CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 25, 2012

Item 1, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on September 25, 2012.

1 2011 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Financial Services, dated September 10, 2012:

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Financial Services, in consultation with the Director of Budgeting and Long Range Planning recommends:

1. That the following Financial Review of the 2011 Draft Consolidated Financial Statements be received; and

2. That the 2011 Draft Consolidated Financial Statements and Trust Fund Statements (Attachment #1) be approved; and

3. That the KPMG Audit Findings Report for the year ended December 2011 (Attachment #2) be received.

Contribution to Sustainability

This is not applicable to this report.

Economic Impact

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

Communications Plan

An advertisement will be placed in the local paper when the financial statements are approved by Council. The advertisement will indicate that the 2011 Consolidated Financial Statements and Trust Fund Statement are available for pick up at the City and in addition the financial statements will be published on the City's web page.

Purpose

To receive the financial review of the City's 2011 Draft Consolidated Financial Statements, to approve the City's 2011 Draft Consolidated Financial Statements, Vaughan Public Library Financial Statements, Kleinberg Business Improvement Area Financial Statements, the Trust Fund Statements and to receive the City's external Auditor's Findings Report for 2011.

Background - Analysis and Options

The City's Draft 2011 Consolidated Financial Statements have been prepared under the Public Sector Accounting Board Standards 3150 and 1200. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31st, 2011 is provided below. The Consolidated Financial Statements incorporate the financial results of the City, Vaughan Public Library Board, Kleinburg Business Improvement Area and the Hydro Vaughan Corporations. The City Trust Fund Financial Statements are not included in the City's consolidated financial results.

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Financial Statement Presentation - PSAB Standard 1200

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2011 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan's 2011 Consolidated Statement of Financial Position demonstrates a continued strong position in many key financial areas which supports the Vaughan Vision 2020 strategic initiative for a financially sustainable future. These key financial areas include the City's cash and cash investment levels as seen in Exhibit #1, deferred revenues Exhibit #2, reserve balances in Exhibit #3 and Hydro Vaughan Corporations investment as described below.

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

Financial Assets

Cash and Cash Investments

The cash balance totals $270.8m (2010, $259.4m) at the end of 2011. Investments over 90 days total $99.7m (2010, $126.5m). These investments have an effective interest rate range of 2.19% to 5.03%. The following graph (Exhibit 1) illustrates the continued strength in the City's cash and investment position.

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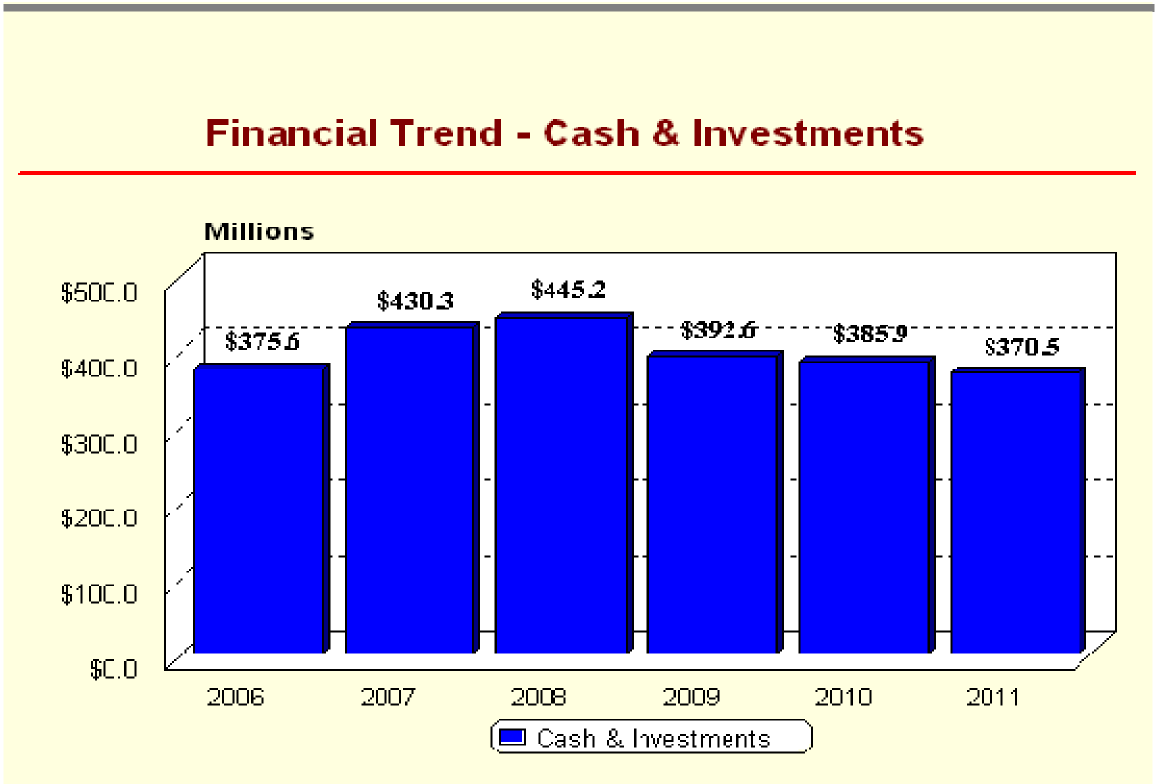
EXHIBIT 1



Taxes Receivable

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In 2011, the water and wastewater receivables totalled $15.7m (2010, $14.1m) an increase of $1.6m over 2010. The increase is due to a larger than normal year end billing accrual and annual customer growth.

Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling $17.5m (2010, $16.3m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. Local improvement receivables at $0.8m (2010, $1.1m) is reducing each year as property owners make annual payments over time for capital improvement works on their street.

Investment in Hydro Vaughan Corporations

The Hydro Vaughan Corporations consist of: Vaughan Holdings Inc. (which owns 45.3% share of PowerStream), Hydro Vaughan Holdings Inc., Hydro Vaughan Energy Corporation and 1446631 Ontario Inc. The consolidation is based on the modified equity basis and is consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its Consolidated Statement of Operations and Accumulated Surplus with a corresponding increase or decrease in its investment asset account.

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

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

Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals $256.2m (2010, $244.0m) and is comprised of share capital of $92.8m consisting of common and common A shares, notes receivable from PowerStream Inc. of $84.1m, accrued interest receivable of $9.9m, accumulated earnings as at December 31, 2010 of $49.9m and $19.5m in dividends/interest received from PowerStream Inc. which is retained by Vaughan Holdings Inc.

Equity Change in Hydro Vaughan Corporations

The annual net increase of $12.2m in the equity share of the Hydro Corporations is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of $13.7m, equity investment common shares class A $3.2m, interest earned on the PowerStream note receivable $4.8m and reductions of equity due to cash received for dividends ($4.7m) and accrued interest on the note receivable of ($4.8m).

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2011 the total current liability balance was $77.4m (2010, $113.4m) a decrease of $36.0m. The change in accounts payable is generally due to the timing of the receipt of supplier's invoices and the amount of operational or capital works activity. These City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards.

Employee Future Benefit Liability

These liabilities total $65.2m and consist of post-employment retirement benefits of $60.5m (2010, $48.4m), vacation pay entitlements $4.2m (2010, $3.9m), and Workers Safety Insurance Board (WSIB) $0.4m (2010, $0.4m).

