

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 20, 2016

Item 5, Report No. 9, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on September 20, 2016.

5 VAUGHAN HOLDINGS INC. – SHAREHOLDER APPROVAL OF 2015 FINANCIAL STATEMENTS

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the City Clerk, dated September 6, 2016:

Recommendation

The City Clerk recommends:

1. That the 2015 Financial Statements for Vaughan Holdings Inc. set out in attachment 1 to this report be approved by Council of the City of Vaughan as sole shareholder.

Contribution to Sustainability

Approval of the 2015 Financial Statements for Vaughan Holdings Inc. supports financial requirements and corporate governance practices.

Economic Impact

There is no economic impact associated with this report.

Communications Plan

Following adoption of the 2015 Financial Statements, the corporate records of Vaughan Holdings Inc. will be updated to reflect shareholder approval.

Purpose

The purpose of this report is to present for Council's consideration a resolution from the Board of Directors of Vaughan Holdings Inc. ("VHI") approving the 2015 Financial Statements for VHI. As the sole Shareholder of VHI, Council is required to approved this resolution.

Background - Analysis and Options

Hydro Vaughan Holdings Inc. was incorporated on October 24, 2000 under the Ontario Business Corporation Act. The corporation was formed to act as a holding company related to the transition to the energy market in Ontario. In 2013, the City of Vaughan restructured its holdings in the corporations collectively referred to as Hydro Vaughan Corporations. KPMG performed an audit of the final financial statements of these corporations, including VHI, for the year ended December 31, 2015.

At its meeting held on June 7, 2016, the Board of Directors of VHI had before it for consideration the 2015 Financial Statements for VHI and passed the following resolution:

1. That the Financial Statements for the year ended December 31, 2015 for Vaughan Holdings Inc. (VHI) formerly Hydro Vaughan Holdings Inc. be adopted; and
2. That staff be directed to obtain the necessary shareholder approval.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 20, 2016

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

By reinforcing sound governance practices, this report supports the following Term of Council Priority set forth in Term of Council Service Excellence Strategy Map (2014-2018):

- Continue to advance a culture of excellence in governance

Regional Implications

None

Conclusion

Staff recommend that Council provide shareholder approval of the 2015 Financial Statements for Vaughan Holdings Inc.

Attachments

Attachment No. 1 – 2015 Financial Statements Vaughan Holdings Inc.

Report prepared by:

Barbara A. McEwan, Deputy City Clerk x 8628

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

**VAUGHAN HOLDINGS INC.– SHAREHOLDER APPROVAL OF
2015 FINANCIAL STATEMENTS****Recommendation**

The City Clerk recommends:

1. That the 2015 Financial Statements for Vaughan Holdings Inc. set out in attachment 1 to this report be approved by Council of the City of Vaughan as sole shareholder.

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Report prepared by:

Barbara A. McEwan, Deputy City Clerk x 8628

Respectfully submitted,

Jeffrey A. Abrams, City Clerk

Non-Consolidated Financial Statements of

VAUGHAN HOLDINGS INC.

Year ended December 31, 2015



KPMG LLP
Yonge Corporate Centre
4100 Yonge Street, Suite 200
Toronto ON M2P 2H3
Canada
Tel 416-228-7000
Fax 416-228-7123

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vaughan Holdings Inc.

We have audited the accompanying non-consolidated financial statements of Vaughan Holdings Inc., which comprise the non-consolidated balance sheet as at December 31, 2015, the non-consolidated statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The non-consolidated financial statements have been prepared by management in accordance with the basis of accounting in note 2(a) to the non-consolidated financial statements.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the basis of accounting in note 2(a) to the non-consolidated financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of these non-consolidated financial statements in the circumstances and for such internal control as management determines is necessary to enable the preparation of non-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 non-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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated 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 non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.



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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 non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Vaughan Holdings Inc. as at December 31, 2015, and its non-consolidated results of operations and its non-consolidated cash flows for the year then ended in accordance with the basis of accounting in note 2(a) to the non-consolidated financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to note 2(a) to the non-consolidated financial statements, which describes the basis of accounting. The non-consolidated financial statements are prepared for income tax purposes. As a result, the non-consolidated financial statements may not be suitable for another purpose.

Restriction on Use

Our report is intended solely for the Shareholder of Vaughan Holdings Inc. and should not be used by parties other than the Shareholder of Vaughan Holdings Inc.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

June 7, 2016
Toronto, Canada

VAUGHAN HOLDINGS INC.

