,053	\$ 3,469,882
Audiovisual materials	1,618,250	494,721	418,742	1,694,229
Furniture and fixtures	1,305,538	57,821	—	1,363,359
Equipment	568,966	84,083	—	653,049
<b>Total</b>	<b>\$ 6,891,730</b>	<b>\$ 1,696,584</b>	<b>\$ 1,407,795</b>	<b>\$ 7,180,519</b>

Net book value	2016	2015
Books	\$ 4,953,920	\$ 3,734,823
Audiovisual materials	2,254,137	1,859,545
Furniture and fixtures	1,183,991	530,059
Equipment	346,730	213,635
<b>Total</b>	<b>\$ 8,738,778</b>	<b>\$ 6,338,062</b>

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2016

## 4. Accumulated surplus (deficit):

Accumulated surplus (deficit) consists of the following:

	2016	2015
Surplus invested in tangible capital assets (note 3)	\$ 8,738,778	\$ 6,338,062
Unfunded employee benefits (note 2)	(6,329,000)	(6,257,000)
	<u>\$ 2,409,778</u>	<u>\$ 81,062</u>

## 5. Budget data:

The audited budget information presented in these financial statements is based upon the 2016 operating and capital budgets approved by the Library on September 17, 2015. 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:	
Approved operating budget	\$ 15,902,733
Approved capital budget	<u>35,390,672</u>
	51,293,405
Less elimination of capital expense budget	35,390,672
Total revenue and expense	<u>\$ 15,902,733</u>

***DRAFT #2***  
***March 31, 2017***

Financial Statements of

**BOARD OF MANAGEMENT FOR  
THE KLEINBURG BUSINESS  
IMPROVEMENT AREA**

Year ended December 31, 2016

## 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 financial statements of the Board of Management for the Kleinburg Business Improvement Area, which comprise the statement of financial position as at December 31, 2016, the statements of operations and accumulated surplus, changes 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, 2016, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

***DRAFT***

Chartered Professional Accountants, Licensed Public Accountants

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Vaughan, Canada

# BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

## ***DRAFT*** Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial Assets</b>		
Cash	\$ 13,504	\$ 29,568
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	—	7,066
Net financial assets	13,504	22,502
<b>Non-Financial Assets</b>		
Prepaid expenses	703	10,113
Accumulated surplus	\$ 14,207	\$ 32,615

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, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
Revenue:			
Kleinburg Business Improvement			
Area special area levy	\$ 40,000	\$ 40,000	\$ 40,000
Event dollars raised	—	20,385	23,263
	40,000	60,385	63,263
Expenses:			
Advertising and marketing	37,000	50,815	28,124
Special events	2,000	19,792	17,977
Consulting fees	3,870	3,164	—
Insurance	1,500	1,474	1,474
Miscellaneous	3,000	1,318	763
Donation	—	1,250	1,948
Christmas decoration replacement	1,000	980	5,655
	48,370	78,793	55,941
Annual surplus (deficit)	(8,370)	(18,408)	7,322
Accumulated surplus, beginning of year	32,615	32,615	25,293
Accumulated surplus, end of year	\$ 24,245	\$ 14,207	\$ 32,615

See accompanying notes to financial statements.



## BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

### ***DRAFT*** Statement of Changes in Net Financial Assets

Year ended December 31, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
Net financial assets, beginning of year	\$ 22,502	\$ 22,502	\$ 13,536
Annual surplus (deficit), being change in net financial assets	—	(18,408)	7,322
Acquisition and use of prepaid expenses	—	9,410	1,644
Net financial assets, end of year	\$ 22,502	\$ 13,504	\$ 22,502

See accompanying notes to financial statements.

# BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

## ***DRAFT*** Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	\$ (18,408)	\$ 7,322
Change in prepaid expenses	9,410	1,644
Change in accounts payable and accrued liabilities	(7,066)	5,115
Increase (decrease) in cash	(16,064)	14,081
Cash, beginning of year	29,568	15,487
Cash, end of year	\$ 13,504	\$ 29,568

See accompanying notes to financial statements.

# **BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA**

***DRAFT*** Notes to Financial Statements

Year ended December 31, 2016

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**1. Nature of operations:**

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 Chartered Professional Accountants of Canada.

**(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 year, 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, provided the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amount can be made.

# **BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA**

***DRAFT*** Notes to Financial Statements (continued)

Year ended December 31, 2016

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## **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 audited budget information presented in these financial statements is based on the budget approved by City Council on May 17, 2016.