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Post retirement employee benefits are based on a 2011 actuarial study and the valuation represents the retirement benefits that have accrued over the service life of the city employees' to-date but not yet paid. The costs of these benefits are recognized in the financial statements each year as the employees render their service. The portion of these liabilities that are not funded annually are netted against the accumulated surplus. As a financial strategy for the future, Council approved the creation of a reserve for post employee's retirement benefits, which now totals $11.1m.

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

Deposits and Deferred Revenue

Deposits and deferred revenue total $20.5m (2010, $18.4m). This amount represents pre-paid funds that held by the City for capital projects to be constructed or various City services to be rendered in the future.

Deferred Revenue – Obligatory Reserve Fund

Development charges and obligatory reserves in 2011, Exhibit #2, totals $234.8m (2010, $249.1m) a decrease of $14.3m over 2010 as a result of increased funding for capital works. These funds are considered liabilities as they are non discretionary in terms of use and represent capital work obligations to be constructed by the City in the future. Deferred revenues are mainly derived from the receipt of development charges, recreational land cash in-lieu receipts and funds received related to building permits per the Building Standards Act, federal gas tax grants and other government grants. The grants applied for and received consist of the federal gas tax, provincial roads and bridge grant and the investing in Ontario Act. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

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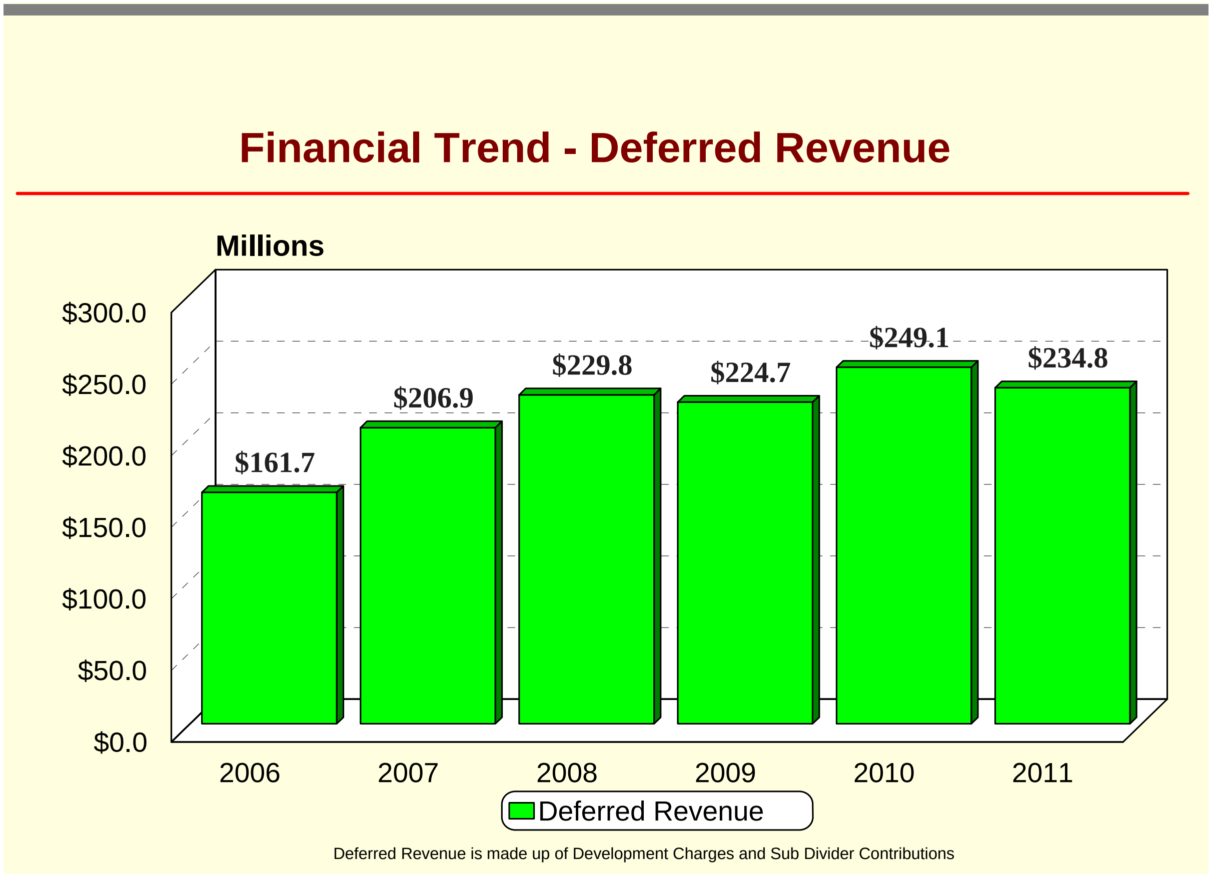

Debenture and Other Debt

Long-term liabilities consisting of sinking funds, serial debentures and other debt totals $62.9m (2010 $55.1m). The net increase is mainly the result of acquiring additional serial debenture debt for capital works in 2011. The annual principal and interest payments required to service these liabilities are well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%. These limits are calculated based on the annual total Debt and Interest payment as a percentage of Own Source Revenues. The 2011 City Debt stands at 4.3% (2010, 4.4%) well within the City's debt limit policy.

Non–Financial Assets

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

The City's net tangible capital assets as at December 31, 2011 total $6,868,427,436 (2010, $6,793,633,069). The net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service. The 2011 amortization expense was $62.0m (2010, $56.7m). Assets under construction totalling $64.9m (2010, $177.7m) are not amortized until the assets are brought into service.

The City's 2011 net book value of the City's tangible capital assets with 2010 comparables are as follows:

	2011	2010
Assets		
Land	$ 4,729,102,109	$ 4,652,523,984
Land Improvements	97,672,434	95,329,483
Buildings and Building Improvements	218,084,653	115,289,105
Machinery and Equipment	13,642,754	12,849,311
Vehicles	12,670,099	12,124,402
Furniture and Fixtures	5,533,925	1,833,329
Information Technology	1,487,477	1,301,804
Leasehold Improvements	1,467,499	837,786
Roads Infrastructure	508,918,695	514,086,364
Water & Sewer/Storm Infrastructure	1,214,922,329	1,209,720,969
Assets under Construction	64,925,462	177,736,532
Total	$ 6,868,427,436	$ 6,793,633,069

Accumulated Surplus

The accumulated surplus of $7.1b (2010, $7.0b) as shown below consists of tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances, reserve balances less the amounts to be recovered in the future. The tangible capital assets are held for the use in the provision of City services however the net balance consisting of future liabilities, future capital works funding, Hydro Investments and reserves represents a municipality's ability to meet the current and future financial needs of the community.

	2011	2010
Investment in Tangible Capital Assets	$6,868,427,436	$6,793,633,069
*Other (Fund Balances)	(130,533,465)	(146,102,211)
*Amounts to be Recovered in Future Years		
From future revenues	(100,003,398)	(81,333,623)
From reserves & reserve funds	(11,198,981)	(10,526,956)
Total	(111,202,379)	(91,860,579)
Investment in Hydro Vaughan Corporations	256,227,338	244,052,993
Reserves set aside by Council (Exhibit #3)	225,119,360	211,816,485
Accumulated Surplus	$7,108,038,290	$7,011,539,757

*
The Other Fund balances representing the Operating and Capital Funds total ($130.5m). This amount consists of the operating fund surplus of $2.9m less PowerStream unpaid note interest of ($9.9m), purchase of Vaughan Holdings Inc shares ($2.1m) and the capital fund unfinanced balance of ($121.4m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

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

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

EXHIBIT 3

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

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

The increase in reserves over the past number of years was possible as a result of Council's adoption of financial policies. These policies and others will continue to contribute to the financial well-being of the City as shown in 2011 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus

The "Consolidated Statement of Operations and Accumulated Surplus" now required under PSAB is a significant change from the pre-2009 budget-based "Consolidated Statement of Financial Activities". The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council's approved budget on page 33.