Non-Consolidated Balance Sheet

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,242,549	\$ 16,563,002
Accounts receivable	-	11,336
Due from the City of Vaughan (note 5)	3,750,757	-
Investment in Hydro Corporations (note 3)	145,981,125	141,992,655
Future income taxes (note 4)	80,095	76,629
	<u>\$ 164,054,526</u>	<u>\$ 158,643,622</u>

Liabilities and Shareholder's Equity

Current liabilities:		
Due to the City of Vaughan (note 5)	\$ -	\$ 57,609
Shareholder's equity:		
Share capital (note 6)	140,048,732	133,250,732
Retained earnings	24,005,794	25,335,281
	<u>164,054,526</u>	<u>158,586,013</u>
Subsequent event (note 9)		
	<u>\$ 164,054,526</u>	<u>\$ 158,643,622</u>

See accompanying notes to non-consolidated financial statements.

On behalf of the Board:

Director

Director

VAUGHAN HOLDINGS INC.

Non-Consolidated Statement of Operations and Retained Earnings

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
Dividends	\$ 9,931,035	\$ 10,301,686
Interest	206,175	327,091
Miscellaneous	141	41
	10,137,351	10,628,818
Expenses:		
Professional fees	106,025	113,563
Directors' remuneration and benefits	113,037	92,318
Miscellaneous	333	180
	219,395	206,061
Profit before income taxes	9,917,956	10,422,757
Income taxes (recovery)	(3,466)	46,620
Net profit for the year	9,921,422	10,376,137
Retained earnings, beginning of year	25,335,281	26,330,879
Capital dividend	(2,809,530)	-
Dividends on common shares	(8,441,379)	(11,371,735)
Retained earnings, end of year	\$ 24,005,794	\$ 25,335,281

See accompanying notes to non-consolidated financial statements.

VAUGHAN HOLDINGS INC.

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Net profit for the year	\$ 9,921,422	\$ 10,376,137
Future income taxes which does not involve cash	(3,466)	46,620
Change in non-cash operating working capital:		
Income and capital taxes recoverable	-	180
Accounts receivable	11,336	(11,336)
Harmonized sales tax recoverable	-	15,510
Accounts payable and accrued liabilities	-	(82,862)
Due from/to the City of Vaughan	(3,808,366)	(969,890)
Dividends payable	-	(5,069,219)
	6,120,926	4,305,140
Financing:		
Capital dividend	(2,809,530)	-
Dividends on common shares	(8,441,379)	(11,371,735)
Issuance of share capital	6,798,000	18,715,152
	(4,452,909)	7,343,417
Investments:		
Increase in investment in Hydro Corporations	(6,798,000)	(24,153,552)
Return of capital investment in PowerStream Holdings Inc.	2,809,530	-
	(3,988,470)	(24,153,552)
Decrease in cash and cash equivalents	(2,320,453)	(12,504,995)
Cash and cash equivalents, beginning of year	16,563,002	29,067,997
Cash and cash equivalents, end of year	\$ 14,242,549	\$ 16,563,002

See accompanying notes to non-consolidated financial statements.

VAUGHAN HOLDINGS INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2015

1. Nature of operations:

Vaughan Holdings Inc. (the "Corporation"), incorporated under the Ontario Business Corporations Act, was formed to act as a holding company related to the transition to the competitive electricity market in Ontario. The Corporation is 100% owned by the Corporation of the City of Vaughan (the "City of Vaughan").

In 2013, the City of Vaughan restructured its holdings in the corporations collectively referred to as Hydro Vaughan Corporations. The company formerly operating as Vaughan Holdings Inc. was dissolved as at June 30, 2013. On the same date, Vaughan Holdings Inc. 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.

2. Significant accounting policies:

(a) Basis of presentation:

These non-consolidated financial statements have been prepared in accordance with Part V of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, which is the accounting framework used in the preparation of the non-consolidated financial statements in the prior year. These non-consolidated financial statements are not prepared in accordance with Canadian generally accepted accounting principles in that the required accounting framework is Part I of the CPA Canada Handbook, being International Financial Reporting Standards.

(b) Cash and cash equivalents:

The Corporation considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(c) Income and capital taxes:

In accordance with Ontario Regulation 162/01 made under the Electricity Act, 1998, the Corporation is required to make payments in lieu of corporate income taxes ("income and capital taxes") to the Ontario Electricity Financial Corporation. These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

VAUGHAN HOLDINGS INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2015

2. Significant accounting policies (continued):

The Corporation uses the asset and liability method for accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment. Refundable taxes that will be recovered on the payment of qualifying dividends are recognized as a future income tax asset.