## **3. Comparative information:**

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

***DRAFT #2***  
***May 3, 2017***

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Financial Statements of

**THE CORPORATION OF THE CITY OF  
VAUGHAN TRUST FUNDS**

Year ended December 31, 2016

## 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, 2016, the statement of financial activities and changes in fund balance for the year then ended, and note, 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, 2016, 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 Professional Accountants, Licensed Public Accountants

---

Toronto, Canada

# THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

## ***DRAFT*** Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial Assets</b>		
Cash	\$ 592,431	\$ 526,189
Due from The Corporation of the City of Vaughan	734,313	60,378
	<u>\$ 1,326,744</u>	<u>\$ 586,567</u>
<b>Fund Balance</b>	\$ 1,326,744	\$ 586,567
	<u>\$ 1,326,744</u>	<u>\$ 586,567</u>

See accompanying note 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, 2016, with comparative information for 2015

		2016	2015
	Cemetery perpetual care	Total	Total
Sources of funds:			
Contribution from The Corporation of the City of Vaughan (note 2)	\$ 700,000	\$ 700,000	\$ –
Capital receipts - sale of plots/markers	40,177	40,177	65,949
Interest earned	5,864	5,864	5,571
	746,041	746,041	71,520
Use of funds:			
Maintenance	5,864	5,864	5,571
Net activity	740,177	740,177	65,949
Fund balance, beginning of year	586,567	586,567	520,618
Fund balance, end of year	\$ 1,326,744	\$ 1,326,744	\$ 586,567

See accompanying note to financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

**DRAFT** Note to Financial Statements

Year ended December 31, 2016

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**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. Contribution from The Corporation of the City of Vaughan:**

During the year, the City sold land for net proceeds of \$700,000, which the City has directed to the Perpetual Care Trust Fund.

**DRAFT #2**  
**May 3, 2017**

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Statement of Revenue and Expenditures and  
Fund Balance of

**THE CORPORATION OF THE  
CITY OF VAUGHAN**  
MAYOR'S GALA AND GOLF EVENTS

Year ended December 31, 2016

## INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of revenue and expenditures and fund balance of the Mayor's Gala and Golf Events, and notes, comprising significant accounting policies and other explanatory information for the year ended December 31, 2016 for The Corporation of the City of Vaughan. The financial statement has been prepared by management in accordance with the basis of accounting in note 1 to the financial statement.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the basis of accounting in note 1 to the financial statement; this includes determining that the basis of accounting is an acceptable basis for the preparation of this financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

*Basis for Qualified Opinion*

In common with many events run by charitable organizations, the Mayor's Gala and Golf Events derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenue was limited to the amounts recorded in the records of the Mayor's Gala and Golf Events. Therefore, we were not able to determine whether, as at and for the years ended December 31, 2016 and December 31, 2015, any adjustments might be necessary to revenue, total surplus from Mayor's Gala Event and Mayor's Golf Tournament, and fund balance reported in the statement of revenue and expenditures and fund balance. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2015.

*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial information in the statement of revenue and expenditures and fund balance is prepared, in all material respects, in accordance with the basis of accounting in note 1 to the financial statement.

*Basis of Accounting*

Without modifying our opinion, we draw attention to note 1 to the financial statement, which describes the basis of accounting. The financial statement is prepared for information purposes only. As a result, the financial statement may not be suitable for another purpose.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

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Vaughan, Canada

# THE CORPORATION OF THE CITY OF VAUGHAN

## MAYOR'S GALA AND GOLF EVENTS

### **DRAFT** Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
<b>Mayor's Gala Event</b>		
Revenue:		
Revenue received by City, net of harmonized sales tax	\$ 630,789	\$ 491,930
Expenditures:		
Mayor's Gala Event	172,503	139,842
City administration recovery (note 2)	47,519	48,468
Professional fees	31,596	38,581
	<u>251,618</u>	<u>226,891</u>
Surplus from Mayor's Gala Event	379,171	265,039
<b>Mayor's Golf Tournament</b>		
Revenue:		
Revenue received by City, net of harmonized sales tax	200,834	210,066
Expenditures:		
Mayor's Golf Tournament	78,798	68,759
Professional fees	1,150	2,671
	<u>79,948</u>	<u>71,430</u>
Surplus from Mayor's Golf Tournament	120,886	138,636
Total surplus from Mayor's Gala Event and Mayor's Golf Tournament	500,057	403,675
Balance carried forward from previous years	275,994	459,669
Total funds available for distribution	776,051	863,344
City distributions to qualified recipients (note 3)	601,465	587,350
Fund balance, end of year	<u>\$ 174,586</u>	<u>\$ 275,994</u>

See accompanying notes to statement of revenue and expenditures and fund balance.