The Council approved 2011 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. In the revised budget for financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of $63,302,600.

The most significant differences in reviewing the 2011 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total $91.0m (2010, $80.6m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. Although the $91.0m is reflected as revenue in the financial statements, the assumed assets also represent an immediate financial impact through increased cost-based amortization expense, as well as future replacement cost to be considered in the City's Long Range Financial Plan.

- Expenses – Variance between budgeted expense of $265.8m and reported expense of $360.7m. The most significant difference here relates to amortization expense for 2011 of $62.0m, which the City does not budget for, but must be reported under the new municipal reporting regime.

- Annual Surplus – The annual surplus of $96.4m (2010, $76.7m) reported in 2011 is primarily influenced by the unbudgeted Contributed Assets of $91.0m.

Relationship to Vaughan Vision 2020

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

Regional Implications

There are no Regional implications.

Conclusion

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

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

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

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

Attachments

Attachment 1 - 2011 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements.

Attachment 2 - 2011 Audit Findings Report KPMG

Report Prepared by:

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

Mr. Kevin M. Travers, CA, Partner, KPMG LLP, was in attendance.

(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.)

FINANCE AND ADMINISTRATION COMMITTEE SEPTEMBER 10, 2012

2011 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

Recommendation

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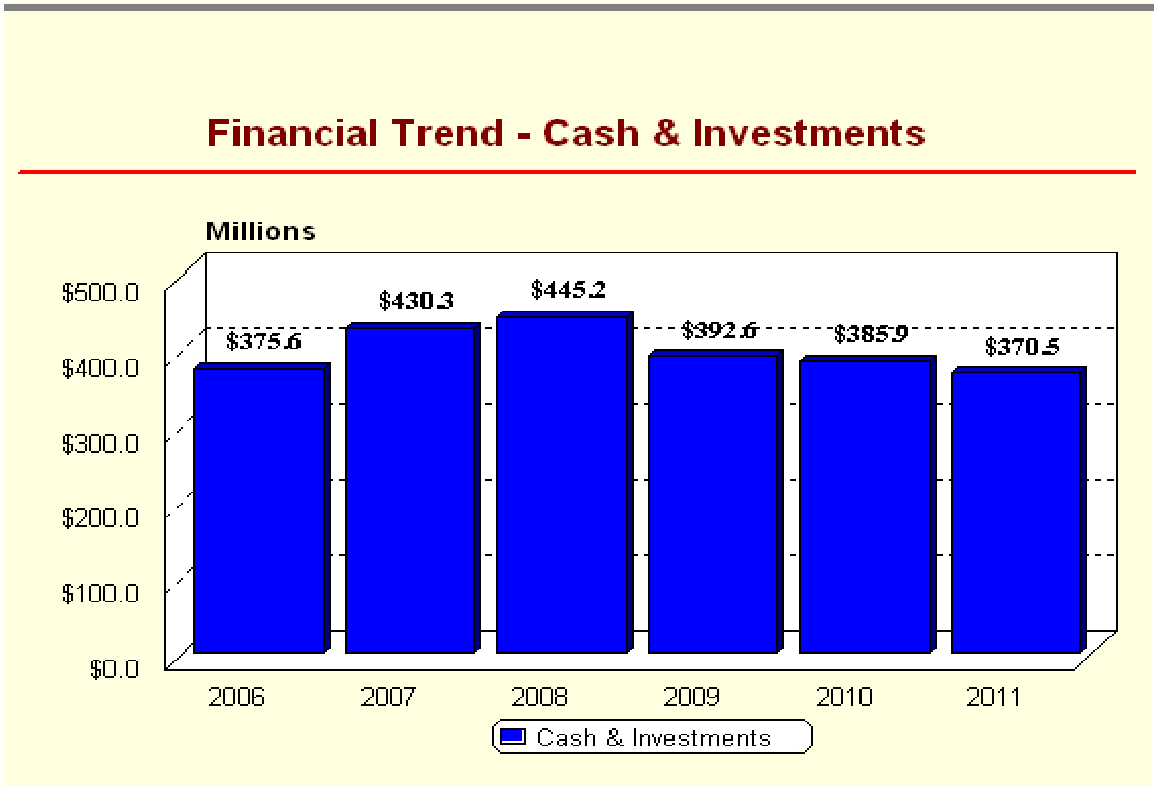

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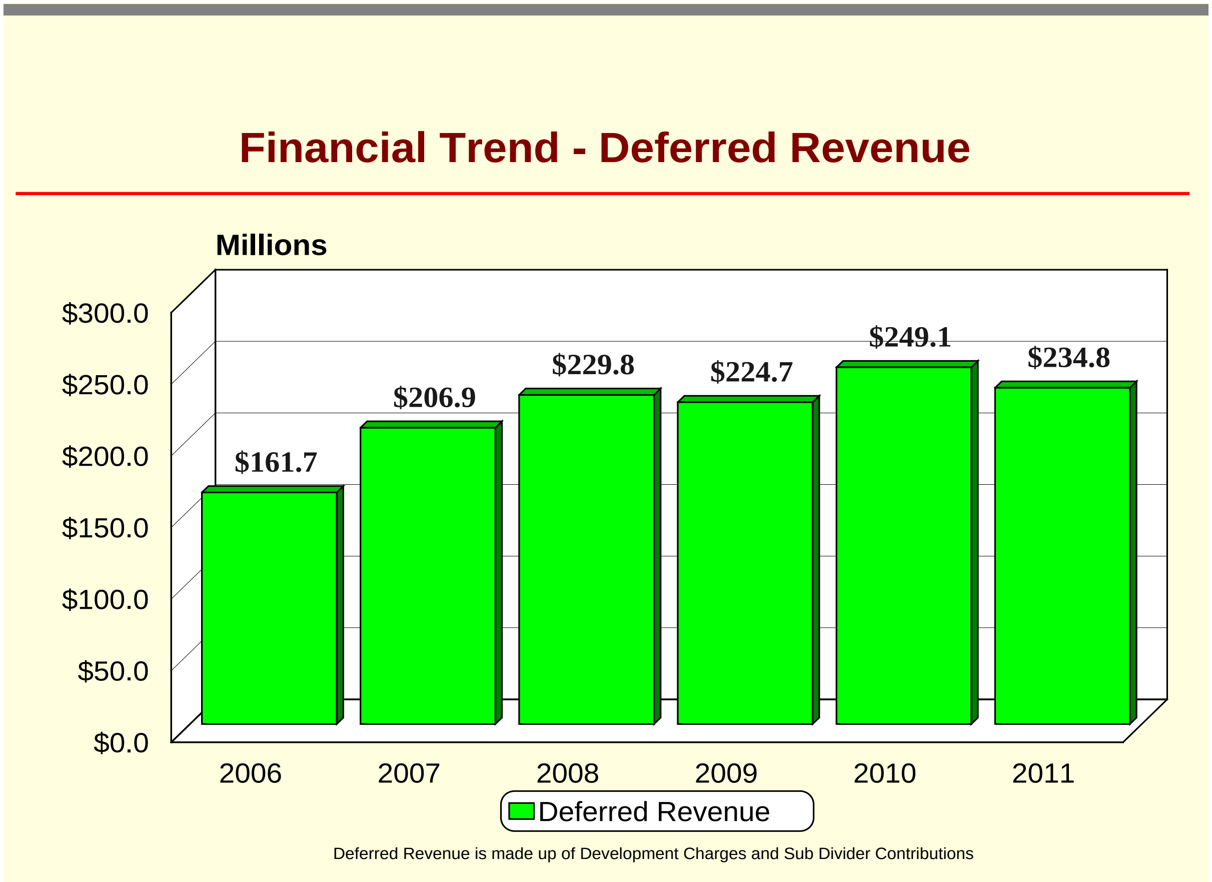