(d) Financial instruments:

Financial instruments, except freestanding derivatives, are initially recorded at fair value. Equity instruments are thereafter carried at cost. Interest-bearing assets and liabilities are subsequently accounted for at amortized cost using the effective interest method.

When there is a loss in value of a financial asset that is other than temporary, the asset is written down and the loss is recorded in the statement of operations. The write-down is not reversed if there is a subsequent increase in value.

Freestanding derivatives are recorded at fair value with changes in fair value being recorded in the statement of operations.

Derivative financial statements in an effective hedging relationship are accounted for using the accrual method.

No financial statement recognition is given to embedded derivatives or non-financial contracts with derivative characteristics.

(e) Use of estimates:

The preparation of non-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 non-consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

VAUGHAN HOLDINGS INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2015

3. Investment in Hydro Corporations:

On June 30, 2013, the former Vaughan Holdings Inc. transferred the rights to its assets and the assumption of its liabilities to Hydro Vaughan Holdings Inc., which was subsequently renamed Vaughan Holdings Inc.

Common shares:

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

In 2015, PowerStream issued an additional 6,068 common shares for \$15,000,096. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest is as follows:

	Issued in 2015	Total number of common shares	Share interest
Vaughan Holdings Inc.	2,750	53,931	45.315%
Markham Enterprises Corporation	2,074	40,684	34.185%
Barrie Hydro Holdings Inc.	1,244	24,398	20.500%

Class A common shares:

The maximum amount of Class A common shares that are available under the revised agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream for 2015 and 2014 is as follows:

	2015	2014
Vaughan Holdings Inc.	-	16,088
Markham Enterprises Corporation	-	9,181
Barrie Hydro Holdings Inc.	-	5,505

VAUGHAN HOLDINGS INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2015

3. Investment in Hydro Corporations (continued):

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

	2015	2014
Vaughan Holdings Inc.	45,313	45,313
Markham Enterprises Corporation	34,184	34,184
Barrie Hydro Holdings Inc.	20,500	20,500

A summary of the Corporation's investment in PowerStream is as follows:

	2015	2014
53,931 (2014 - 51,181) common shares of PowerStream, at cost	\$ 118,298,752	\$ 111,500,752
45,313 (2014 - 45,313) Class A common shares of PowerStream, at cost, net of \$2,809,530 capital dividend received during the year ended December 31, 2015	24,378,849	27,188,379
	\$ 142,677,601	\$ 138,689,131

As part of the reorganization in 2013, the City of Vaughan transferred 100% of its shareholdings in Hydro Vaughan Energy Corporation to the new Vaughan Holdings Inc.

1,000 (2014 - 1,000) common shares of Hydro Vaughan Energy Corporation	\$ 3,303,524	\$ 3,303,524
Total investment in Hydro Corporations	\$ 145,981,125	\$ 141,992,655

4. Future income taxes:

As at December 31, 2015, the Corporation has a non-capital loss carried forward for income tax purposes of approximately \$302,245 available to reduce future years' taxable income.

The income tax benefit of the non-capital loss carried forward has been recognized as a future income tax asset by applying the combined federal and provincial statutory rate of 26.5% to the non-capital loss of \$302,245.

VAUGHAN HOLDINGS INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2015

5. Due from the City of Vaughan:

The amount due from the City of Vaughan is non-interest bearing, unsecured and has no specified repayment terms.

6. Share capital:

	2015	2014
Authorized:		
Unlimited common shares		
Issued:		
43,049,322 (2014 - 36,251,322) common shares, including 27,188,379 (2014 - 27,188,379) common shares designated for Renewable Generation Business	\$ 140,048,732	\$ 133,250,732

7. Refundable taxes:

Certain taxes paid by the Corporation on investment income are refundable at the rate of \$1 for every \$3 of dividends paid to its shareholder. The cumulative refundable amount at December 31, 2015 was nil. Such tax and its recovery are charged to retained earnings.

8. Fair values of financial assets and financial liabilities:

The fair value of the Corporation's accounts receivable approximate their carrying amounts due to the relatively short period to maturity of this financial instrument because it is payable on demand.

The fair value of due from/to the City of Vaughan is not determinable due to its related party nature and terms.

9. Subsequent event:

Subsequent to year end on March 24, 2016, the proposed merger of PowerStream with certain utility companies in Ontario was approved by all of the municipality shareholders subject to obtaining final regulatory approval.