# THE CORPORATION OF THE CITY OF VAUGHAN

## MAYOR'S GALA AND GOLF EVENTS

***DRAFT*** Notes to Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2016

---

**1. Basis of accounting:**

The financial statement is prepared by management in a manner consistent with Canadian generally accepted accounting principles ("GAAP") for governments as recommended by the Public Sector Accounting Board. Management has interpreted GAAP to be the recognition and measurement principles for Public Sector Accounting Standards in the Chartered Professional Accountants of Canada Handbook. Recognition and measurement principles relate specifically to revenue and expenditures, and not the presentation principles or the presentation of all the financial statements and note disclosures required by Public Sector Accounting Standards for a complete set of financial statements.

**2. City administration recovery:**

The Corporation of the City of Vaughan charges the Mayor's Gala and Golf Events a set amount as recovery of internal labour costs spent on administering the Mayor's Gala and Golf Events.

**3. City distributions to qualified recipients:**

Under a resolution by City Council, recipients for the net proceeds raised from the Mayor's Gala and Golf Events include, but are not limited to, Vaughan-based charities, not-for-profit organizations, community groups and disaster relief assistance. During 2016, distributions were made to these qualified recipients.



# The Corporation of the City of Vaughan

**Audit Findings Report**  
**For the year ended December 31, 2016**



Chartered Professional Accountants, Licensed Public Accountants

April 27, 2017

[kpmg.ca/audit](http://kpmg.ca/audit)





The contacts at KPMG in connection with this report are:

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

# Executive summary

## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as a member of the City's Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements (the "financial statements") of the Corporation of the City of Vaughan ("the City") as at and for the year ended December 31, 2016.

We appreciate the assistance of management and staff in conducting our audit. We trust that this audit findings report is of assistance to you, and we look forward to discussing our findings and answering your questions.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to management.

## Finalizing the audit

As of April 27, 2017, we have completed the audit of the City's financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of a bank confirmation
- Receipt and review of capital commitments
- Receipt of signed management representation letters (to be signed upon City Council approval of the consolidated and related entity financial statements);
- Updating our discussions regarding subsequent events, including receipt of the final legal enquiry letter;
- Completing our discussions with the Finance and Administration Committee; and
- Obtaining evidence of City Council's approval of the financial statements.

We will update you on significant matters, if any arising from the completion of the audit, including the completion of the above procedures. Our

auditors' report will be dated upon the completion of any remaining procedures.

## Adjustments and differences

We identified one adjustment that was communicated to management and subsequently corrected in the financial statements.

*See page 10.*

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

We believe management's process for identifying critical accounting estimates and developing estimates for these balances to be adequate. We did not identify any indicators of possible management bias.

Accounting estimates are disclosed as such in note 1(n) to the financial statements.

This Audit Findings Report should not be used for any other purpose or by anyone other than the 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.

# Executive summary (continued)

## Significant accounting policies and practices

There were no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

## Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why	Our significant findings from the audit
Fraud risk from revenue recognition	This is a presumed fraud risk. The risk resides with development charges revenue, particularly with respect to revenue recognition on an accrual basis and cut-off of fiscal periods.	<p>In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing development charges revenue, including:</p> <ul style="list-style-type: none"> <li>— Evaluated the design and implementation and tested the operating effectiveness of selected relevant controls, including those relating to the tracking and reporting of capital project expenditures.</li> </ul> <p>Other audit procedures included:</p> <ul style="list-style-type: none"> <li>— Tested development charges cash receipts and their deferral.</li> <li>— Obtained the deferred revenue continuity schedule and selected samples for testing to determine if the original development charges received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation. Based on our procedures, we conclude that the development charges recorded as revenue in fiscal 2016 were used to fund capital projects.</li> <li>— Reviewed recognition considerations for the other revenue streams.</li> </ul> <p>We did not identify any issues related to fraud risk associated with revenue recognition.</p>
Fraud risk from management override of controls	<p>This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.</p> <ul style="list-style-type: none"> <li>— Using our Data &amp; Analytics software, we tested manual and automated journal entries by extracting all journal entries recorded in the general ledger system and other adjustments. Please see page 9 for details and results.</li> <li>— We evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is considered adequate.</li> <li>— We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.</li> </ul> <p>No issues were noted.</p>

# Areas of audit focus and results

Professional standards require us to communicate to the Finance & Administration Committee Other Matters, such as, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the City's related parties, significant difficulties encountered during the audit, and disagreements with management.

