

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015**

Item 1, Report No. 10, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 23, 2015.

#### **1                      2014 DRAFT CONSOLIDATED FINANCIAL STATEMENTS**

**The Finance, Administration and Audit Committee recommends:**

- 1)        That the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of City Financial Services/Deputy Treasurer, dated June 15, 2015, be approved; and**
- 2)        That the presentation by the Director of City Financial Services/Deputy Treasurer and Mr. Kevin M. Travers, Partner, KPMG LLP, North York, and C1, presentation material titled: “2014 Consolidated Financial Statements Financial Services”, be received.**

#### **Recommendation**

The Commissioner of Finance & City Treasurer and the Director of City Financial Services/Deputy Treasurer, in consultation with the Accounting Manager and the Director of Financial Planning and Analytics, recommend:

1.        That the 2014 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 2) be approved; and
2.        That the KPMG Audit Findings Report for the year ended December 2014 (Attachment 3) be received.

#### **Contribution to Sustainability**

This is not applicable to this report.

#### **Economic Impact**

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

#### **Communications Plan**

An advertisement will be placed in the local paper when the financial statements are approved by Council. The advertisement will indicate that the 2014 Consolidated Financial Statements and Trust Fund Statement are available for pick up at the City and in addition the financial statements will be published on the City's web page <https://www.vaughan.ca/cityhall/accounting>.

#### **Purpose**

To receive the financial review of the City's 2014 Draft Consolidated Financial Statements, to approve the City's 2014 Draft Consolidated Financial Statements, Vaughan Public Library Financial Statements, Kleinburg Business Improvement Area Financial Statements, and The Statement of Revenue and Expenditures and Fund Balance of the Mayor's Golf and Gala Events, the Trust Fund Financial Statements and to receive KPMG's Audit Findings Report for 2014.

#### **Background**

**The statutory financial statements are a requirement prescribed by the *Municipal Act, 2001* which states:**

## CITY OF VAUGHAN

### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015**

#### Item 1, Finance Report No. 10 – Page 2

1. A municipality must prepare financial statements in accordance with generally accepted accounting principles (Section 294.1)
2. The Treasurer must report the financial affairs of the municipality to Council (Section 286.1)
3. The municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004* who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit (Section 296.1)

KPMG LLP was awarded the contract in 2013 as a result of a competitive process. The City's Draft Consolidated Financial Statements have been 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.

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

The City's Trust Fund 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 City received an unqualified audit opinion.**

All of the above financial statements have received an unqualified opinion from KPMG and present fairly, in all material respects, the financial position of the entity audited as at December 31, 2014 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for the year then ended in accordance with public sector accounting standards.

#### **2014 Draft Consolidated Statement of Financial Position Overview**

The City of Vaughan's 2014 Consolidated Statement of Financial Position demonstrates a continued strong position, as the City is in a net financial asset position of \$338.7 million (2013, \$304.2 million).

Major items such as Cash and cash equivalents, Investment in Hydro Vaughan Corporations, Accounts payable and accrued liabilities, Deferred revenue and other items are discussed in Attachment 1 – Highlights.

#### **Financial Statement Presentation Differences from Budget Presentation**

Consolidated Financial Statements are prepared on a different basis than the annual budget.

The Consolidated Financial Statements must comply with Provincial Statutory Reporting and use an accrual basis of accounting whereas the Operating and Capital Budgets approved by Council are intended to set the tax rate and are prepared using a cash basis of accounting.

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015

#### Item 1, Finance Report No. 10 – Page 3

Statements	Budget Approved By Council	Statutory Financial Statements
Purpose	To set the tax rate in accordance with the Municipal Act	To comply with Provincial Statutory Reporting
Basis	Cash basis of accounting	Accrual basis of accounting
Differences	Presents a partial financial picture	Presents full financial picture
	Expense tangible capital assets	Capitalize tangible capital assets
	Reserve contributions / No amortization	Amortization over the useful life of tangible capital assets
	Excludes unfunded liabilities	Includes unfunded liabilities

Note 13 in the Draft Consolidated Financial Statements provides a reconciliation of the budgets approved by Council and the annual deficit shown on the Draft Consolidated Statement of Financial Activities.

The actual surplus presented in the 2014 Draft Consolidated Financial Statements differs from the 2014 fourth quarter results due to the reporting differences noted above and is explained in more detail in Attachment 1 – Highlights. Significant revenue and expense variances (budget versus actual) for the 2014 fourth quarter results were presented to Council in May.

#### Relationship to Vaughan Vision 2020

This report is consistent with and supports the Vaughan Vision 2020 strategic initiatives under Organizational Excellence that ensures financial sustainability and manages corporate assets, by obtaining an unqualified audit opinion, ensuring that the consolidated financial position, prepared in accordance with Canadian public sector accounting standards, is presented fairly, in all material respects.

#### Regional Implications

There are no Regional implications associated in the report.

#### Conclusion

The City of Vaughan's 2014 Consolidated Financial Statements, the Financial Statements of the Library Board, the Board of Management for 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 have received an **unqualified** audit opinion from KPMG and present fairly, in all material respects, the financial position of each entity as at December 31, 2014 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, 2014 in accordance with public sector accounting standards.

#### Attachments

1. 2014 Draft Consolidated Financial Statement Highlights
2. 2014 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the Statement of Revenue and Expenditures and Fund Balance of the Mayor's Golf and

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 23, 2015**

Item 1, Finance Report No. 10 – Page 4

Gala Events and the Kleinburg Business Improvement Area Financial Statements. Also included, but not incorporated in the City's Financial Statements, are the Trust Fund Financial Statements.

3. 2014 Audit Findings Report - KPMG LLP

**Report Prepared by:**

Dean Ferraro, CPA, CA  
Director of City Financial Services/Deputy Treasurer, ext. 8272

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

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

C	1
COMMUNICATION	
FAA -	JUNE 15/15
ITEM -	1

# 2014 Consolidated Financial Statements Financial Services

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FAA Committee  
June 15, 2015



# 2014 Consolidated Financial Statements



The City must prepare statutory financial statements as they are a requirement prescribed by the *Municipal Act, 2001*



Consolidated Financial Statements are prepared on a different basis than the annual budget

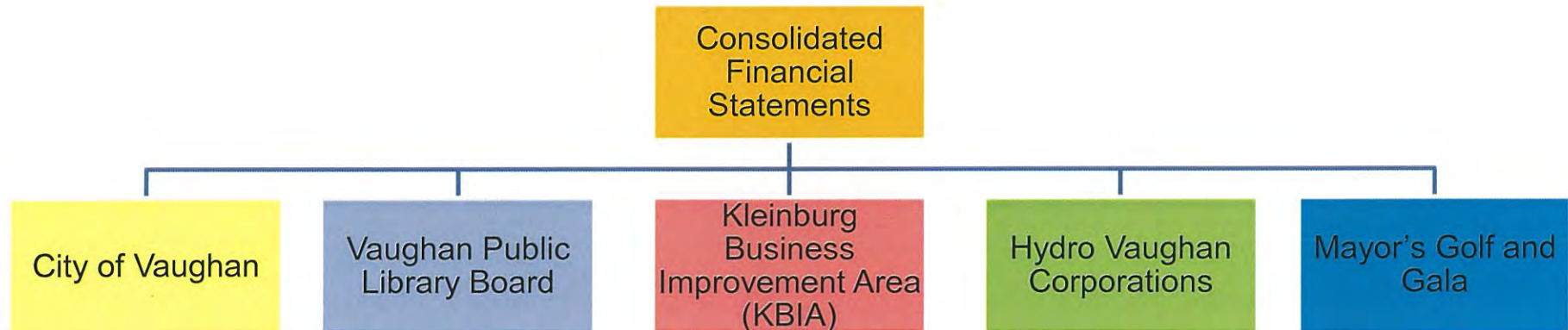


The City received an unqualified or “clean” audit opinion





# 2014 Consolidated Financial Statements



- The consolidated financial statements exclude

City of Vaughan  
Trust Funds

- not part of the Consolidated Statements because they include assets held in trust by the City for other uses (ie. cemetery perpetual care)



# Budget Document vs Financial Statement

	Budget Document	Financial Statements
Purpose	Set the tax rate	Comply with provincial statutory reporting
Basis	Cash	Accrual
Tangible Capital Assets	Expense	Capitalize
Amortization	N/A – Reserve Contribution	Over TCA useful life
Unfunded liabilities	Excludes	Includes
Presentation	By fund (Operating, Capital, Water, etc.)	One set of summary financial statements





# 2014 Consolidated Statement of Financial Position – Financial Assets Highlights

## Cash / Investments

- Cash balances are impacted by various payments, payment timing differences as well as investments
- Investment portfolio was weighted more to short term instruments as at December 31, 2014

## Taxes receivable

- Lower in 2014 due to the resolution of a significant assessment appeal in the City's favour

## Accounts receivable

- Increase over prior year due to the accrual for the provincial ice storm relief grant offset by the receipt of 2014 VHI dividends receivable

## Investment in Hydro Vaughan Corporations

- \$24.2M invested in the Core, Solar and Suite Metering businesses
- Plus proportionate share of PowerStream earnings
- Less dividends received





# 2014 Consolidated Statement of Financial Position – Financial Liabilities Highlights

## Accounts Payable

- Impacted by various payments as well as payment timing differences

## Employee Future Benefits (Post-employment retirement benefits)

- Cost recognized over service life of employees
- Valuation based on 2014 actuarial study
- Current reserve balance of \$22.9M set aside