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Roads Infrastructure	508,918,695	514,086,364
Water & Sewer/Storm Infrastructure	1,214,922,329	1,209,720,969
Assets under Construction	64,925,462	177,736,532
Total	$ 6,868,427,436	$ 6,793,633,069

Accumulated Surplus

The accumulated surplus of $7.1b (2010, $7.0b) as shown below consists of tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances, reserve balances less the amounts to be recovered in the future. The tangible capital assets are held for the use in the provision of City services however the net balance consisting of future liabilities, future capital works funding, Hydro Investments and reserves represents a municipality's ability to meet the current and future financial needs of the community.

	2011	**2010**
Investment in Tangible Capital Assets	$6,868,427,436	$6,793,633,069
*Other (Fund Balances)	(130,533,465)	(146,102,211)
*Amounts to be Recovered in Future Years		
From future revenues	(100,003,398)	(81,333,623)
From reserves & reserve funds	(11,198,981)	(10,526,956)
Total	(111,202,379)	(91,860,579)
Investment in Hydro Vaughan Corporations	256,227,338	244,052,993
Reserves set aside by Council (Exhibit #3)	225,119,360	211,816,485
Accumulated Surplus	$7,108,038,290	$7,011,539,757

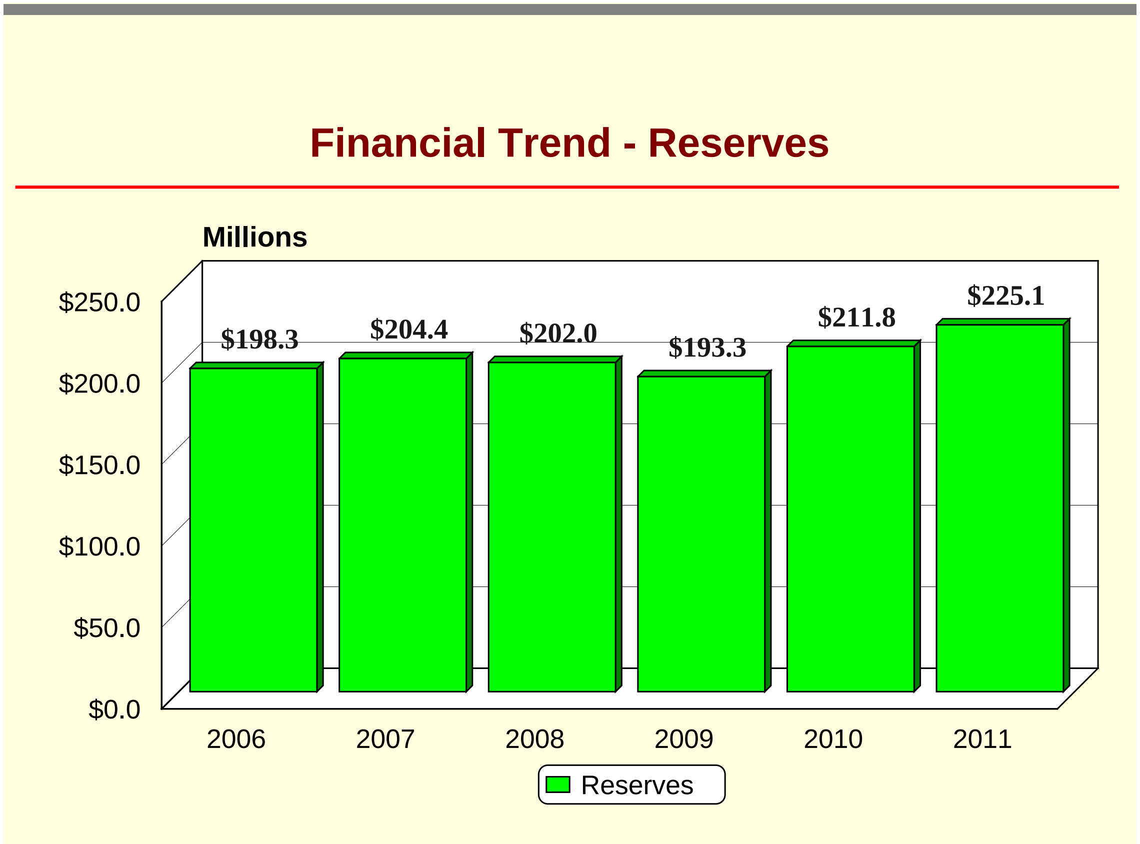
*

The Other Fund balances representing the Operating and Capital Funds total ($130.5m). This amount consists of the operating fund surplus of $2.9m less PowerStream unpaid note interest of ($9.9m), purchase of Vaughan Holdings Inc shares ($2.1m) and the capital fund unfinanced balance of ($121.4m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

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

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

EXHIBIT 3



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

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

The increase in reserves over the past number of years was possible as a result of Council's adoption of financial policies. These policies and others will continue to contribute to the financial well-being of the City as shown in 2011 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus

The "Consolidated Statement of Operations and Accumulated Surplus" now required under PSAB is a significant change from the pre-2009 budget-based "Consolidated Statement of Financial Activities". The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council's approved budget on page 33.

The Council approved 2011 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. In the revised budget for financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of $63,302,600.

The most significant differences in reviewing the 2011 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total $91.0m (2010, $80.6m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. Although the $91.0m is reflected as revenue in the financial statements, the assumed assets also represent an immediate financial impact through increased cost-based amortization expense, as well as future replacement cost to be considered in the City's Long Range Financial Plan.

- Expenses – Variance between budgeted expense of $265.8m and reported expense of $360.7m. The most significant difference here relates to amortization expense for 2011 of $62.0m, which the City does not budget for, but must be reported under the new municipal reporting regime.

- Annual Surplus – The annual surplus of $96.4m (2010, $76.7m) reported in 2011 is primarily influenced by the unbudgeted Contributed Assets of $91.0m.

Relationship to Vaughan Vision 2020

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

Regional Implications

There are no Regional implications.

Conclusion

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

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

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

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

Attachments

Attachment 1 - 2011 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements.