We have highlighted below other significant matters, including areas of accounting estimates and our assessment of subjective areas that we would like to bring to your attention:

Matter	KPMG comment
<b>Investment in Hydro Vaughan Corporations</b>	<ul style="list-style-type: none"> <li>– The City recognizes its investment in Hydro Vaughan Corporations using the modified equity method.</li> <li>– We reviewed the criteria under Public Sector Accounting Standards ("PSA Standards") PS 3070 – Investment in Government Business Enterprises and noted the City's investment in Hydro Vaughan Corporations continues to meet all criteria of the section and therefore it is appropriate to continue to record the investment using the modified equity method of accounting.</li> <li>– Vaughan Holdings Inc. ("VHI") received a \$1.8M capital dividend from PowerStream, which was recorded as a reduction to VHI's investment in PowerStream. VHI issued a similar capital dividend to the City for the same amount.</li> <li>– We reviewed the VHI Board minutes, ensuring that there were no additional share purchases during the 2016 year, verified the transactions between each of the respective entities, and performed a reconciliation of the amounts reported in the financial statements of the City, VHI, and PowerStream.</li> <li>– Subsequent to 2016, the City subscribed for common shares in VHI for a total amount of \$69.5M in order to fund the merger of PowerStream and acquisition of Hydro One Brampton Networks Inc. Please see the discussion in the next topic.</li> <li>– Relevant note disclosures describing the reduction in investments in Hydro Vaughan Corporations are included in note 4 of the City's financial statements.</li> <li>– As PowerStream is considered a significant component of the City, and as PowerStream is audited by another firm of Chartered Professional Accountants, professional standards require that we review the audit working papers of the significant component auditor. This has taken place with no issues noted following our review.</li> <li>– Based on the work performed, KPMG concludes that management has appropriately reflected its investment in Hydro Vaughan Corporations using modified equity accounting.</li> </ul>
<b>Subsequent event: PowerStream merger to form Alectra</b>	<ul style="list-style-type: none"> <li>– On February 1, 2017, VHI became owner of 21.49% of Alectra Utilities Inc. through a series of transactions that merged certain hydro holding companies.</li> <li>– The merger resulted in VHI exchanging all of its ownership in PowerStream for this ownership in Alectra, which will be funded by the City through its subscription for common shares in VHI for \$69.5M.</li> <li>– As part of the merger, the solar assets of PowerStream were separated out under a management service agreement with Alectra and the former shareholders of PowerStream received solar shares in Alectra according to their pro-rata share of Class A common shares of PowerStream.</li> <li>– The subsequent event is described in note 17 to the City's 2016 financial statements.</li> <li>– KPMG reviewed the disclosures in PowerStream's 2016 financial statements and is satisfied that the subsequent events described above have been appropriately disclosed within the City's 2016 financial statements.</li> </ul>

**Employee Future Benefits**

- Employee future benefits provided by the City, which will require funding in future periods, include post-retirement non-pension benefits and WSIB.
- The post-retirement non-pension benefits include certain health, dental and life insurance benefits for retired employees. WSIB benefits include benefits under the Workplace Safety and Insurance Board Act.
- The liability of these future benefits has been determined by two separate actuarial valuations:
  - For post-retirement non-pension benefits, a full actuarial valuation was performed in 2014 for the 3 years of 2014 to 2016.
  - For WSIB, a valuation was performed in 2014 for the 4 years of 2013 to 2016. The projected liability for 2016 based on the last valuation report was used to adjust the liability in the current year.
- Post-retirement non-pension benefits:
  - We reviewed the 2014 actuarial valuation report, which remains relevant as the valuation was not required to be updated in the current year. We obtained written confirmation from management's experts, the actuaries, and performed an evaluation of the competence, capabilities, and objectivity of the actuaries, as required by professional standards when using their work as audit evidence.
- Our procedures included an assessment of management's estimates and assumptions used in determining the valuation of the liability including management's best estimates over inflation rate, discount rate, benefit cost trend rates, retirement age and expected average remaining service life (described in note 5 to the financial statements).
- We also obtained an update letter from the actuary confirming that there were no significant changes to the methods and assumptions used in the 2014 valuation report for the 2016 fiscal year.
- We did not note any issues with management's estimates and assumptions and we find the measurement and disclosures of post-retirement non-pension benefits liability to be appropriate.