## Deferred Revenue – Obligatory Reserve Fund

- Provincial legislation restricts how these funds may be used

## Debenture and Other Debt

- Debt ratio – 6%
- COV policy - 10%
- Provincial debt limit - 25%





# 2014 Consolidated Statement of Financial Position – Non Financial Assets Highlights

## Tangible capital assets

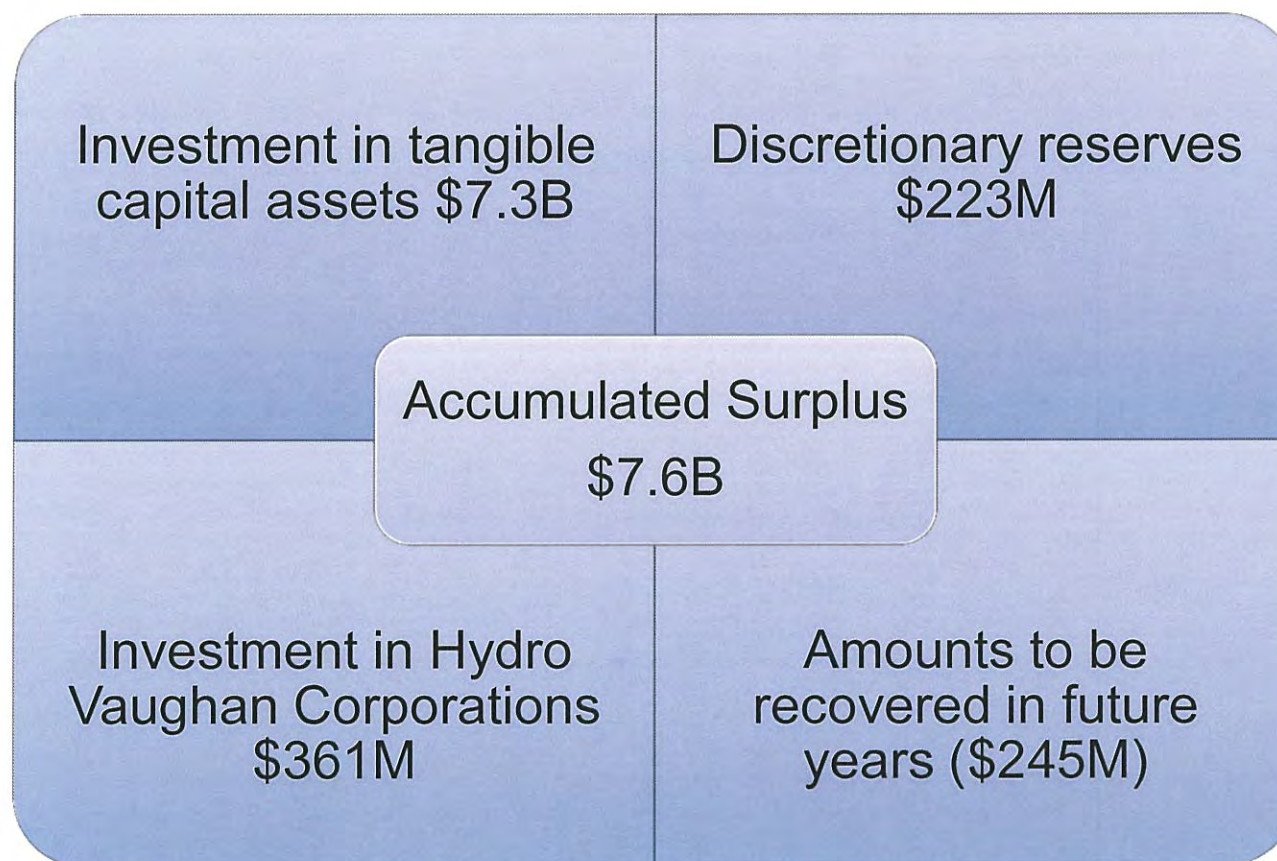
- Land and capital assets available and used to provide services to residents
- Net Book Value = Cost + Additions – Disposals - Accumulated Amortization
- Figure includes \$5.2B of land that is not amortized

## Accumulated surplus (note 10)

- The classification “Accumulated Surplus” does not mean that the City has extra profits or cash to spend.
- In accordance with PSAB accounting principles



## 2014 Consolidated Statement of Financial Position – Non Financial Assets Highlights





# Conclusion

## 2014 Consolidated Financial Statements

- In compliance with the Municipal Act
- Unqualified/Clean Audit Opinion from KPMG





**2014 DRAFT CONSOLIDATED FINANCIAL STATEMENTS****Recommendation**

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**Report Prepared by:**

Dean Ferraro, CPA, CA  
Director of City Financial Services/Deputy Treasurer, ext. 8272

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

Respectfully submitted,

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John Henry, CPA, CMA  
Commissioner of Finance & City Treasurer

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

## **HIGHLIGHTS**

### **Financial Assets**

#### **Cash and Cash Investments**

- Cash balance totals \$468.8M (2013, \$368.6M)
  - Refer to the Consolidated Statement of Cash Flows (page 4 on the Draft Consolidated Financial Statements) for a breakdown of the change in Cash and in Investments

#### **Taxes Receivable**

- Taxes receivable are monies owing from property owners as at December 31<sup>st</sup>, 2014 and include the City's portion, Regional portion and the Provincial portion for education.
- Taxes receivable totals \$37.7M (2013, \$54.3M)
  - Decrease of \$16.6M is primarily due to a year-end billing accrual relating to a significant assessment appeal decision that was in the City's favour in 2013.

#### **Water and Wastewater Receivable**

- The water and wastewater receivables totals \$19.2M (2013, \$18.0M)

#### **Investments**

- Investments total \$21.3M (2013, \$57.1M)
  - Long term interest rates are trending lower than forecast so as bonds mature, investments are made in short term instruments which are included in Cash and Cash Equivalents(above) until rates improve.

#### **Accounts Receivable**

- The City's accounts receivable totals \$25.4M (2013, \$22.2M)
- Comprise a wide range of monies owing from various levels of government, outside agencies, and businesses
  - Increase of \$3.2M is primarily due to the accrued receivable for the ice storm relief grant of \$10.2M offset by the 2013 VHI dividend accrual reversal of \$5.1M

#### **Investment in Hydro Vaughan Corporations**

- Investment is increased by share of cash invested and PowerStream's net income, but is decreased by receipt of dividends.
- Vaughan Holdings Inc.(VHI) - 45.315% share of PowerStream (PS)
- Hydro Vaughan Energy Corporation – 100% subsidiary of VHI
- 1446631 Ontario Inc. – inactive – 100% owned by COV
- Investment in Hydro Vaughan Corporations is \$360.5M (2013, \$322.1M)
  - 2014 Hydro Investments - \$24.2M
    - VHI investment in PS Common Shares - Core \$9.1M
    - VHI Investment in PS Class A Shares - Solar \$9.7M
    - VHI Investment in PS Common Shares – Suite Metering \$5.4M
- 2014 Net earnings is \$7.0M (2013, \$12.6M)
  - Variance of \$5.6M is primarily due to a reduction in City of Vaughan share of PowerStream's net income of \$5.9M



## **LIABILITIES**

### **Accounts Payable and Accrued Liabilities**

- City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards
- Balance at December 31, 2014 was \$119.5M (2013, \$85.2M)
  - Increase of \$34.3M is primarily due to an increase in regional development charges owing at year-end of \$13.4M and an increase of \$16.5M in accounts payable due to an outstanding invoice to the Region for the purchase of water and wastewater treatment

### **Employee Future Benefit Liability**

- Employee Future Benefit Liability totals \$92.7M (2013, \$85.9M)
- Includes:
  - Post retirement non-pension benefits \$86.7M
  - Accrued Vacation Pay \$5.1M
  - Workplace Safety and Insurance Board (WSIB) \$0.9M
- Post retirement non-pension benefits based on 2015 actuarial study
- Represents the retirement benefits that have accrued over the service life of the city employees' to-date but not yet paid (ie. medical and dental)
- Costs of these benefits are recognized annually in the financial statements as the employees render their service
- A portion of these liabilities that are not funded annually are netted against the accumulated surplus
- To fund this liability, Council approved the creation of a reserve for post employee's retirement benefits, which now totals \$22.9M
- Vacation entitlement is earned during the course of employment and the fully funded liability represents the unused portion
- WSIB liability represents the future expected claims and is fully funded
- The WSIB valuation is based on a 2014 actuarial study

### **Deposits and Deferred Revenue**

- Deposits and Deferred Revenue represent pre-paid funds from developers, builders and other parties held by the City for capital projects to be constructed or various City services to be rendered in the future
- Deposits and deferred revenue total \$23.6M (2013, \$20.8M)
  - Increase of \$2.8M due mainly to an increase in long term developer deposits that are held by the City as security

### **Deferred Revenue – Obligatory Reserve Fund**

- Development Revenue – Obligatory Reserve Fund includes
  - Development charges
  - Cash in-lieu of parkland
  - Sub-divider contributions
  - Funds set aside from building permits under the Building Standards Act
  - Unused gas tax funds and other Provincial and Federal grants
- Funds considered liabilities as they are non-discretionary in terms of use and represent capital work obligations to be constructed by the City in the future
  - Refer to Note 6 of the Draft Consolidated Financial Statements for a breakdown

### Debenture and Other Debt

- Debenture and other debt total \$67.8M (2013, \$72.3M)
- Consists of sinking fund debentures, serial debentures and other development related debt.
- 2014 debt ratio is 6%, well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%
  - Decrease of \$4.5M due to debt repayment of \$9.5M offset by new debt incurred on capital projects of \$5.0M. (Debt is only incurred once a capital project is complete).