Attachment 2 - 2011 Audit Findings Report KPMG

Report Prepared by:

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

Respectfully submitted,

Barbara Cribbett, CMA
Commissioner of Finance & City Treasurer

Barry Jackson, CGA
Director of Financial Services

Attachment 1

DRAFT 5
August 28, 2012

Consolidated Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN

Year ended December 31, 2011

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, 2011, 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, 2011, and its consolidated results of operations and accumulated surplus and the changes in its consolidated net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

____________2012

Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN

Draft Consolidated Statement of Financial Position

December 31, 2011 with comparative figures for 2010

	2011	2010
Financial assets:		
Cash and cash equivalents	$ 270,897,304	$ 259,402,606
Taxes receivable	43,156,462	48,821,013
Water and sewer billings receivable	15,790,192	14,176,808
Accounts receivable	17,579,355	16,335,502
Investments (note 3)	99,751,047	126,599,413
Local improvement charges receivable	811,061	1,132,661
Other assets	125,422	74,328
Investment in Hydro Vaughan Corporations (note 4)	256,227,338	244,052,993
	704,338,181	710,595,324
Financial liabilities:		
Accounts payable and accrued liabilities	77,427,649	113,456,181
Accrued interest on long-term liabilities	308,885	313,934
Employee future benefits (note 5)	65,281,400	52,797,885
Deposits and deferred revenue	20,550,852	18,463,119
Deferred revenue - obligatory reserve funds (note 6)	234,879,385	249,170,439
Debenture and other debt (note 7)	62,975,633	55,183,555
Note payable (note 8)	3,303,523	3,303,523
	464,727,327	492,688,636
Net Financial Resource	239,610,854	217,906,688
Non-financial assets:		
Tangible capital assets (note 9)	6,868,427,436	6,793,633,069
Commitments (note 15)		
Contingencies (note 16)		
Accumulated surplus (note 10)	$ 7,108,038,290	$ 7,011,539,757

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, 2011, with comparative figures for 2010

	Budget (Unaudited - note 13)	2011	2010
Revenues:			
Property taxation	$ 143,532,110	$ 146,466,457	$ 137,590,446
Taxation from other governments	2,800,000	2,655,683	2,720,436
User charges	33,928,895	40,053,383	40,038,507
Water and sewer billings	84,820,965	84,426,652	78,103,663
Government transfers (note 11)	9,901,815	9,794,005	9,787,116
Investment income	4,211,000	7,227,442	6,291,447
Penalties and interest on taxes	4,900,000	4,945,697	4,583,952
Other fees and services	2,674,747	6,346,666	5,192,978
Contributions from developers	32,395,772	44,725,207	26,678,499
Contributed assets (note 9)	–	91,044,264	80,607,875
Hydro Vaughan Corporations (note 4)			
Share of net earnings	3,662,865	13,661,242	11,870,221
Interest on notes receivable	4,365,585	4,853,451	4,853,451
	327,193,754	456,200,149	408,318,591
Expenses:			
General government	13,421,743	25,355,414	20,217,380
Protection to persons and property	50,792,772	54,074,360	50,592,171
Transportation services	28,971,997	74,176,334	67,245,183
Environmental services	96,645,916	114,396,838	106,702,636
Health services	134,830	152,224	116,715
Social and family services	376,425	313,513	334,942
Recreational and cultural services	60,675,744	77,453,115	73,185,128
Planning and development	14,871,727	14,839,418	14,289,786
	265,891,154	360,761,216	332,683,941
Adjustment for the increase of the City's equity interest in the net assets of PowerStream (note 4)	–	1,059,600	1,103,378
Annual surplus	$ 61,302,600	$ 96,498,533	$ 76,738,028
Accumulated surplus, beginning of year	7,011,539,757	7,011,539,757	6,934,801,729
Accumulated surplus, end of year	$ 7,072,842,357	$ 7,108,038,290	$ 7,011,539,757

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, 2011, with comparative figures for 2010

	Budget (Unaudited - note 13)	2011	2010
Annual surplus	$ 61,302,600	$ 96,498,533	$ 76,738,028
Amortization of tangible capital assets	–	62,073,412	56,733,939
Proceeds on disposal of tangible capital assets	–	76,964	129,197
Loss on disposal of tangible capital assets	–	19,111,778	24,193,339
Acquisition of tangible capital assets, net of transfers from assets under construction	(78,494,800)	(156,056,521)	(189,622,856)
Increase (decrease) in net financial assets	(17,192,200)	21,704,166	(31,828,353)
Net financial assets, beginning of year	217,906,688	217,906,688	249,735,041
Net financial assets, end of year	$ 200,714,488	$ 239,610,854	$ 217,906,688

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Draft Consolidated Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 96,498,533	$ 76,738,028
Items not involving cash:		
Amortization	62,073,412	56,733,939
Loss on disposal of tangible capital assets	19,111,778	24,193,339
Contributed tangible capital assets	(91,044,265)	(80,607,875)
Deduct share of net earnings of Hydro Vaughan Corporations	(13,661,242)	(11,870,221)
Adjustment for (increase) of the City's equity interest in the net assets of PowerStream (note 4)	(1,059,600)	(1,103,378)
Change in non-cash assets and liabilities:		
Increase in accounts receivable	(1,243,853)	(4,837,469)
Increase (decrease) in accounts payable and accrue liabilities	(36,028,532)	11,031,723
Decrease in accrued interest on long-term liabilities	(5,049)	(418,065)
Decrease in local improvement charges receivable	321,600	299,558
(Increase) decrease in other assets	(51,094)	3,649
Decrease in taxes receivables	5,664,551	2,384,772
(Increase) decrease in water & Sewer billings receivable	(1,613,384)	(1,292,037)
(Decrease) increase in deferred revenues – obligatory reserve funds	(14,291,054)	24,409,577
Increase in employee future benefits	12,483,515	5,994,467
Increase in deposits and deferred revenue	2,087,733	2,316,493
Net change in cash from operating activities	39,243,049	103,976,500
Capital activities:		
Proceeds on disposal of tangible capital assets	76,964	129,197
Cash used to acquire tangible capital assets	(65,012,256)	(109,014,981)
Net change in cash from capital activities	(64,935,292)	(108,885,784)
Financing activities:		
Debenture and other debt repaid	(7,763,135)	(5,547,089)
Debenture and other debt incurred	15,555,213	261,125
Net change in cash from financing activities	7,792,078	(5,285,964)
Investing activities:		
Increase in investments	26,848,366	(372,174)
Investment in Hydro Vaughan Corporations (note 4)	2,546,497	3,579,432
Net change in cash from investing activities	29,394,863	3,207,258
Net change in cash and cash equivalents	11,494,698	(6,987,990)
Cash and cash equivalents, beginning of year	259,402,606	266,390,596
Cash and cash equivalents, end of year	$ 270,897,304	$ 259,402,606
Cash paid for interest	$ 2,320,102	$ 2,399,001
Cash received for interest and dividends	21,964,976	16,031,226
Tangible capital assets transferred from assets under construction to other asset categories	151,738,094	73,249,119

See accompanying notes to consolidated financial statements.

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

1. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Consolidated entities:

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

The consolidated financial statements include:

(i) City of Vaughan Public Library Board;
(ii) Board of Management for the Kleinburg Business Improvement Area

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

1. Significant accounting policies (continued):

(ii) Investments in Government Business Enterprises:

The City's investments in Hydro Vaughan Energy Corporation, Hydro Vaughan Holdings Inc., Vaughan Holdings Inc., 1446631 Ontario Inc. and PowerStream Inc. collectively referred to as "Hydro Vaughan Corporations", are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its consolidated statement of operations 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 Region and School Board transactions:

The taxation, other revenues, 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 financial statements.

(b) Basis of accounting:

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

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

(g) Deposits and deferred revenue:

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

1. Significant accounting policies (continued):

(h) Deferred revenue - obligatory reserve funds:

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

(i) Pension, vacation entitlements and employee benefits:

The City accounts for its participation in the Ontario Municipal Employees Retirement System ("OMERS"), a multi-employer public sector pension fund as a defined contribution plan. Vacation entitlements are accrued for as the entitlements are earned. Other post-employment benefits and compensated absences are accrued in accordance with the projected benefit method 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 by-law and do not meet the definition of a plan asset under PSAB Standard 3250, Retirement Benefits. Therefore, for the purposes of these financial statements, the plans are considered, unfunded.