**Contingent Liabilities**

- PSA Standard – PS 3300 Contingent Liabilities 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, contract settlement accruals, etc.
- KPMG has reviewed the City's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is 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 of exposure given the information presently available.

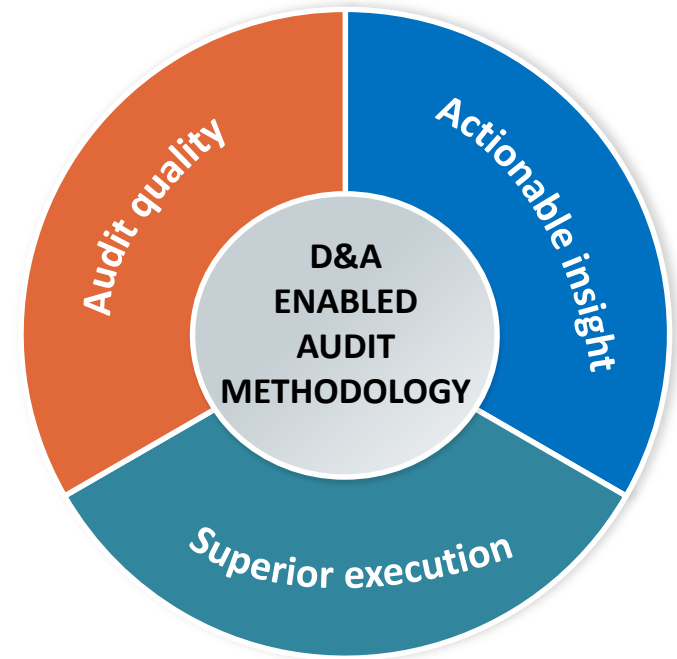
# Data & Analytics in the audit

## Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold. When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies. Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

## KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key business risks, while providing relevant insights of value to you.



### FOR THE AUDIT

#### AUDIT QUALITY

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

### FOR YOUR BUSINESS

#### ACTIONABLE INSIGHT

- Helping you see your business from a different perspective
- How effectively is your organization using your systems?

# Data & Analytics in the audit (continued)

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit.

We have summarized areas of the audit where D&A tools and routines were used.

Areas of focus	D&A tools and routines	Our results	Conclusions
Journal entry testing	<ul style="list-style-type: none"> <li>We used KPMG application software (IDEA) in the audit to evaluate the completeness of the journal entry population through a roll-forward of the entire general ledger (GL).</li> <li>We also used IDEA to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.</li> </ul>	<ul style="list-style-type: none"> <li>The GL roll consists of a summation of all automated and manual journal entries posted during the fiscal year and comparison of the calculated amounts to the account balances as at and for the year ended December 31, 2016 as reported by management.</li> <li>We developed a set of high-risk criteria and applied the criteria to the entire population of journal entries. A sub-population of journal entries was determined for more focused and risk-based testing.</li> </ul>	<ul style="list-style-type: none"> <li>The GL extraction was found to be complete and containing all automated and manual journal entries recorded during the year. We were able to use this complete extraction for our testing of high-risk journal entries.</li> <li>Journal entries containing high-risk conditions were tested to verify if they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.</li> </ul>
Tangible Capital Assets	<p>We utilized IDEA to perform audit procedures on tangible capital assets ("TCA") in the following areas:</p> <ul style="list-style-type: none"> <li>We performed a recalculation of amortization expense for all amortizable assets using data obtained directly from the City's asset management system, Citywide.</li> <li>We analyzed the population of TCA disposals and cross-referenced against the TCA asset register to ensure that there were no disposed assets that remained in the asset register.</li> </ul>	<ul style="list-style-type: none"> <li>We replicated the formula used to determine individual assets' amortization and recalculated an expected amount after verifying the appropriate inputs were used.</li> <li>The asset register continued to list assets that were disposed of, however, they were identified with unique asset IDs and were all reported at nil cost values.</li> </ul>	<ul style="list-style-type: none"> <li>The results of the amortization expense recalculation did not identify any significant differences.</li> <li>No issues noted.</li> </ul>



# Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

## Corrected adjustments

Attachment II to the management’s representation letter, provided at the end of this report, includes all misstatements identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

We would like to highlight the following adjustment recorded in the draft financial statements. Amounts below are reported in thousands:

(In thousands)	Income effect	Financial Position		Accumulated surplus
Description	Increase (Decrease)	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Increase (Decrease)
To eliminate a duplicate capital-related accrual that was recorded in both accounts payable and accrued liabilities.	-	(1,922)	(1,922)	-
<b>Total</b>	-	<b>(1,922)</b>	<b>(1,922)</b>	-

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Audit Quality and Risk Management**

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**Appendix 3: Independence**

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**Appendix 4: Background and professional standards**

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**Appendix 5: Lean in Audit™**

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**Appendix 6: Expanded Auditor Reporting**

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**Appendix 7: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of our audit. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters.
- **Required inquiries** – professional standards require that during the our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly
  - What are your views about fraud risks in the entity?
  - How do those charged with governance exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the entity and internal controls management has established to mitigate these fraud risks?
  - Are you aware of or have you identified any instances of actual, suspected, or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets?  
  