### Non-Financial Assets

- Non-financial assets are the City's tangible capital asset inventories and prepaid expenses
- Tangible capital assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan
- The tangible capital assets net book value as at December 31, 2014 total \$7.3B (2013, \$7.1B)
- Net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments
- Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service
- The 2014 amortization expense was \$65.5M (2013, \$64.9M)
- Assets under construction totalling \$70.6M (2013, \$89.7M) will not be amortized until the assets are brought into service
  - Refer to Note 9 of the Draft Consolidated Financial Statements for a breakdown

### Accumulated Surplus

- Consists of:
  - Investment in tangible capital assets
  - Investment in Hydro Vaughan Corporations
  - Discretionary reserves
  - Amounts to be recovered in future years – debt and employee future benefits
  - Opening operating and capital fund balances
- The accumulated surplus at December 31, 2014 is \$7.7B (2013, \$7.4B)
- Discretionary reserves increased to \$223.1M (2013, \$217.3M)
  - Refer to Note 10 of the Draft Consolidated Financial Statements for a further breakdown of the Accumulated Surplus

### Annual Surplus

- The Annual Surplus is a result of the accrual basis of accounting as required under Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB). The cash basis of accounting used in the preparation of the budget (management reporting) will not yield the same result.
  - Statutory financial statements present an annual surplus for the year end December 31, 2014 is \$234.8M (2013, \$133.4M) versus breakeven results in 4<sup>th</sup> quarter management reporting
- Significant differences between Statutory financial statements versus from 4<sup>th</sup> quarter management results due to statutory reporting requirements include:
  - Contributed assets \$230.1M (2013, \$158.3M) included in statutory reporting revenue not in 4<sup>th</sup> quarter results
  - Statutory reporting for all Vaughan Hydro Corporations are done on an equity pick up basis, which includes 45.315% of PowerStream income less dividends received from PowerStream, 100% of VHI net income and 100% of HVEC net loss while 4<sup>th</sup> quarter results include 75% of PowerStream dividends from VHI and do not include the net income or loss of VHI and HVEC
  - Statutory reporting expenses includes amortization of tangible capital assets of

\$65.5M (2013, \$64.9M) versus reserve contributions of \$7.4M in 4<sup>th</sup> quarter results

- Statutory reporting includes an adjustment for the increase in the City's equity interest in the net assets of PowerStream of \$24.2M (2013, \$2.5M) not included in 4<sup>th</sup> quarter results

Audit of the Mayor's Golf and Gala Events Statement of Revenue/Expenses and Fund Balance

- All Golf and Gala revenue and expenses have always been included in the City's consolidated financial statements
- Audit of the Mayor's Golf and Gala Events Financial Statements provided to continually improve transparency in all aspects of the City's financial statements

***DRAFT #5***  
***May 27, 2015***

Consolidated Financial Statements of

**THE CORPORATION OF THE  
CITY OF VAUGHAN**

Year ended December 31, 2014

## 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, 2014, 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, 2014, 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



# THE CORPORATION OF THE CITY OF VAUGHAN

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

December 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 468,805,689	\$ 368,639,418
Taxes receivable	37,658,991	54,287,702
Water and sewer billings receivable	19,204,814	17,989,981
Accounts receivable	25,419,067	22,181,426
Investments (note 3)	21,277,130	57,114,752
Local improvement charges receivable	42,471	254,244
Investment in Hydro Vaughan Corporations (note 4)	360,517,255	322,066,338
	<u>932,925,417</u>	<u>842,533,861</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	119,463,243	85,220,815
Accrued interest on long-term liabilities	204,826	257,842
Employee future benefits (note 5)	92,700,150	85,905,139
Deposits and deferred revenue	23,556,186	20,775,897
Deferred revenue - obligatory reserve funds (note 6)	287,217,244	270,542,313
Debenture and other debt (note 7)	67,768,761	72,298,396
Note payable (note 8)	3,303,523	3,303,523
	<u>594,213,933</u>	<u>538,303,925</u>
Net financial assets	338,711,484	304,229,936
<b>Non-Financial Assets</b>		
Tangible capital assets (note 9)	7,330,467,277	7,130,099,550
Prepaid expenses	102,776	103,382
	<u>7,330,570,053</u>	<u>7,130,202,932</u>
Commitments (note 15)		
Contingencies (note 16)		
Accumulated surplus (note 10)	<u>\$ 7,669,281,537</u>	<u>\$ 7,434,432,868</u>

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, 2014, with comparative information for 2013

	Budget (note 13) (note 1(o))	2014	2013
Revenue:			
Property taxation	\$ 170,005,353	\$ 169,670,167	\$ 165,071,841
Taxation from other governments	1,500,000	1,441,786	1,406,425
User charges	40,458,227	47,771,813	49,079,538
Water and sewer billings	110,542,135	105,474,555	98,045,683
Government transfers (note 11)	11,090,516	16,890,119	4,286,357
Investment income	3,485,430	5,564,706	5,752,051
Penalties and interest on taxes	5,100,000	5,197,719	5,161,741
Other fees and services	319,813	3,861,777	2,183,083
Hydro Vaughan Corporations (note 4):			
Share of net earnings	—	6,953,948	12,594,805
Interest on notes receivable	4,700,000	4,717,933	4,830,803
Contributions from developers	10,510,940	25,811,181	11,089,481
Contributed assets (note 9(b))	—	230,083,624	156,310,352
	357,712,414	623,439,328	515,812,160
Expenses:			
General government	26,279,593	31,098,884	30,489,840
Protection to persons and property	62,809,455	73,188,568	64,783,975
Transportation services	55,875,306	73,059,609	63,424,249
Environmental services	126,588,830	137,539,236	129,165,198
Health services	166,172	182,972	136,716
Social and family services	338,988	296,165	278,685
Recreational and cultural services	89,696,291	79,231,319	79,899,664
Planning and development	20,732,039	18,147,458	16,744,294
	382,486,674	412,744,211	384,922,621
	(24,774,260)	210,695,117	130,889,539
Adjustment for the increase of the City's equity interest in the net assets of PowerStream Holdings Inc.	—	24,153,552	2,528,401
Annual surplus (deficit)	(24,774,260)	234,848,669	133,417,940
Accumulated surplus, beginning of year	7,434,432,868	7,434,432,868	7,301,014,928
Accumulated surplus, end of year	\$ 7,409,658,608	\$ 7,669,281,537	\$ 7,434,432,868

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, 2014, with comparative information for 2013

	Budget (note 13) (note 1(o))	2014	2013
Annual surplus (deficit)	\$ (24,774,260)	\$ 234,848,669	\$ 133,417,940
Amortization of tangible capital assets	–	65,550,135	64,866,592
Proceeds on disposal of tangible capital assets	–	1,063,651	30,265
Loss on disposal of tangible capital assets	–	5,050,360	2,906,899
Acquisition of tangible capital assets	–	(272,031,873)	(208,404,393)
	(24,774,260)	34,480,942	(7,182,697)
Acquisition and use of prepaid expenses	–	606	29,399
Increase (decrease) in net financial assets	(24,774,260)	34,481,548	(7,153,298)
Net financial assets, beginning of year	304,229,936	304,229,936	311,383,234
Net financial assets, end of year	\$ 279,455,676	\$ 338,711,484	\$ 304,229,936

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 234,848,669	\$ 133,417,940
Items not involving cash:		
Amortization of tangible capital assets	65,550,135	64,866,592
Loss on disposal of tangible capital assets	5,050,360	2,906,899
Contributed tangible capital assets	(230,083,624)	(156,310,352)
Deduct share of net earnings of Hydro Vaughan Corporations	(6,953,948)	(12,594,805)
Increase of the City's equity interest in the net assets of PowerStream Holdings Inc.	(24,153,552)	(2,528,401)
Dividend receivable from Vaughan Holdings Inc.	—	5,069,219
Change in non-cash assets and liabilities:		
Accounts receivable	(3,237,641)	(6,467,344)
Accounts payable and accrued liabilities	34,242,428	17,263,386
Accrued interest on long-term liabilities	(53,016)	(52,071)
Local improvement charges receivable	211,773	261,739
Prepaid expenses	606	29,399
Taxes receivable	16,628,711	(18,281,614)
Water and sewer billings receivable	(1,214,833)	(963,613)
Deferred revenue - obligatory reserve funds	16,674,931	25,780,687
Employee future benefits	6,795,011	10,398,013
Deposits and deferred revenue	2,780,289	(1,771,317)
	117,086,299	61,024,357
Capital activities:		
Proceeds on disposal of tangible capital assets	1,063,651	30,265
Cash used to acquire tangible capital assets	(41,948,249)	(52,094,041)
	(40,884,598)	(52,063,776)
Financing activities:		
Debenture and other debt repaid	(9,929,670)	(10,045,339)
Debenture and other debt incurred	5,400,035	5,074,462
	(4,529,635)	(4,970,877)
Investing activities:		
Decrease in investments	35,837,622	19,452,050
Investments in Hydro Vaughan Corporations (note 4)	(7,343,417)	(15,372,601)
	28,494,205	4,079,449
Increase in cash and cash equivalents	100,166,271	8,069,153
Cash and cash equivalents, beginning of year	368,639,418	360,570,265
Cash and cash equivalents, end of year	\$ 468,805,689	\$ 368,639,418
Supplemental cash flow information:		
Interest paid	\$ 3,005,991	\$ 3,194,728
Interest and dividends received	24,624,011	13,153,271

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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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 interorganizational transactions and balances between these entities have been eliminated.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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### **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.

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

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

#### (iv) Trust funds:

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

#### (v) Sinking funds:

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

#### (b) Basis of accounting:

The City follows the accrual method of accounting for revenue and expenses. Revenue is normally recognized in the year in which 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 CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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

#### **(c) Cash and cash equivalents:**

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

#### **(d) Investments:**

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

#### **(e) Long-term debt:**

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

#### **(f) Government transfers:**

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

The City adopted Public Sector Accounting Board Standard ("PS") 3410, Government Transfers, on January 1, 2013. The adoption of this standard did not have a material effect on the 2014 or 2013 consolidated financial statements.

#### **(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, 2014

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### **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 revenues under a Municipal Funding Agreement with the Association of Municipalities of Ontario for the transfer of federal gas tax revenues. These funds, by their nature, are restricted in their use and, until applied to applicable capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal period they are 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, 2014

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

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

The City adopted PS 3510, Tax Revenue effective January 1, 2013. This standard was adopted on a retroactive basis.

There were no adjustments as a result of the adoption of this standard.

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 revenues are recorded at the time tax billings are issued. Property assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

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

#### **(k) Investment income:**

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

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

#### **(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.

#### **(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 its 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

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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.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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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 are also recorded as revenue.

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

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

#### (iv) Interest capitalization:

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

#### (v) Leased tangible capital assets:

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

#### (n) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant estimates include assumptions used in estimating 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 2014 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, 2014

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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, 2014, 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.

The PSAB has issued PS 3260, Liability for Contaminated Sites, that establishes the recognition, measurement and disclosure requirements for contaminated sites when the government is responsible for, or accepts the responsibility for, the contamination and the contamination exceeds existing environmental standards. This standard is effective for years beginning on or after April 1, 2014.

PS 3450, Financial Instruments, 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, 2016. Early adoption is permitted.

PS 2601, Foreign Currency Translation, was issued in June 2011 and replaces the existing PS 2600. 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 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, 2016. Early adoption is permitted.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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 statement of operations. 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, 2016 and applies when PS 2601, Foreign Currency Translation, and PS 3450, Financial Instruments, are adopted.