1. Significant accounting policies (continued):

(j) Taxation and related revenues:

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

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

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

(k) Investment income:

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

1. Significant accounting policies (continued):

(l) Segment disclosures:

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

(m) Non-financial assets:

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

(i) Tangible capital assets:

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

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

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

1. Significant accounting policies (continued):

(ii) Contributions of tangible capital assets:

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

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

Works of art and cultural and historic assets are not recorded as assets in these 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 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 revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of the PSAB Standard 3150 requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

1. Significant accounting policies (continued):

(o) Presentation of budget information:

City of Vaughan's Council completes a review for its operating and capital budgets each year. The approved operating and capital budgets for 2011 are included in the budget figures presented in the consolidated statement of operations.

2. Operations of School Boards and the Region of York:

During 2011, requisitions were made by the District School Boards and the Region requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	District School Boards	The Region
Property taxes	$ 261,517,494	$ 268,573,638
Taxation from other governments	694,565	755,102
Amounts requisitioned and remitted	$ 262,212,059	$ 269,328,740

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 2.19% to 5.03% (2010 – 1.46% to 5.35%) with maturity dates from May 7, 2012 to June 30, 2021 (2010 – January 25, 2011 to June 2, 2023). Market value of investments costing $99,751,047 (2010 - $126,599,413) is $104,840,072 (2010 - $132,252,511) at December 31, 2011.

4. Investment in Hydro Vaughan Corporations:

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

	Interest held 2011	2010
Hydro Vaughan Energy Corporation	100%	100%
Hydro Vaughan Holdings Inc.	100%	100%
Vaughan Holdings Inc. (including 45.315% (2010 - 43.315%) share interest in PowerStream Inc.)	100%	100%
1446631 Ontario Inc.	100%	100%

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

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

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

4. Investment in Hydro Vaughan Corporations (continued):

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

On November 23, 2010, the City of Vaughan through its wholly owned subsidiary, Vaughan Holdings Inc.; the 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.; (collectively, the “Shareholders”) signed a Subscription Agreement with PowerStream for new class A common shares for the purpose of the Shareholders providing equity for PowerStream’s solar business. PowerStream’s articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. During 2010, PowerStream issued 4,056 of the Class A common shares under the subscription agreement for an amount of $2,434,908. During 2011, the Board of Directors of PowerStream Inc., under the subscription agreement noted above, authorized the issuance of a further 1,766 (2010 - 1,838) Class A common shares to the City of Vaughan for $1,059,600 (2010 - $1,103,378). The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest for 2011 and 2010 is as follows:

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

2010	Number of Class A common shares	Share interest
Vaughan Holdings Inc.	1,838	45.315%
Markham Enterprises Corporation	1,387	34.185%
Barrie Hydro Holdings Inc.	831	20.500%

During 2011, the Board of Directors of Vaughan Holdings Inc. authorized the issuance of a further 2,162,978.47 common shares to the City of Vaughan for $2,162,978.47.

4. Investment in Hydro Vaughan Corporations (continued):

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

	2011	2010
Assets:		
Current assets	$ 213,719,657	$ 203,170,446
Capital assets	690,041,196	642,059,040
Regulatory and other assets	79,037,290	97,066,094
Goodwill	42,542,561	42,542,561
	1,025,340,704	984,825,541
Liabilities:		
Current liabilities	194,671,950	179,126,657
Consumer deposits	12,030,070	12,071,466
Debenture payable	124,489,260	123,765,022
Infestructure Ontario Debentures	979,292	–
Bank loans	50,000,000	50,000,000
Promissory note due to the Town of Markham	74,268,544	74,268,544
Promissory note due to the City of Barrie	20,000,000	20,000,000
Employee future benefits and other liabilities	15,264,856	14,007,126
Regulatory liabilities	59,246,188	68,314,607
Other	51,153,205	42,495,600
	602,103,365	584,036,422
Net assets	423,237,339	400,789,119
Town of Markham's proportionate share of the net assets of PowerStream	(104,402,435)	(97,979,784)
City of Barrie's proportionate share of the net assets of PowerStream	(62,607,566)	(58,756,342)
City's equity interest in net assets	$ 256,227,338	$ 244,052,993

4. Investment in Hydro Vaughan Corporations (continued):

	2011	2010
Revenues	$ 922,648,834	$ 856,520,971
Expenses	892,415,818	830,177,330
Net earnings	30,233,016	26,343,641
Town of Markham's share of the net earnings of PowerStream	(10,359,442)	(9,047,707)
City of Barrie's share of the net earnings of PowerStream	(6,212,332)	(5,425,713)
City's share of net earnings	$ 13,661,242	$ 11,870,221

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

	2011	2010
Share capital”		
Investment in common shares of the Hydro Vaughan Corporations	$ 88,480,357	$ 88,480,357
Investment in Vaughan Holdings Inc. common A shares	2,162,978	–
Vaughan Holdings Inc. Investment in PowerStream common A shares	2,162,978	1,103,378
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	9,925,030	9,925,030
Retained earnings and contributed surplus:		
Opening balance	42,503,247	35,405,602
Net earnings	13,661,242	11,870,221
Less dividends	(6,279,300)	(4,772,576)
Closing balance	49,885,189	42,503,247
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	19,477,781	17,907,956
Equity in Hydro Vaughan Corporations	$ 256,227,338	$ 244,052,993

4. Investment in Hydro Vaughan Corporations (continued):

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

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

	2011	2010
Equity in Hydro Vaughan Corporations, beginning of year	$ 244,052,993	$ 234,658,826
Change in equity:		
Equity interest in the cumulative income of Hydro Vaughan Corporations for the year ended December 31	13,661,242	11,870,221
Vaughan Holdings Inc. equity purchase in common A shares – PowerStream inc.	1,059,600	1,103,378
Equity purchase in common A shares - Vaughan Holdings Inc.	2,162,978	–
Interest earned on notes receivable	4,853,451	4,853,451
Cash received for:		
Accrued interest receivable on notes	(4,853,451)	(4,853,451)
Dividends	(4,709,475)	(3,579,432)
	12,174,345	9,394,167
Equity in Hydro Vaughan Corporations, end of year	$ 256,227,338	$ 244,052,993

4. Investment in Hydro Vaughan Corporations (continued):

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

	2011	2010
Decrease (increase) in investment:		
Interest earned on notes	$ (4,853,451)	$ (4,853,451)
Equity purchase in Vaughan Holdings Inc. of common A shares	(2,162,978)	–
Cash received for accrued interest on unpaid notes payable interest	4,853,451	4,853,451
Dividends received	4,709,475	3,579,432
Decrease (increase) in investment in Hydro Vaughan Corporations	$ 2,546,497	$ 3,579,432

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

5. Employee future benefits:

(a) Pension:

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

Total OMERS contributions amounted to $15,782,603 in 2011 (2010 - $13,837,557), of which $7,879,025 (2010 - $6,907,929) represented the City's portion.

5. Employee future benefits (continued):

(b) Workplace safety and insurance obligations:

Under the provision of the Workplace Safety and Insurance Board Act ("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 $455,600 (2010 - $421,200) reported in these financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to $1,000,000.

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is $4,278,800 (2010 - $3,967,685).