If so, have the instances been appropriately addressed and how have they been addressed?
  - Is the entity in compliance with laws and regulations?
  - Has the entity entered into any significant unusual transactions?
- **Management representation letter** – we will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, a copy of the representation letter is attached to the back of this report
- **Audit findings report** – as attached
- **Annual independence** – as attached

# Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems

Visit <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 3: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since our last annual independence letter dated April 28, 2016.

The following summarizes the professional services rendered by us to the City from January 1, 2016 to April 27, 2017:

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## Description of professional services

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Audit 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:
    - Vaughan Holdings Inc.
    - Hydro Vaughan Energy Corporation
    - 1446631 Ontario Inc.
  - The Corporation of the City of Vaughan Mayor's Gala and Golf Events
- 

Tax:

- Income tax compliance services for the Hydro Vaughan Corporations
  - Indirect tax advisory services for the Corporation of the City of Vaughan
- 

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Other:

- Review and approval of the City of Vaughan's proposed revised records retention by-law and draft records retention schedule
- 

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 related to 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 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

# Appendix 4: Background and professional standards

## Internal control over financial reporting

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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

# Appendix 5: Lean in Audit™

## An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process-oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

## How it works

### 1. Lean training

- Provide basic Lean training and equip our teams with a new Lean mind-set to improve quality, value and productivity.

### 2. Interactive workshops

- Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.

### 3. Insight reporting

- Quick and pragmatic insight report including your teams immediate quick win actions and prioritized opportunities to realize benefit.

# Appendix 6: Expanded Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional report we provide.

## What's new?

The new standards are intended to provide greater insight and transparency for users of financial statements.

The most significant changes to the audit report impacting listed entities include:

- description of key audit matters; and
- disclosure of the name of the engagement partner.

Other changes impacting listed and non-listed entities include moving the audit opinion to the first section of the report and expanding descriptions of the auditors' and management's responsibilities with respect to the audited financial statements.

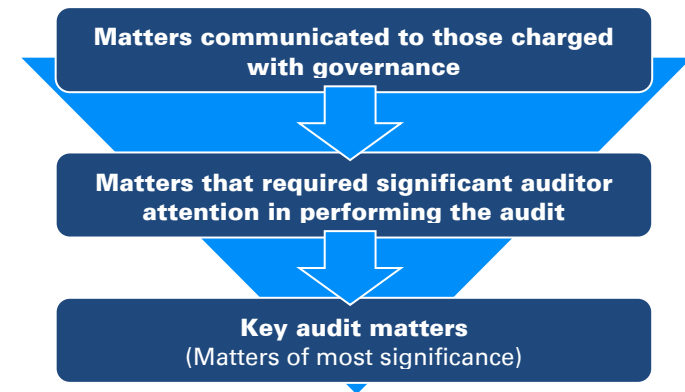
## When are the new requirements effective?

While the new standards have already been issued by the International Auditing and Assurance Standards Board in January 2015, they have yet to be adopted as Canadian Auditing Standards (CASs).

The Auditing and Assurance Standards Board in Canada is expected to adopt the new standards and the timelines have yet to be confirmed.

**Key audit matters** are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period.

We will be required to include in our auditors' report why the key audit matter is of most significance and what procedures we performed to address the matter.





# Appendix 7: Current developments

*Current Developments*, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting charities and not-for-profit organizations today, or expected to impact over the next few years. We provide this information to help not-for-profit organizations understand upcoming changes and challenges they may face in their industry. We attach this summary to every audit plan and audit findings report that we provide to our public sector and not-for-profit clients. Some of these developments may not impact your organization directly but we believe it is important for audit committee members of charities and not-for-profit organizations to understand what is happening in the sector.

## Public Sector Accounting Board: Accounting standards update

The Public Sector Accounting Board of Canada is responsible for setting the accounting standards that your organization is required to apply in preparing the general purpose financial statements. **The following new or revised accounting standards approved by the Board may have an impact on your financial statements over the next two years as described below.** We encourage Management to review these standards and determine whether the impact, if any, on your organization's financial statements.