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

During 2014, 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 summarized below:

	District school boards	The Region
Property taxes	\$ 277,722,392	\$ 294,288,276
Taxation from other governments	435,805	643,790
Amounts requisitioned and remitted	\$ 278,158,197	\$ 294,932,066

### **3. Investments:**

Investments consist of government and financial institution bonds and have effective interest rates of 3.65% to 5.03% (2013 - 2.78% to 5.03%) with maturity dates from March 8, 2015 to June 30, 2021 (2013 - March 5, 2014 to June 30, 2021). Market value of investments costing \$21,277,130 (2013 - \$57,114,752) is \$22,234,915 (2013 - \$58,880,201) at December 31, 2014.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

## 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.

In 2013, the City restructured its holdings in the Hydro Vaughan Corporations. The City of Vaughan ownership of the Hydro Vaughan Corporations is as follows:

	2014	Interest held 2013
Vaughan Holdings Inc. (formerly Hydro Vaughan Holdings Inc., including 45.315% share interest in PowerStream)	100%	100%
1446631 Ontario Inc.	100%	100%

Vaughan Holdings Inc. ("VHI") was dissolved as at June 30, 2013. On the same date, VHI transferred the rights to its assets and the assumption of its liabilities to Hydro Vaughan Holdings Inc., which was subsequently renamed Vaughan Holdings Inc. As part of the reorganization, the City of Vaughan transferred 100% of its shareholdings in Hydro Vaughan Energy Corporation to the new Vaughan Holdings Inc. The City of Vaughan retained 100% ownership in 1446631 Ontario Inc.

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.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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.

On November 1, 2013, a Unanimous Shareholders Agreement was signed between PowerStream and its shareholders superseding the existing revised Subscription Agreement of PowerStream.

In 2014, PowerStream issued an additional 12,945 common shares for \$32,000,040. The number of shares issued to each shareholder as at December 31, 2014 is as follows:

	2014	2013	Total number of shares
Vaughan Holdings Inc.	5,866	45,315	51,181
Markham Enterprises Corporation	4,425	34,185	38,610
Barrie Hydro Holdings Inc.	2,654	20,500	23,154
	12,945	100,000	112,945

The maximum amount of Class A common shares that are available under a subscription agreement with the shareholders is 100,000. The number of Class A common shares issued to each shareholder of PowerStream for 2014 and 2013 is as follows:

	2014	2013
Vaughan Holdings Inc.	16,088	4,214
Markham Enterprises Corporation	9,181	6,134
Barrie Hydro Holdings Inc.	5,505	3,680

Total number of Class A common shares as at year end:

	2014	2013
Vaughan Holdings Inc.	45,313	29,225
Markham Enterprises Corporation	34,184	25,003
Barrie Hydro Holdings Inc.	20,500	14,995

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

In January 2014, 3,918 Class A common shares were issued to Vaughan Holdings Inc. to ensure consistent ownership percentages as in fiscal 2012 across the shareholders. As a result, Vaughan Holdings Inc., Markham Enterprises Corporation and Barrie Hydro Holdings Inc. would each maintain 45.315%, 34.185% and 20.500% share ownership percentages, respectively, after the share issuance. However, due to the timing of the issue of these shares to Vaughan Holdings Inc., the issuance could not be recognized as at December 31, 2013, resulting in share interest for 2013 of Vaughan Holdings Inc. 42.219%, Markham Enterprises Corporation 36.119% and Barrie Hydro Holdings Inc. 21.662%.

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

	2014	2013
<b>Assets</b>		
Current assets	\$ 275,869,851	\$ 254,769,819
Capital assets	1,035,498,000	926,478,000
Investment in joint venture	7,536,000	7,256,000
Other assets	198,024,286	147,871,413
Goodwill	42,543,000	42,543,000
	1,559,471,137	1,378,918,232
<b>Liabilities</b>		
Current liabilities	353,182,311	399,708,465
Long-term debt	347,288,000	198,221,000
Employee future benefits and other liabilities	17,362,000	19,317,000
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	120,651,000	101,342,000
Other	16,849,000	16,792,000
	950,783,311	830,831,465
Net assets	608,687,826	548,086,767
City of Markham's proportionate share of the net assets of PowerStream	(155,137,792)	(141,300,858)
City of Barrie's proportionate share of the net assets of PowerStream	(93,032,779)	(84,735,071)
Non-controlling interest	—	15,500
City's equity interest in net assets	\$ 360,517,255	\$ 322,066,338

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

	2014	2013
Revenue	\$ 1,111,987,676	\$ 1,064,847,381
Expenses	1,096,769,731	1,036,959,057
Net earnings	15,217,945	27,888,324
City of Markham's share of the net earnings of PowerStream	(5,166,037)	(9,569,749)
City of Barrie's share of the net earnings of PowerStream	(3,097,960)	(5,738,770)
Non-controlling interest	—	15,000
City's share of net earnings	\$ 6,953,948	\$ 12,594,805

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

	2014	2013
Share capital	\$ 166,420,219	\$ 123,551,515
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	81,489,405	75,630,912
Net earnings	6,953,948	12,594,805
Change in deferred interest owing	—	22,647
Less dividends	10,301,686	6,758,959
Closing balance	78,141,667	81,489,405
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	21,919,961	22,990,010
Equity in Hydro Vaughan Corporations	\$ 360,517,255	\$ 322,066,338

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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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.

### **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 \$23,435,468 in 2014 (2013 - \$22,179,586), of which \$11,597,357 (2013 - \$11,066,387) 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 \$860,100 (2013 - \$749,400) 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, 2014

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

#### (c) Vacation entitlements:

Under the provisions of the City's management bylaw and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is \$5,120,050 (2013 - \$4,582,739).

#### (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, 2014 of \$86,720,000 (2013 - \$80,573,000) and the expense for the year ended December 31, 2014 of \$6,855,000 (2013 - \$11,676,000) were determined by actuarial valuation using a discount rate of 4.25% (2013 - 4.25%).

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

	2014	2013
Accrued benefit obligation:		
Balance, end of prior year	\$ 80,573,000	\$ 70,380,000
Actuarial loss (gain)	(8,601,000)	22,329,000
Service cost	4,305,000	5,503,000
Interest cost	3,227,000	4,143,000
Unamortized actuarial gain (loss)	7,924,000	(20,299,000)
Benefits paid	(708,000)	(1,483,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 86,720,000	\$ 80,573,000

Components of benefit expense:

	2014	2013
Service cost	\$ 4,305,000	\$ 5,503,000
Interest cost	3,227,000	4,143,000
Amortization of actuarial loss (gain)	(677,000)	2,030,000
Benefit expense	\$ 6,855,000	\$ 11,676,000

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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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 2014 and thereafter.

(ii) Interest (discount) rate:

The discount rate for 2014 corresponds to the assumed CPI rate plus an assumed real rate of return of 2.25%.

(iii) Salary levels:

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

(iv) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 5.00% in 2014 graded down by 0.30% in 2015 and thereafter.

(v) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.6% in 2014 and thereafter.

(vi) Expected average remaining service life of the current active group is assumed to be 13 years.

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

	2014	2013
Post-retirement non-pension benefits	\$ 86,720,000	\$ 80,573,000
Vacation entitlements	5,120,050	4,582,739
WSIB	860,100	749,400
	<u>\$ 92,700,150</u>	<u>\$ 85,905,139</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

### 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:

	2014	2013
Recreational land (The Planning Act)	\$ 56,191,773	\$ 43,595,844
Development Charges Act	183,685,722	181,189,308
Sub-divider contributions	8,679,906	8,591,428
Federal gas tax	20,682,401	18,023,460
Building Standards Act	15,279,247	16,377,100
Ontario Roads and Bridges Fund	688,794	752,256
Investing in Ontario Act	2,009,401	2,012,917
	<b>\$ 287,217,244</b>	<b>\$ 270,542,313</b>

Deferred revenue - obligatory reserve funds continuity schedule:

	Opening balance	Received	Recognized as revenue	Other	Closing balance
Recreational land (The Planning Act)	\$ 43,595,844	\$ 15,421,117	\$ 776,000	\$ 2,049,188	\$ 56,191,773
Development Charges Act	181,189,308	22,682,143	—	20,185,729	183,685,722
Sub-divider contributions	8,591,428	220,170	153,384	(21,692)	8,679,906
Federal gas tax	18,023,460	8,543,634	—	5,884,693	20,682,401
Building Standards Act	16,377,100	—	1,262,640	(164,787)	15,279,247
Ontario Roads and Bridges Fund	752,256	—	—	63,462	688,794
Investing in Ontario Act	2,012,917	—	—	3,516	2,009,401
	<b>\$ 270,542,313</b>	<b>\$ 46,867,064</b>	<b>\$ 2,192,024</b>	<b>\$ 28,000,109</b>	<b>\$ 287,217,244</b>



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

### **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:

	2014	2013
Debenture debt issued by the Region:		
Serial debt	\$ 40,426,780	\$ 35,764,077
Sinking fund debt	15,419,998	20,583,127
Debt payable to York Major Holdings Inc. for McNaughton Road extension, principal portion	282,386	255,405
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 \$9,534,971 and \$1,673,752, respectively	11,208,723	14,891,669
Debt payable to Bellshire Woods Estate Inc., principal portion	151,059	244,488
Debt payable to Ventana Homes, principal portion	279,815	559,630
	<b>\$ 67,768,761</b>	<b>\$ 72,298,396</b>

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 2005, the City entered into an agreement with York Major Holdings Inc. for the City to pay its share of the construction of the McNaughton Road extension. The obligation is without interest and there is one payment of \$282,368 remaining in 2014. The agreement included \$1,500,000 in development charge credits to be applied against future building permits. Development charge credits of \$769,600 have been reallocated to accounts payable and accrued liabilities.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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

In 2011, the City entered into a promissory note agreement with Bellshire Woods Estate Inc. for the City to pay for the annual shelter leasehold improvements. The obligation will bear interest at 6% per annum, calculated monthly. The principal and interest payments are due monthly, with the first payment being made on July 1, 2011 and the last payment to be made on June 1, 2016 as noted below.

In 2011, the City entered into an agreement with Ventana Homes for the City to pay for the design and construction of a 600/450 mm diameter sanitary sewer on Dufferin Street, Teston Road and within an easement on City-owned lands at the southeast corner of Dufferin Street and Teston Road as a component of the external municipal services for the lands. The obligation is without interest and is payable in 2015 as noted below.