(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, 2011 of $60,547,000 (2010 - $48,409,000) and the expense for the year ended December 31, 2011 of $8,782,000 (2010 - $6,014,000) was determined by actuarial valuation using a discount rate of 5.0%.

5. Employee future benefits (continued):

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

	2011	2010
Accrued benefit obligation:		
Balance, end of prior year	$ 48,409,000	$ 43,242,000
Actuarial loss (gain)	29,591,000	5,203,000
Service cost for the year	4,226,000	3,028,000
Interest cost for the year	3,504,000	2,553,000
Unamortized actuarial gain (loss)	(24,359,000)	(4,770,000)
Benefits paid for the year	(824,000)	(847,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	$ 60,547,000	$ 48,409,000

Components of benefit expense:

	2011	2010
Service costs for the year	$ 4,226,000	$ 3,028,000
Interest cost for the year	3,504,000	2,553,000
Amortization of actuarial loss	1,052,000	433,000
Benefit expense	$ 8,782,000	$ 6,014,000

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

(i) General:

Future general inflation levels, measured by changes in the Consumer Price Index ("CPI"), were assumed as 2.0% in 2011 and thereafter.

(ii) Interest (discount) rate:

The projected benefit obligation as at December 31, 2011 and the expense for the year ended December 31, 2011, were determined by using a discount rate of 4.25% (2010 - 5.0%). The discount rate for 2011 corresponds to the assumed CPI rate plus an assumed real rate of return of 3.0%.

5. Employee future benefits (continued):

(iii) Salary levels:

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

(iv) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 6.0% in 2011 graded down by 0.37% in 2012 and thereafter.

(v) Dental costs:

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

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

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

	2011	2010
Post retirement non-pension benefits	$ 60,547,000	$ 48,409,000
Vacation pay	4,278,800	3,967,685
WSIB	455,600	421,200
	$ 65,281,400	$ 52,797,885

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:

	2011	2010
Recreational land (The Planning Act)	$ 34,367,077	$ 44,334,125
Development Charges Act	152,203,594	155,701,103
Subdivider contributions	8,066,068	7,608,789
Federal Gas Tax Revenues	18,734,635	16,392,753
Building Standards Act	18,408,952	18,519,398
Ontario Roads and Bridges Fund	874,269	1,769,174
Investing in Ontario Act	2,224,790	4,845,097
	$ 234,879,385	$ 249,170,439

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:

		2011		2010
Debenture debt issued by the Region:				
Serial debt	$	19,791,000	$	8,867,000
Sinking fund debt		30,555,493		34,270,645
Debt payable to York Major Holdings Inc. for McNaughton Road extension. The principal portion of the debt is:		62,718		62,718
Debt payable to Ivanhoe Cambridge Inc. re off ramp from Highway #400 to Bass Pro Drive. The principal portion of the debt is:		–		2,165,984
Debt payable to Block 11 Landowners' Group for re Block 11 Valley Road Crossing and Pressure District 6 for East Rutherford Road Trunk Watermain. The principal portion of the debt is $8,640,178 and $1,177,030 respectively		9,817,208		9,817,208
Debt payable to Belshire Woods Estate Inc. The principal portion of the debt is:		415,379		–
Debt payable to Ventana Homes. The principal portion of the debt is:		2,333,835		–
	$	62,975,633	$	55,183,555

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

In 2005, the City entered into an agreement with York Major Holdings Inc. for the City to pay its share of the construction of the McNaughton Road extension. The obligation is without interest and there is one payment of $62,718 remaining in 2012. The agreement included $1,500,000 in development charge credits to be applied against future building permits. Development charge credits of $1,109,962 have been reallocated to accounts payable and accrued liabilities.

7. Debenture and other debt (continued):

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

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

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

Principal payments in the amount of $62,975,633 net long term liabilities reported above are repayable as follows:

	Region	Block 11 Landowners' Group	York Major Holdings Inc.	Bellshire Woods Estates	Ventana Homes	Total
2012	$ 6,914,837	$ 1,403,939	$ 62,718	$ 82,889	$ 1,158,612	$ 9,622,995
2013	6,932,837	1,613,783	–	88,002	293,806	8,928,428
2014	6,957,837	1,788,010	–	93,429	293,806	9,133,082
2015	6,986,837	1,670,492	–	99,192	293,806	9,050,327
2016	5,830,750	1,670,492	–	51,867	293,805	7,846,914
2017-21	10,226,062	1,670,492	–	–	–	11,896,554
Interest on sinking funds	6,497,333	–	–	–	–	6,497,333
	$ 50,346,493	$ 9,817,208	$ 62,718	$ 415,379	$ 2,333,835	$ 62,975,633

7. Debenture and other debt (continued):

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

	2011	2010
Principal payments, including contributions to the sinking fund	$ 7,763,135	$ 5,547,089
Interest	2,320,102	2,399,001
	$10,083,237	$ 7,946,090

8. Notes payable:

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

9. Tangible capital assets:

	Cost				Accumulated amortization				
Asset	Balance December 31, 2010	2011 Acquisitions	2011 Disposals and adjustments	Balance December 31, 2011	Balance December 31, 2010	2011 Amortization	2011 Disposals and adjustments	Balance December 31, 2011	Net book value December 31, 2011
Land	$ 4,652,523,984	$ 76,578,125	$ –	$ 4,729,102,109	$ –	$ –	$ –	$ –	$ 4,729,102,109
Land improvements	152,027,281	8,205,056	3,658,261	156,574,076	56,697,798	5,128,226	2,924,382	58,901,642	97,672,434
Buildings and building improvements	178,056,654	112,097,114	1,791,959	288,361,809	62,767,549	8,417,430	907,823	70,277,156	218,084,653
Machinery and equipment	33,483,530	3,948,789	3,194,509	34,237,810	20,634,219	3,090,867	3,130,030	20,595,056	13,642,754
Vehicles	24,089,271	2,450,189	564,495	25,974,965	11,964,869	1,903,566	563,569	13,304,866	12,670,099
Furniture and fixtures	4,365,611	4,196,510	–	8,562,121	2,532,282	495,914	-	3,028,196	5,533,925
Information technology	4,380,970	785,546	116,849	5,049,667	3,079,166	598,336	115,312	3,562,190	1,487,477
Leasehold improvements	2,181,191	904,780	–	3,085,971	1,343,405	275,067	–	1,618,472	1,467,499
Roads infrastructure	806,468,831	19,325,380	1,206,653	824,587,558	292,382,467	24,218,426	932,030	315,668,863	508,918,695
Water and sewer infrastructure	1,457,275,709	24,524,066	1,772,961	1,480,026,814	247,554,740	17,945,580	395,835	265,104,485	1,214,922,329
Assets under construction	177,736,532	99,329,418	212,140,488	64,925,462	–	–	–	–	64,925,462
Total	$ 7,492,589,564	$ 352,344,973	$224,446,175	$ 7,620,488,362	$ 698,956,495	$ 62,073,412	$ 8,968,981	$ 752,060,926	$ 6,868,427,436