### Summary of New and Revised Accounting Standards

#### Assets

PSAB issued Section PS3210 Assets which provides a definition of assets. Assets are defined as follows:

- Assets embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.
- The public sector entity can control the economic resource and access to the future economic benefits.
- The transaction or event giving rise to the public sector entity's control has already occurred.

The standard also includes disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's fiscal 2018 year-end).

#### Contingent Assets

PSAB issued Section PS3320 Contingent Assets which defines and establishes disclosure standards for contingent assets. Contingent assets have two basis characteristics:

- An existing condition or situation that is unresolved at the financial statement date.
- An expected future event that will resolve the uncertainty as to whether an asset exists.

The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's fiscal 2018 year-end).

### **Contractual Rights**

PSAB issued Section PS3380 Contractual Rights which defines contractual rights to future assets and revenue and establishes disclosure requirements. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the expected timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed.

Factors to consider include, but are not limited to:

- (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and
- (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's fiscal 2018 year-end).

### **Related Party Transactions**

PSAB issued Section PS2200 Related Party Transactions which defines related party and provides disclosures requirements. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.

Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements.

This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's fiscal 2018 year-end). In conjunction with the approval of this standard, PSAB approved the withdrawal of Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations, effective for fiscal periods beginning on or after April 1, 2018. Government not-for-profit organizations currently applying Section PS 4260, will therefore only be required to adopt the new standard in their fiscal period beginning on or after April 1, 2018.

### **Inter-entity Transactions**

PSAB issued Section PS3420 Inter-entity Transactions that specifies how to account for transactions between public sector entities within the government reporting entity. This standard relates to the measurement of related party transactions for both the provider and the recipient and includes a decision tree to support the standard. Transactions are recorded a carrying amounts with the exception of the following:

- Transactions in the normal course of business are recorded at exchange amount
- Transactions with fair value consideration are recorded at exchange amount

- Transfer of an asset or liability at nominal or no consideration is recorded by the provider at carrying amount and the recipient has the choice of either carrying amount or fair value.
- Cost allocations are reported using the exchange amount and revenues and expenses are reported on a gross basis.
- Unallocated costs for the provision of goods or services may be recorded by the provider at cost, fair value or another amount dictated by policy, accountability structure or budget practice

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's fiscal 2018 year-end). In conjunction with the approval of this standard, PSAB approved the withdrawal of *Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations*, effective for fiscal periods beginning on or after April 1, 2018. Government not-for-profit organizations currently applying Section PS 4260 will therefore only be required to adopt the new standard in their fiscal period beginning on or after April 1, 2018.

## Cyber Security - It's more than just Technology

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hacktivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security

Not-for-profit organizations are at particular risk due to the information they maintain, including research data, member or student data, and health information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Not-for-profit organizations need to review their operations and consider cyber risks, then assess the organization's cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, presented a webinar called "Cyber Security: The new threat for Not-for-Profit Organizations". We encourage you to view this webinar on Imagine Canada's website at: <http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg>

## Commodity Tax Considerations

The GST/HST is constantly evolving. The kinds and pace of the changes affecting your organization will depend on your status and activities, and may result from new legislative and regulatory rules, court cases, and changes in the CRA's administrative policies. In addition, major organization changes, such as reorganizations, cessation of activities, major capital projects, new relationships (e.g., shared service arrangements), and new revenue generating activities may have significant GST/HST implications.

The Canada Revenue Agency (CRA) continues to increase its focus on public service bodies (e.g., municipalities, universities, colleges, hospitals, schools, associations, charities, non-profits etc.) for purposes of conducting GST/HST audits. These audits may be undertaken by GST/HST audit teams dedicated to the public sector or by auditors attached to the CRA's GST/HST Refund Integrity Unit. Many organizations have undergone audits over the past couple of years. Based on our work with audited organizations, we offer the following general observations on the impact of the CRA's ongoing focus on the public sector:

- The CRA has been focusing on documentation, cost sharing and buying group arrangements, grants and sponsorships, as well as the allocation of inputs between taxable and exempt activities for input tax credit purposes (e.g. the filing of a Section 211 election and claiming of input tax credits on the use of real property).
- The CRA has not consistently been applying audit offsets (e.g., allowing unclaimed input tax credits or rebates) that would help minimize the impact of any assessments.
- Proposed assessments based on sampling and alternative valuation or allocation methodologies conducted by CRA auditors should be reviewed as fair and reasonable alternatives may be available that could significantly reduce an GST/HST assessment.
- The CRA is required to communicate the amount and basis for a proposed to the registrant, and should allow the registrant a reasonable amount of time to review and respond to the assessment (i.e., generally 30-days). It is entirely appropriate to carefully review and question a proposed assessment. Our experience is that proposed assessments can often be significantly reduced at the audit stage. If a Notice of Assessment is issued, you will have 90 days to file a Notice of Objection with the CRA.
- It is important that you have a plan in place for a GST/HST audit, including having a fixed point of contact for the auditor. Planning and managing the audit is as important as having the appropriate policies and procedures.
- Organizations that have undergone significant changes in operations are more likely to be selected for an audit. Many of these organizations are completing compliance reviews by indirect tax professionals in advance of a potential GST/HST audit to verify that the GST/HST is being appropriately handled.

Our experience with GST/HST auditors has varied from audit to audit. However, in each case, the taxpayer has the burden of proof. The best approach is to be prepared in advance of receiving that audit notification from CRA.

[kpmg.ca/audit](http://kpmg.ca/audit)



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Canada

June 27, 2017

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, 2016.

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 28, 2016, 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 members 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. Accordingly, there are no unrecorded transactions or side agreements (either written or oral) undisclosed to you.

- e) identifying and ensuring that the Entity complies with the laws and regulations applicable to its activities.
- 2) The Entity has satisfactory title to all owned assets and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the financial statements.
- 3) We have no knowledge of any plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

- 4) 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:**

- 5) 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, analysts, 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
  - f) all information in relation to communications from regulatory or governmental authorities or others concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

**COMMITMENTS & CONTINGENCIES:**

- 6) There are no:
  - a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.
  - b) guarantees, whether written or oral, under which the Entity is contingently liable.

**SUBSEQUENT EVENTS:**

- 7) 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:**

- 8) We have disclosed to you the identity of the Entity's related parties.
- 9) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 10) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.
- 11) We have no knowledge of any relationship or transaction with related parties that have not been properly accounted for, or adequately disclosed.
- 12) We have provided you with all information concerning related party transactions and amounts receivable from or payable to related parties, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.

**ESTIMATES:**

- 13) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 14) Significant estimates, which could change materially within the near term, and all areas of measurement uncertainty have been properly recorded or disclosed in the financial statements.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 15) 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:**

- 16) The information provided by us to Collins Barrow and Morneau Shepell ("the experts") and used in the work and findings of the experts are complete and accurate. We agree with the findings of the experts in evaluating employee future benefits, including WSIB, and have adequately considered the qualifications of the experts 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 experts 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 experts.

**MISSTATEMENTS:**

- 17) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Yours very truly,

THE CORPORATION OF THE CITY OF VAUGHAN

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By: Ms. Laura Mirabella-Siddall, Chief Financial Officer and City Treasurer

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By: Mr. Dean Ferraro, Director of Financial Services and Deputy Treasurer

I have the recognized authority to take, and assert that I have taken, responsibility for the financial statements

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 Canadian public sector accounting standards, a *related party* is defined as:

- 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.

In accordance with Canadian public sector accounting standards, a *related party transaction* is defined as:

- 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 corrected audit misstatements**

							Impact on financial statement captions - DR(CR)							
#	Account #	Account Name	Description / Identified During	Error Type	Amount	Income Effect DR (CR)	Balance Sheet Effect				Cash Flow Effect			
					DR (CR)	Income effect	Accumulated Surplus at period end	Financial Assets	Non- Financial Assets	Financial Liabilities	Operating Activities	Capital Activities	Financing Activities	Investing Activities
1	2000	Accrued liabilities	Reversal for double booked entry into both Accrued Liabilities and Accounts Payable.	Factual	\$1,921,889	\$ -	\$ -	\$ -	\$ -	\$1,921,889	\$(1,921,889)	\$ -	\$ -	\$ -
	1500	Tangible capital assets			\$(1,730,720)	\$ -	\$ -	\$ -	\$(1,730,720)	\$ -	\$ -	\$ 1,730,720	\$ -	\$ -
	1086	Accounts receivable			\$ (191,169)	\$ -	\$ -	\$ (191,169)	\$ -	\$ -	\$ 191,169	\$ -	\$ -	\$ -
Total effect of corrected audit misstatements						\$ -	\$ -	\$ (191,169)	\$(1,730,720)	\$1,921,889	\$(1,730,720)	\$ 1,730,720	\$ -	\$ -