Principal payments in the amount of \$67,768,761, net of interest earned on sinking funds, are repayable as follows:

	Block 11 Landowners' Group	York Major Holdings Inc.	Bellshire Woods Estates	Ventana Homes	York Region	Total
2015	\$ 6,748,441	\$ 282,386	\$ 99,192	\$ 279,815	\$ 10,491,027	\$ 17,900,861
2016	4,014,032	—	51,867	—	9,301,797	13,367,696
2017	148,750	—	—	—	6,472,995	6,621,745
2018	148,750	—	—	—	5,335,898	5,484,648
2019	148,750	—	—	—	5,375,898	5,524,648
2020 - 2027	—	—	—	—	13,823,292	13,823,292
Interest on sinking funds	—	—	—	—	5,045,871	5,045,871
	\$ 11,208,723	\$ 282,386	\$ 151,059	\$ 279,815	\$ 55,846,778	\$ 67,768,761

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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

	2014	2013
Principal payments, including contributions to the sinking fund	\$ 9,929,670	\$ 10,045,339
Interest	3,018,119	3,142,657
	<u>\$ 12,947,789</u>	<u>\$ 13,187,996</u>

### **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, 2014

### 9. Tangible capital assets:

	Cost				Accumulated amortization				Net book value, December 31, 2014
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2014									
Land	\$ 4,959,449,414	\$ 199,783,189	\$ 190,887	\$ 5,159,041,716	\$ —	\$ —	\$ —	\$ —	\$ 5,159,041,716
Land improvements	159,572,060	6,636,091	284,651	165,923,500	63,823,032	5,250,870	224,163	68,849,739	97,073,761
Buildings and building improvements	323,292,282	6,134,940	974,486	328,452,736	89,600,029	9,910,650	618,270	98,892,409	229,560,327
Machinery and equipment	33,010,155	3,976,278	3,193,128	33,793,305	18,574,412	2,841,220	3,011,672	18,403,960	15,389,345
Vehicles	29,163,746	84,624	206,708	29,041,662	16,412,457	2,069,836	206,708	18,275,585	10,766,077
Furniture and fixtures	9,089,382	710,016	96,377	9,703,021	4,107,271	536,059	96,377	4,546,953	5,156,068
Information technology	5,220,920	524,653	1,276,526	4,469,047	3,785,096	694,783	1,275,139	3,204,740	1,264,307
Leasehold improvements	3,110,393	—	—	3,110,393	1,962,858	177,239	—	2,140,097	970,296
Roads	868,709,406	34,302,441	8,046,568	894,965,279	364,936,824	25,177,792	5,537,096	384,577,520	510,387,759
Water and sewer infrastructure	1,513,972,342	36,290,864	139,760	1,550,123,446	301,018,335	18,891,686	59,497	319,850,524	1,230,272,922
Assets under construction	89,729,764	77,544,889	96,689,954	70,584,699	—	—	—	—	70,584,699
	\$ 7,994,319,864	\$ 365,987,985	\$ 111,099,045	\$ 8,249,208,804	\$ 864,220,314	\$ 65,550,135	\$ 11,028,922	\$ 918,741,527	\$ 7,330,467,277

	Cost				Accumulated amortization				Net book value, December 31, 2013
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2013									
Land	\$ 4,869,609,691	\$ 89,839,723	\$ —	\$ 4,959,449,414	\$ —	\$ —	\$ —	\$ —	\$ 4,959,449,414
Land improvements	150,742,298	9,502,088	672,326	159,572,060	59,445,025	4,969,158	591,151	63,823,032	95,749,028
Buildings and building improvements	301,770,502	23,405,559	1,883,779	323,292,282	81,210,319	9,513,896	1,124,186	89,600,029	233,692,253
Machinery and equipment	32,573,025	3,208,392	2,771,262	33,010,155	18,485,876	2,850,425	2,761,889	18,574,412	14,435,743
Vehicles	29,221,594	943,499	1,001,347	29,163,746	15,254,117	2,157,062	998,722	16,412,457	12,751,289
Furniture and fixtures	8,850,493	238,889	—	9,089,382	3,560,552	546,719	—	4,107,271	4,982,111
Information technology	5,172,479	969,658	921,217	5,220,920	3,918,463	772,982	906,349	3,785,096	1,435,824
Leasehold improvements	3,085,971	24,422	—	3,110,393	1,792,508	170,350	—	1,962,858	1,147,535
Roads	848,077,778	20,695,967	64,339	868,709,406	339,494,596	25,483,058	40,830	364,936,824	503,772,582
Water and sewer infrastructure	1,493,350,721	22,357,069	1,735,448	1,513,972,342	282,917,060	18,402,942	301,667	301,018,335	1,212,954,007
Assets under construction	53,122,877	39,544,408	2,937,521	89,729,764	—	—	—	—	89,729,764
	\$ 7,795,577,429	\$ 210,729,674	\$ 11,987,239	\$ 7,994,319,864	\$ 806,078,516	\$ 64,866,592	\$ 6,724,794	\$ 864,220,314	\$ 7,130,099,550

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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### **9. Tangible capital assets (continued):**

#### **(a) Assets under construction:**

Assets under construction having a value of \$70,584,699 (2013 - \$89,729,764) 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 \$93,956,112 (2013 - \$2,325,281).

#### **(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 \$230,083,624 (2013 - \$156,310,352), comprising land and land improvements of \$178,769,815 (2013 - \$93,961,309), roads infrastructure of \$19,285,288 (2013 - \$18,225,707), water and sewer infrastructure of \$32,028,521 (2013 - \$20,271,200) and assets under construction of nil (2013 - \$23,852,136).

#### **(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, 2014

## 10. Accumulated surplus (deficit):

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

	2014	2013
Surplus (deficit):		
Investment in tangible capital assets	\$ 7,330,467,277	\$ 7,130,099,550
Amounts to be recovered in future years:		
From future revenues	(119,827,214)	(114,519,194)
From reserves and reserve funds on hand	(22,944,390)	(22,658,852)
Investment in Hydro Vaughan Corporations (note 4)	360,517,255	322,066,338
Other	(102,013,400)	(97,839,095)
	7,446,199,528	7,217,148,747
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	5,009,849	4,630,138
Fire equipment replacement	4,596,184	4,391,929
General working capital	23,685,995	23,391,228
Tax rate stabilization	1,433,158	2,831,401
Waterworks	45,473,682	38,570,839
Wastewater (sanitary sewers)	43,180,253	37,947,646
Keele Valley landfill	1,543,038	1,768,369
Heritage Fund	2,625,150	2,538,998
Employee benefits	22,944,390	22,658,852
Buildings	17,383,862	17,118,584
Road infrastructure	7,454,151	7,401,572
Sale of public lands	5,621,027	5,710,402
Parks infrastructure	7,896,552	7,682,000
Winterization	672,032	4,360,088
Other	11,132,353	10,461,722
Debenture payments	9,534,621	12,468,596
Engineering	7,395,444	10,213,142
Planning	985,365	973,102
City Hall Funding	25,684	23,414
Expenditure reserve	4,489,219	2,142,099
	223,082,009	217,284,121
	\$ 7,669,281,537	\$ 7,434,432,868

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

### 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:

	2014	2013
Provincial grants:		
General government	\$ —	\$ 11,099
Protection services	10,227,484	30,503
Transportation services	(102,866)	—
Recreation and cultural services	261,266	158,385
Planning and development	116,827	138,628
	10,502,711	338,615
Federal grants:		
General government	353,836	32,455
Protection services	—	(13,218)
Transportation services	4,798,953	3,369,273
Environmental services	824,899	496,016
Recreation and cultural services	409,720	63,216
	6,387,408	3,947,742
	\$ 16,890,119	\$ 4,286,357

### 12. Segmented information:

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

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

#### (a) General government:

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

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

(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.

(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.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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## 12. Segmented information (continued):

### (g) Planning and development:

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

Certain allocation methodologies are employed in the preparation of the segmented financial information. Taxation, 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, 2014

### 12. Segmented Information (continued):

2014	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	\$ 24,803,747	\$ 27,623,970	\$ 28,242,527	\$ 53,316,889	\$ 184,815	\$ 30,112,336	\$ 6,827,669	\$ —	\$ 171,111,953
User charges	9,405,379	3,020,503	2,247,826	1,707,412	139,554	18,087,466	13,163,673	—	47,771,813
Water and sewer billings	—	—	—	105,474,555	—	—	—	—	105,474,555
Investment income	806,639	898,355	918,471	1,733,911	6,010	979,278	222,042	—	5,564,706
Other fees and services	387,318	9,587	10,986	251,932	—	980,921	2,221,033	—	3,861,777
Government transfers	353,836	10,227,484	4,696,087	824,899	—	670,986	116,827	—	16,890,119
Penalties and interest on taxes	753,442	839,109	857,899	1,619,560	5,614	914,696	207,399	—	5,197,719
Contributions from developers	—	1,533,706	11,139,530	2,198,159	—	10,421,599	518,187	—	25,811,181
Hydro Vaughan Corporations	—	—	—	—	—	—	—	11,671,881	11,671,881
Contributed assets	—	—	—	—	—	—	—	230,083,624	230,083,624
	36,510,361	44,152,714	48,113,326	167,127,317	335,993	62,167,282	23,276,830	241,755,505	623,439,328
Expenditures:									
Salaries and benefits	32,858,542	51,827,080	8,228,113	5,801,340	80,334	42,568,197	14,273,986	—	155,637,592
Goods and services	20,604,761	13,018,116	24,613,751	99,532,734	190,492	14,919,491	1,346,978	—	174,226,323
Long term debt interest	—	—	2,837,040	115,936	—	—	—	—	2,952,976
Other	3,030,285	93,562	222,175	(94,740)	158,850	784,169	15,852	—	4,210,153
Corporate support allocation	2,449,079	7,293,496	3,796,714	12,177,918	49,461	6,562,750	1,748,006	(34,077,424)	—
Loss on disposal of tangible capital assets	129,722	(801,493)	5,054,108	117,038	—	550,985	—	—	5,050,360
Amortization	5,577,473	1,610,612	26,315,370	19,264,987	—	12,777,910	3,783	—	65,550,135
Other capital related	526,446	147,195	1,992,338	624,023	—	1,067,817	758,853	—	5,116,672
	65,176,308	73,188,568	73,059,609	137,539,236	479,137	79,231,319	18,147,458	(34,077,424)	412,744,211
Annual surplus (deficit) before the undernoted	(28,665,947)	(29,035,854)	(24,946,283)	29,588,081	(143,144)	(17,064,037)	5,129,372	275,832,929	210,695,117
Adjustment for the increase of the City's equity interest in the net assets of PowerStream	—	—	—	—	—	—	—	24,153,552	24,153,552
Annual surplus (deficit)	\$ (28,665,947)	\$ (29,035,854)	\$ (24,946,283)	\$ 29,588,081	\$ (143,144)	\$ (17,064,037)	\$ 5,129,372	\$ 299,986,481	\$ 234,848,669

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

### 12. Segmented information (continued):

2013	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	\$ 24,291,795	\$ 25,989,360	\$ 25,442,507	\$ 51,817,086	\$ 166,646	\$ 32,053,571	\$ 6,717,301	\$ —	\$ 166,478,266
User charges	11,817,513	1,668,938	2,339,235	1,550,532	62,349	17,566,597	14,074,374	—	49,079,538
Water and sewer billings	—	—	—	98,045,683	—	—	—	—	98,045,683
Investment income	839,315	897,968	879,072	1,790,351	5,758	1,107,495	232,092	—	5,752,051
Other fees and services	110,720	11,897	(8,548)	170,059	—	1,336,486	562,469	—	2,183,083
Government transfers	43,554	17,285	3,369,273	496,016	—	221,601	138,628	—	4,286,357
Penalties and interest on taxes	753,179	805,813	788,858	1,606,614	5,167	993,837	208,273	—	5,161,741
Contributions from developers	—	134,812	1,270,669	1,759,482	—	7,238,570	685,948	—	11,089,481
Hydro Vaughan Corporations	—	—	—	—	—	—	—	17,425,608	17,425,608
Contributed assets	—	—	—	—	—	—	—	156,310,352	156,310,352
	37,856,076	29,526,073	34,081,066	157,235,823	239,920	60,518,157	22,619,085	173,735,960	515,812,160
Expenditures:									
Salaries and benefits	31,066,092	52,456,626	8,432,725	5,192,382	24,653	42,173,690	13,482,719	—	152,828,887
Goods and services	19,907,335	4,408,043	19,768,603	92,269,825	205,198	15,092,273	1,004,682	—	152,655,959
Long term debt interest	—	—	2,954,600	118,429	—	—	—	—	3,073,029
Other	177,444	105,067	44,901	(115,968)	143,626	990,101	25,753	—	1,370,924
Corporate support allocation	2,144,432	6,028,899	3,121,364	10,936,793	41,924	6,251,260	1,534,977	(30,059,649)	—
Loss on disposal of tangible capital assets	14,868	13,258	713,175	820,636	—	1,248,090	96,872	—	2,906,899
Amortization	5,340,119	1,626,851	26,486,195	18,788,709	—	12,620,935	3,783	—	64,866,592
Other capital related	1,902,143	145,231	1,899,261	1,154,234	—	1,523,954	595,508	—	7,220,331
	60,552,433	64,783,975	63,420,824	129,165,040	415,401	79,900,303	16,744,294	(30,059,649)	384,922,621
Annual surplus (deficit) before the undernoted	(22,696,357)	(35,257,902)	(29,339,758)	28,070,783	(175,481)	(19,382,146)	5,874,791	203,795,609	130,889,539
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream	—	—	—	—	—	—	—	2,528,401	2,528,401
Annual surplus (deficit)	\$ (22,696,357)	\$ (35,257,902)	\$ (29,339,758)	\$ 28,070,783	\$ (175,481)	\$ (19,382,146)	\$ 5,874,791	\$ 206,324,010	\$ 133,417,940

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

### 13. Budget data:

The audited budget data presented in these consolidated financial statements is based upon the 2014 operating and capital budgets approved by City Council on February 18, 2014. 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	\$ 365,485,141
Capital budget	51,741,033
Less:	
Transfers from other funds	(50,246,139)
Proceeds on debt issue	(6,516,490)
Hospital levy	7,094,339
Hydro dividends	(9,845,470)
	357,712,414
Expenses:	
Operating budget	353,708,346
Capital budget	51,741,033
Less:	
Transfers to other funds	(20,181,191)
Debt principal payments	(9,875,853)
Transfer of Hospital Levy	7,094,339
	382,486,674
Annual deficit	\$ (24,774,260)

### 14. Trust funds:

Trust funds administered by the City amounting to \$520,618 (2013 - \$444,690) are presented in separate financial statements of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and financial activities.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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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. For these lease and operating commitments, minimum payments have been estimated to aggregate \$48.5 million over the next five years. Expenses relating to these agreements are recorded in the year in which the payments are made.

#### (b) Loan guarantees:

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

- (i) For the accumulated sum, not exceeding \$1.3 million with the Ontario Soccer Association; and
- (ii) For the accumulated sum, not exceeding \$5.2 million with the Mentena Development Group.

#### (c) Joint services agreement:

Pursuant to a joint services agreement between PowerStream and the City, PowerStream charged the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The agreement expires in 2015. The total commitment under the agreement for 2015 is \$1.7 million in charges to the City by PowerStream.

#### (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, 2014 is approximately \$135.8 million. Expenses relating to capital works are recorded in the year in which expenses are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2014

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

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

In 2009, the City approved a grant in the amount of \$80,000,000, being a contribution toward the local share for land acquisition and development of a hospital in Vaughan. In August 2010, the City purchased land for the hospital in the amount of \$60,000,000. The cost of the land is included in the City's tangible capital assets. This cost is being recovered through phased tax rate increases over five years totaling 5.45%, beginning in 2009.

### **16. Contingencies:**

#### Unsettled legal claims and potential other claims:

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

***DRAFT #3***  
***May 27, 2015***

Financial Statements of

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

Year ended December 31, 2014

## 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, 2014, the statements of operations and accumulated surplus (deficit), 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, 2014, 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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Toronto, Canada



# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

December 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial Assets</b>		
Cash	\$ 3,603	\$ 15,357
Due from the City of Vaughan	144,231	225,109
	<u>147,834</u>	<u>240,466</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	157,527	227,777
Employee future benefits (note 2(b))	6,181,000	6,207,000
Deferred revenue	1,138	33,784
	<u>6,339,665</u>	<u>6,468,561</u>
Net debt	(6,191,831)	(6,228,095)
<b>Non-Financial Assets</b>		
Prepaid expenses	10,831	21,095
Tangible capital assets (note 3)	6,115,438	5,253,661
	<u>6,126,269</u>	<u>5,274,756</u>
Accumulated deficit (note 4)	\$ (65,562)	\$ (953,339)

See accompanying notes to financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## ***DRAFT*** Statement of Operations and Accumulated Surplus (Deficit)

Year ended December 31, 2014, with comparative information for 2013

	Budget 2014 (note 5)	Actual 2014	Actual 2013
Revenue:			
Municipal contributions for operations	\$ 12,351,953	\$ 13,990,223	\$ 12,705,527
Province of Ontario grants	145,200	146,544	158,385
Fees, rental and sundry	311,900	285,934	281,671
	12,809,053	14,422,701	13,145,583
Expenses:			
Salaries and wages	8,857,247	8,123,550	8,047,757
Employee benefits	1,875,506	1,728,944	2,479,662
General administration	598,100	568,496	542,978
Maintenance and repairs	502,600	418,638	623,606
Utilities	317,000	285,546	271,533
Periodicals	275,300	329,531	269,816
Office furniture and technology	152,100	293,817	128,225
Cleaning services	110,500	90,314	93,396
Programmes	50,300	52,854	42,608
Supplies	48,400	42,998	41,998
Consulting and outside services	22,000	17,409	3,704
Amortization of tangible capital assets (note 3)	—	1,582,827	1,615,803
	12,809,053	13,534,924	14,161,086
Annual surplus (deficit)	—	887,777	(1,015,503)
Accumulated surplus (deficit), beginning of year	—	(953,339)	62,164
Accumulated deficit, end of year	\$ —	\$ (65,562)	\$ (953,339)

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, 2014, with comparative information for 2013

	2014	2013
Annual surplus (deficit)	\$ 887,777	\$ (1,015,503)
Prepaid expenses	10,264	30,052
Acquisition of tangible capital assets	(2,444,604)	(1,359,300)
Amortization of tangible capital assets	1,582,827	1,615,803
Increase (decrease) in net debt	36,264	(728,948)
Net debt, beginning of year	(6,228,095)	(5,499,147)
Net debt, end of year	\$ (6,191,831)	\$ (6,228,095)

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, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ 887,777	\$ (1,015,503)
Items not involving cash:		
Amortization of tangible capital assets	1,582,827	1,615,803
Increase (decrease) in employee future benefits	(26,000)	759,000
Change in non-cash assets and liabilities:		
Prepaid expenses	10,264	30,052
Due from the City of Vaughan	80,878	(72,144)
Accounts payable and accrued liabilities	(70,250)	41,788
Deferred revenue	(32,646)	(6,545)
	2,432,850	1,352,451
Capital activities:		
Purchase of tangible capital assets	(2,444,604)	(1,359,300)
Decrease in cash	(11,754)	(6,849)
Cash, beginning of year	15,357	22,206
Cash, end of year	\$ 3,603	\$ 15,357

See accompanying notes to financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

## ***DRAFT*** Notes to the Financial Statements

Year ended December 31, 2014

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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) Basis of accounting:**

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

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

#### **(c) Non-financial assets:**

##### **(i) Tangible capital assets:**

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

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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## 1. Significant accounting policies (continued):

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

---

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

---

### (ii) Contributions of tangible capital assets:

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

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

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

### (iv) Leased tangible capital assets:

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

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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

#### (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.

#### (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.

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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

#### (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. 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 for its operating and capital budgets each year. The approved budget figures for 2014 are reflected on the statement of operations and accumulated surplus (deficit) 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 \$1,340,902 in 2014 (2013 - \$1,329,888), of which \$670,451 (2013 - \$664,944) represented the Library's portion.



# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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

#### **(b) Post-retirement non-pension benefits:**

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

The projected benefit obligation for active employees and retirees at December 31, 2014 of \$5,881,000 (2013 - \$5,915,000) and the expense for the year ended December 31, 2014 of \$23,000 (2013 - \$853,000) was determined by actuarial valuation using a discount rate of 4.25% (2013 - 4.25%).

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

	2014	2013
Accrued benefit obligation:		
Balance, beginning of year	\$ 5,915,000	\$ 5,179,000
Actuarial loss (gain)	(2,941,000)	1,140,000
Service cost	186,000	464,000
Interest cost	133,000	286,000
Unamortized actuarial gain (loss)	2,645,000	(1,036,000)
Benefits paid	(57,000)	(118,000)

Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 5,881,000	\$ 5,915,000
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	2014	2013
Components of benefit expense:		
Service cost	\$ 186,000	\$ 464,000
Interest cost	133,000	286,000
Amortization of actuarial loss (gain)	(296,000)	103,000
Benefit expense	\$ 23,000	\$ 853,000

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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

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

	2014	2013
Post-retirement non-pension benefits	\$ 5,881,000	\$ 5,915,000
Vacation pay	300,000	292,000
	<b>\$ 6,181,000</b>	<b>\$ 6,207,000</b>

### 3. Tangible capital assets:

Cost	Balance, December 31, 2013	Additions	Disposals	Balance, December 31, 2014
Books	\$ 6,792,975	\$ 1,425,500	\$ 1,178,415	\$ 7,040,060
Audiovisual materials	3,183,344	660,910	531,854	3,312,400
Furniture and fixtures	1,440,836	206,523	96,377	1,550,982
Equipment	621,878	151,671	–	773,549
<b>Total</b>	<b>\$ 12,039,033</b>	<b>\$ 2,444,604</b>	<b>\$ 1,806,646</b>	<b>\$ 12,676,991</b>

Accumulated amortization	Balance, December 31, 2013	Amortization expense	Disposals	Balance, December 31, 2014
Books	\$ 3,526,834	\$ 960,463	\$ 1,178,415	\$ 3,308,882
Audiovisual materials	1,589,110	453,582	531,854	1,510,838
Furniture and fixtures	1,275,420	77,926	96,377	1,256,969
Equipment	394,008	90,856	–	484,864
<b>Total</b>	<b>\$ 6,785,372</b>	<b>\$ 1,582,827</b>	<b>\$ 1,806,646</b>	<b>\$ 6,561,553</b>

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

## 3. Tangible capital assets (continued):

	December 31, 2014	December 31, 2013
Net book value		
Books	\$ 3,731,178	\$ 3,266,141
Audiovisual materials	1,801,562	1,594,234
Furniture and fixtures	294,013	165,416
Equipment	288,685	227,870
Total	\$ 6,115,438	\$ 5,253,661

## 4. Accumulated deficit:

Accumulated deficit consists of the following:

	2014	2013
Surplus invested in tangible capital assets (note 3)	\$ 6,115,438	\$ 5,253,661
Unfunded employee benefits (note 2)	(6,181,000)	(6,207,000)
	\$ (65,562)	\$ (953,339)

# THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

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

Year ended December 31, 2014

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## 5. Budget information:

The audited budget information presented in these financial statements is based upon the 2014 operating and capital budgets approved by the Library on September 12, 2013. 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	\$ 12,809,053
Approved capital budget	31,157,354
	43,966,407
Less eliminate capital expense budget	31,157,354
Total revenue and expense	\$ 12,809,053

***DRAFT #2***  
***May 27, 2015***

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, 2014

## 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, 2014 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 and we were not able to determine whether any adjustments might be necessary to net revenue.

*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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Toronto, 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, 2014, with comparative information for 2013

	2014	2013
<b>Mayor's Gala Event</b>		
Revenue:		
Revenue received by City, net of harmonized sales tax	\$ 578,763	\$ 699,534
Expenditures:		
Mayor's Gala Event	151,765	130,283
City administration recovery (note 2)	47,030	37,030
Professional fees	63,404	19,222
	<u>262,199</u>	<u>186,535</u>
Surplus from Mayor's Gala Event	316,564	512,999
<b>Mayor's Golf Tournament</b>		
Revenue:		
Revenue received by City, net of harmonized sales tax	202,327	262,488
Expenditures:		
Mayor's Golf Tournament	81,866	100,413
Professional fees	4,395	2,400
	<u>86,261</u>	<u>102,813</u>
Surplus from Mayor's Golf Tournament	116,066	159,675
Total surplus from Mayor's Gala Event and Mayor's Golf Tournament	432,630	672,674
Balance carried forward from previous years	27,040	777,186
Total funds available for distribution	459,670	1,449,860
City distributions to qualified recipients	—	(1,422,820)
Fund balance, end of year	<u>\$ 459,670</u>	<u>\$ 27,040</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, 2014

---

**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 ("City") 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.

***DRAFT #2***  
***May 27, 2015***

Financial Statements of

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

Year ended December 31, 2014

## 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, 2014, 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, 2014, 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

---

Toronto, Canada

# BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

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

December 31, 2014, with comparative information for 2013

	2014	2013
<b>Financial Assets</b>		
Cash	\$ 15,487	\$ 5,346
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	1,951	—
Net financial assets	13,536	5,346
<b>Non-Financial Assets</b>		
Prepaid expenses	11,757	16,469
Accumulated surplus	\$ 25,293	\$ 21,815

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, 2014, with comparative information for 2013

	Budget 2014	Actual 2014	Actual 2013
Revenue:			
Kleinburg Business Improvement			
Area special area levy	\$ 40,000	\$ 40,000	\$ 23,500
Event dollars raised	5,102	16,389	11,273
	45,102	56,389	34,773
Expenses:			
Advertising and marketing	31,102	34,685	40,065
Special events	5,000	8,114	4,614
Donation	—	6,147	4,232
Liability insurance	1,500	1,445	1,404
Website	2,000	1,895	1,321
Miscellaneous	3,000	625	91
Gateway Welcome Sign	2,500	—	—
	45,102	52,911	51,727
Annual surplus (deficit)	—	3,478	(16,954)
Accumulated surplus, beginning of year	21,815	21,815	38,769
Accumulated surplus, end of year	\$ 21,815	\$ 25,293	\$ 21,815

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, 2014, with comparative information for 2013

	Budget 2014	Actual 2014	Actual 2013
Net financial assets, beginning of year	\$ 5,346	\$ 5,346	\$ 37,898
Annual surplus (deficit), being change in net financial assets	—	3,478	(16,954)
Acquisition and use of prepaid expenses	—	4,712	(15,598)
Net financial assets, end of year	\$ 5,346	\$ 13,536	\$ 5,346

See accompanying notes to financial statements.

# BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

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

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	\$ 3,478	\$ (16,954)
Decrease in sundry receivable	—	36,242
Change in prepaid expenses	4,712	(15,598)
Change in accounts payable and accrued liabilities	1,951	—
Increase in cash	10,141	3,690
Cash, beginning of year	5,346	1,656
Cash, end of year	\$ 15,487	\$ 5,346

See accompanying notes to financial statements.

# BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

**DRAFT** Notes to Financial Statements

Year ended December 31, 2014

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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, providing 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, 2014

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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 6, 2014.

***DRAFT #1***  
***May 27, 2015***

Financial Statements of

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

Year ended December 31, 2014

## 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, 2014, 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, 2014, 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, 2014, with comparative information for 2013

	2014	2013
<b>Financial Assets</b>		
Cash	\$ 450,357	\$ 433,446
Due from The Corporation of the City of Vaughan	70,261	11,244
	<b>\$ 520,618</b>	<b>\$ 444,690</b>
<b>Fund Balance</b>		
	<b>\$ 520,618</b>	<b>\$ 444,690</b>

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, 2014, with comparative information for 2013

		2014	2013
	Cemetery perpetual care	Total	Total
Sources of funds:			
Capital receipts - sale of plots/markers	\$ 75,928	\$ 75,928	\$ 16,782
Interest earned	5,666	5,666	5,538
	81,594	81,594	22,320
Use of funds:			
Maintenance	5,666	5,666	5,538
Net activity	75,928	75,928	16,782
Fund balance, beginning of year	444,690	444,690	427,908
Fund balance, end of year	\$ 520,618	\$ 520,618	\$ 444,690

See accompanying note to financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

***DRAFT*** Note to Financial Statements

Year ended December 31, 2014

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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.

AUDIT

# The Corporation of the City of Vaughan

**Audit Findings Report**

For the year ended December 31, 2014



*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

June 15, 2015

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

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



# Audit findings summary

## Overview

The purpose of this Audit Findings Report is to assist you, as a member of the Finance, Administration and Audit 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, 2014.

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.

## Key findings

Areas of focus – Significant accounting policies and practices	<ul style="list-style-type: none"><li>• There were no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.</li><li>• Refer to current developments for future accounting pronouncements</li></ul>
Misstatements	<ul style="list-style-type: none"><li>• There was 1 corrected audit misstatement to record an asset under construction.</li><li>• There were no uncorrected audit misstatements.</li></ul>
Control deficiencies	<ul style="list-style-type: none"><li>• We did not identify any control deficiencies that we determined to be significant deficiencies in Internal Controls over Financial Reporting.</li></ul>

## Status

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

- Receipt of signed management representation letters (to be signed upon Council approval of the consolidated and related entity financial statements);
- Updating our discussions regarding subsequent events;
- Completing our discussions with the Finance, Administration and Audit 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 completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

## Areas of focus

Included in this section are significant matters we believe are appropriate for discussion at the upcoming Finance, Administration and Audit Committee meeting. We look forward to discussing these matters and our findings with you.

### Matters related to management's judgment and estimates

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

#### Employee Future Benefits

- Included in employee future benefits that are provided by the City, which will require funding in future periods, are post-retirement non-pension benefits and WSIB.
- The post-retirement non-pension benefits include certain health, dental and life insurance benefits for retired employees. The 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 2013 for the 3 years of 2013 to 2015. The projected liability for 2014 was used to adjust the recorded liability in the current year

#### KPMG comments regarding effect on the audit

- Post-retirement non-pension benefits:
  - We reviewed the 2014 actuarial valuation report and independently obtained a copy of their report through the confirmation process. 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 on management's estimates and assumptions used in determining the valuation of the liability, as well as testing over the data inputs provided to the actuaries by management.
  - There was a late management adjustment to adjust the post-retirement non-pension benefits based on the actuarial valuation report.
- WSIB:
  - We obtained written confirmation from the actuaries and determined that the projected amounts from 2013 recorded in the 2014 financial statements are appropriate. We assessed the estimates and assumptions in place at the time of the valuation and find them to be appropriate in the current year.
- We did not note any issues and we find the measurement and disclosures of post-retirement non-pension benefits liability to be appropriate.

#### **Ontario Ice Storm Assistance Program**

- Under the Province of Ontario's Ice Storm Assistance Program (the Program), the City reported \$10.2M of accounts receivable from the Ministry of Municipal Affairs and Housing (the "Ministry") as at December 31, 2014 related to incremental costs for emergency response and recovery incurred during the 2013 ice storm.
- The receivable recorded by management is based on the claim submitted to the Ministry in 2014.

#### **KPMG comments**

- We discussed this matter with management and noted that the receivable is based on their estimate using available information to date.
- We reviewed the Program Guidelines and selected a sample of invoices that formed a part of the City's claim submission. Based on our review of selected expenses, we found them to be incremental in nature and related to emergency response and recovery activities.
- We find the receivable reported to be appropriate.

#### **Contingent liabilities**

- PS 3300 Contingent Liabilities, of the CPA Handbook, requires that the City recognize a liability when it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.
- At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to, matters such as legal claims.

#### **KPMG comments regarding effect on the audit**

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

#### **Misstatements and significant deficiencies**

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

## Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

### Investment in Hydro Vaughan Corporations

- During the 2014 year, the City increased its share capital in Vaughan Holdings Inc. (VHI) through the purchase of \$9M of common shares and \$9.6M of Class A common shares.
- Through VHI, the City also increased its share capital in PowerStream through the purchase of \$14.5M of common shares and \$9.6M of Class A common shares.
- The share issuances in 2014 reinstated the City's ownership percentage to its historical ownership of 45.315 % of PowerStream.

### KPMG comments regarding effect on the audit

- We reviewed the VHI Board minutes documenting each share purchase and issuance, verified the transactions to cash transactions between each of the respective entities, and performed a reconciliation of the amounts reported in the draft financial statements of the City, VHI, and Powerstream.
- Relevant note disclosure describing the additional equity investments are included in note 4 of the City's financial statements.
- 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.

### Debenture debt

- During 2014, the City, through the Regional Municipality of York (Region of York), issued \$9M of serial debenture debt.
- The terms of the debenture debt are detailed in note 7 to the financial statements.

### KPMG comments regarding effect on the audit

- We reviewed the Region of York bylaw and the Financing Agreement on the issuance of the debenture debt.
- We verified the disclosures made in the notes to the financial statements and find them to be appropriate.

## **Critical accounting estimates**

Critical accounting estimates are those estimates in the financial statements that have a high degree of estimation uncertainty and, as a result, have a significant risk of resulting in a material misstatement. Accounting estimates are disclosed as such in note 1(n) to the financial statements.

We evaluated accounting estimates for the City and found that the significant estimates required in the preparation of the consolidated financial statements include:

- Assumptions used in actuarial valuations of employee future benefits liabilities;
- Estimates regarding the allowance for doubtful accounts on taxes receivable and accounts receivable;
- Assumptions and estimates that affect certain accrued liabilities and contingent liabilities;
- Estimated useful lives of tangible capital assets and amortization thereon; and
- Disclosures of contingent liabilities.

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

## **Significant accounting policies and practices**

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

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB"), which is appropriate for the City.

Significant accounting policies and practices are disclosed in note 1 and future accounting pronouncements are disclosed in Note 1(p) to the financial statements.

Please also refer to the appendices for current developments in accounting standards and policies.

## **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's representation letter included in the Appendices.

## Misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosure misstatements
- uncorrected misstatements, including disclosure misstatements.

### Corrected misstatements

The management's representation letter in the Appendices 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, however, the following adjustment. Amounts below are reported in thousands:

	Income effect	Financial Position	Financial Position	Accumulated surplus
Description	Increase (Decrease)	Assets Increase (Decrease)	Liabilities Increase (Decrease)	Increase (Decrease)
To record an asset under construction and accrued liability	-	2,123	2,123	-

### Uncorrected misstatements

We did not identify misstatements that remain uncorrected.

# Appendices

**Independence letter**

**Management representation letter**

**Background and Professional Standards**

**Current developments**

**Thought leadership**

# Independence letter



**KPMG LLP**  
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Toronto ON M2P 2H3  
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[www.kpmg.ca](http://www.kpmg.ca)

## **PRIVATE & CONFIDENTIAL**

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

May 25, 2015

Dear Members of the Finance and Audit Committee:

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

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

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

## PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the City from January 1, 2014 up to the date of our auditors' report:

Audits of the annual financial statements of:

- The Corporation of the City of Vaughan
- The Corporation of the City of Vaughan Public Library Board
- Board of Management for the Kleinberg Business Improvement Area



<ul style="list-style-type: none"> <li>• Trust Funds</li> <li>• Hydro Vaughan Corporations: <ul style="list-style-type: none"> <li>• Hydro Vaughan Energy Corporation</li> <li>• Vaughan Holdings Inc.</li> <li>• 1446631 Ontario Inc.</li> </ul> </li> <li>• The Corporation of the City of Vaughan Mayor's Gala and Golf Events</li> <li>• City of Vaughan Non Profit Housing Corporation</li> </ul> <p>Other audit:</p> <ul style="list-style-type: none"> <li>• Vaughan Holdings Inc. as at June 30, 2013</li> </ul>
<p>Tax Related:</p> <ul style="list-style-type: none"> <li>• Income tax compliance services for the Hydro Vaughan Corporations</li> </ul>

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

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

#### OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the City that may reasonably be thought to bear on our independence from January 1, 2014 up to the date of our auditors' report.

#### CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the City within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation from January 1, 2014 up to the date of our auditors' report.

#### OTHER MATTERS

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

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

Yours very truly,



Chartered Professional Accountants, Licensed Public Accountants

# Management representation letter

THE CORPORATION OF THE CITY OF VAUGHAN  
2141 MAJOR MACKENZIE DRIVE  
VAUGHAN, ONTARIO L6A 1T1

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

June 23, 2015 [Date of Council approval of the financial statements]

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, 2014.

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 December 9, 2013, 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 noncompliance 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 misstatement 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: Mr. John Henry, Commissioner of Finance and City Treasurer

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

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

cc: Finance, Administration and Audit 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	Equity at period end	Financial Assets	Non- Financial Assets	Financial Liabilities	Non- Financi al Liabilities	Operating Activities	Investing Activities	Financing Activities
1	2000	Accounts payable	To accrue an invoice for work-in-progress on Vaughan Hospital performed in 2014.	Factual	\$(2,122,889)				\$	\$(2,122,889)		\$ 2,122,889		
	1500	Tangible capital assets			\$ 2,122,889				\$ 2,122,889				\$(2,122,889)	
Total effect of corrected audit misstatements						\$ -	\$ -	\$ -	\$ 2,122,889	\$(2,122,889)	\$ -	\$ 2,122,889	\$(2,122,889)	\$ -

# 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.

# Current developments

## Liability for Remediation and Mitigation of Contaminated Sites

- PS 3260 – Liability for Contaminated Sites was approved by PSAB in March 2010.
- This standard requires an entity to record a liability when an authoritative environment standard exists, the contamination in question exceeds the standard and the entity is directly responsible or accepts responsibility for the contamination. Voluntary compliance with a non-authoritative policy or guideline may create a liability. This standard relates predominately to properties that are not in active use, but also relates to those which have contamination from unforeseen events such as spills.
- This standard is effective for fiscal years beginning on or after April 1, 2014, which for the City will be fiscal 2015.

## Financial Instruments

- PS 3450 – Financial Instruments was approved by PSAB in March 2011.
- Sets out principles to be used in establishing an accounting standard with respect to financial instruments and derivative instruments. This standard will require an entity to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value.
- Fair value measurement proposed for derivatives and portfolio investments that are equity instruments quoted in an active market. Fair value can be applied to non-equity instruments through an accounting policy choice. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. All other financial instruments are carried at cost or amortized cost.
- Transaction costs for instruments carried at fair value are expensed while transaction costs for instruments carried at cost or amortized cost are capitalized.
- Sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the entity. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.
- This standard is effective for fiscal years beginning on or after April 1, 2016, which for the City will be fiscal 2017.

## Revised Standard on Foreign Currency Translation

- PS 2601 – Foreign Currency Translation was approved by PSAB in June 2011 and replaces the existing PS 2600 standard.
- A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.
- Exchange gains and losses arising prior to settlement are recognized in a new financial statement – statement of remeasurement gains and losses.
- The standard is effective for fiscal periods beginning on or after April 1, 2016, which for the City will be fiscal 2017. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.



## **GST/HST Harmonized Audits**

The Canada Revenue Agency (CRA) has followed through on its intent to focus on public service bodies (e.g., municipalities, universities, colleges, hospitals, schools, associations, charities, non-profits, etc.) for purposes of conducting GST/HST audits. Many public service bodies have undergone audits or have been contacted to begin an audit.

We offer the following general observations on the impact of the CRA's increased focus on the public sector:

- 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.
- The CRA has been focusing on documentation, sharing arrangements, grants and sponsorships, and 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.

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 call from CRA.

## **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, recently 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>

# Thought leadership

## Publications and Communications

- **Public Service Transformed: Harnessing the Power of Behavioural Insights**

The report explores the potential and use of behavioural insights in modernizing the public service cultural transformation and provides actionable recommendations designed to encourage the four positive work behaviours (collaboration, innovation, transparency and a focus on results) that will help the public services sector adapt to changing conditions, encourage culture change and produce the kinds of outcomes and transformation that governments are demanding.

- **Future State 2030**

This report is part of a series that explores how governments must respond to the global megatrends (Demographics, Rise of the Individual, Enabling technology, Economic interconnectedness, Public debt, Economic power shift, Climate change, Resource stress, and Urbanization) driving change into 2030.

- **The Integration Imperative: reshaping the delivery of human and social services**

The report provides the results of a global survey of government and thought leaders to review active integration schemes in the human and social services sector across 22 jurisdictions from around the world. It examines the features of integration initiatives and identifies where the integration agenda is heading, including the key trends, the lessons learned, and the implications of these trends for governments, clients, and providers from the private and not-for-profit sectors.

- **Contaminated Sites – Issues and Implementation Action Plan for PS 3260**

This report addresses the Public Sector Accounting Board's accounting standard on Liability for Contaminated Sites (Section PS3260) which will affect all entities reporting under the Public Sector Accounting (PSA) standards. The report discusses why contaminated sites are an issue, provides a technical overview, explores liability measurement, and outlines an implementation action plan.

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