	Cost				Accumulated amortization				
Asset	Balance December 31, 2009	2010 Acquisitions	2010 Disposals and adjustments	Balance December 31, 2010	Balance December 31, 2009	2010 Amortization	2010 Disposals and adjustments	Balance December 31, 2010	Net book value December 31, 2010
Land	$ 4,583,748,089	$ 68,939,721	$ 163,826	$ 4,652,523,984	$ –	$ –	$ –	$ –	$ 4,652,523,984
Land improvements	142,426,515	11,982,803	2,382,037	152,027,281	52,888,979	4,815,529	1,006,710	56,697,798	95,329,483
Buildings and building improvements	149,275,162	30,447,433	1,665,941	178,056,654	58,484,563	5,086,895	803,909	62,767,549	115,289,105
Machinery and equipment	35,285,671	2,486,980	4,289,121	33,483,530	21,583,084	3,140,620	4,089,485	20,634,219	12,849,311
Vehicles	22,867,003	2,797,675	1,575,407	24,089,271	12,071,652	1,453,831	1,560,614	11,964,869	12,124,402
Furniture and fixtures	3,925,534	441,300	1,223	4,365,611	2,285,868	247,637	1,223	2,532,282	1,833,329
Information technology	4,253,571	572,855	445,456	4,380,970	2,823,283	696,364	440,481	3,079,166	1,301,804
Leasehold improvements	2,181,191	–	–	2,181,191	1,084,996	258,409	–	1,343,405	837,786
Roads infrastructure	773,301,901	39,149,369	5,982,439	806,468,831	272,762,306	23,357,089	3,736,928	292,382,467	514,086,364
Water and sewer infrastructure	1,435,993,204	21,828,823	546,318	1,457,275,709	230,101,558	17,677,565	224,383	247,554,740	1,209,720,969
Assets under construction	185,895,136	84,225,016	92,383,620	177,736,532	–	–	–	–	177,736,532
Total	$ 7,339,152,977	$ 262,871,975	$109,435,388	$ 7,492,589,564	$ 654,086,289	$ 56,733,939	$11,863,733	$ 698,956,495	$ 6,793,633,069

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of $64,925,462 (2010 - $177,736,532) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is $91,044,264 (2010 - $80,607,875) comprised of land and land improvements of $61,661,258 (2010 - $48,271,441), roads infrastructure of $9,132,134 (2010 - $12,249,900) and water and wastewater infrastructure of $20,250,872 (2010 - $20,086,534).

(c) Tangible capital assets disclosed at nominal values:

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

(d) Works of art and historical treasures:

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

10. Accumulated surplus:

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

	2011	2010
Surplus:		
Investment in tangible capital assets	$ 6,868,427,436	$ 6,793,633,069
Amounts to be recovered in future years:		
From future revenues	(100,003,398)	(81,333,623)
From reserves and reserve funds on hand	(11,198,981)	(10,526,956)
Investment in Hydro Vaughan Corporations (note 4)	256,227,338	244,052,993
Other	(130,533,465)	(146,102,211)
	6,882,918,930	6,799,723,272
Reserves set aside for specific purposes by Council:		
Vehicle replacement	3,253,265	3,397,041
Fire equipment replacement	3,133,913	3,016,223
General working capital	28,284,259	26,856,909
Tax rate stabilization	23,120,444	21,757,165
Waterworks	30,596,504	26,367,425
Wastewater (sanitary sewers)	25,775,678	21,538,041
Keele Valley landfill	2,301,955	2,238,294
Heritage fund	872,929	802,775
Employee benefits	11,198,981	10,526,956
Buildings	16,632,623	16,747,622
Road infrastructure	6,998,171	8,120,326
Sale of public lands	5,631,999	5,535,232
Parks infrastructure	962,144	1,532,785
Winterization	6,013,419	5,799,184
Other	4,584,142	3,875,776
Debenture payments	33,602,683	29,954,185
Engineering	13,205,998	15,321,817
Planning	949,108	937,332
City Hall Funding	4,910,997	4,696,902
Expenditure reserve	3,090,148	2,794,495
	225,119,360	211,816,485
	$ 7,108,038,290	$ 7,011,539,757

11. Government transfers:

The City recognizes the transfer of government funding as revenues in the period that the events giving rise to the transfer occurred. The government transfers reported on the statement of operations are:

	2011	2010
Revenue:		
Provincial grants:		
General government	$ 21,289	$ –
Transportation services	1,071,803	2,768,139
Recreation and cultural services:	1,034,808	1,276,817
Subtotal provincial grants	2,127,900	4,044,956
Federal grants:		
General government	1,275,305	13,784
Transportation services	1,723,093	3,857,145
Environmental services	3,708,758	835,792
Recreation and cultural services:	958,949	1,035,439
Subtotal federal grants	7,666,105	5,742,160
Total revenues	$ 9,794,005	$ 9,787,116

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.

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

12. Segmented information (continued):

(e) Health services, social and family services:

This area consists of the maintenance of the City's cemeteries and funding for the non profit housing complex.

(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 Vaughan Public Library provides library services through its various library facilities. The maintenance of the City's park network is provided by the Parks and Forestry Operations Department and maintenance of the City's recreation facilities is provided by the Building and Facilities department.

(g) Planning and development:

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

Certain allocation methodologies are employed in the preparation of the segmented financial information. Taxation and payments-in-lieu of taxes are allocated to the segments based on the segment's budgeted net of expenditures. User charges and other revenues 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

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2011

12. Segmented information (continued)

2011	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	2011 Consolidated Total
Revenue:									
Property and other taxation	$ 9,578,543	$ 34,383,539	$ 31,405,268	$ 7,593,916	$ 370,618	$ 39,259,919	$ 6,881,788	$ 19,648,549	$ 149,122,140
User charges	–	10,259,824	2,361,800	1,449,847	70,579	16,770,476	6,210,142	2,933,027	40,055,695
Water and sewer billings	–	–	–	84,426,652	–	–	–	–	84,426,652
Investment income	390,511	1,018,868	1,021,060	851,357	10,720	1,154,230	103,713	2,676,983	7,227,442
Other fees and services	189,021	3,233,841	1,741,375	67,486	–	1,007,179	348,447	2,518	6,589,867
Government transfers	1,296,594	–	2,794,896	3,708,758	–	1,748,244	–	–	9,548,492
Penalties and interest on taxes	419,844	1,095,399	1,097,756	915,306	11,525	1,240,929	111,504	53,434	4,945,697
Contributions from developers	–	3,079,077	13,857,537	1,882,570	–	25,457,494	448,529	–	44,725,207
Hydro Vaughan Corporations	–	–	–	–	–	–	–	18,514,693	18,514,693
Contributed assets	–	–	–	–	–	–	–	91,044,264	91,044,264
	11,874,513	53,070,548	54,279,692	100,895,892	463,442	86,638,471	14,104,123	134,873,468	456,200,149
Expenses:									
Salaries and benefits	9,540,772	43,990,172	7,164,698	4,732,381	25,340	39,960,694	12,355,659	17,351,574	135,121,290
Goods and services	1,874,817	3,268,931	18,885,755	78,397,342	246,406	15,517,779	880,733	12,617,001	131,688,764
Long term debt interest	–	–	2,161,974	125,670	–	32,458	–	–	2,320,102
Other	173,742	90,031	(70,755)	245,209	142,485	728,902	10,865	30,945	1,351,424
Corporate support allocation	1,338,083	5,423,910	3,167,125	10,367,269	51,487	6,576,280	1,516,952	(28,441,106)	–
Loss on disposal of capital tangible assets	9,112	(5,016)	675,477	258,094	–	1,160,349	–	–	2,098,016
Amortization	4,779,775	1,394,155	25,330,256	18,325,539	–	12,239,904	3,783	–	62,073,412
Other capital related	6,080,698	(87,823)	16,861,804	1,945,334	19	1,236,749	71,426	1	26,108,208
	23,796,999	54,074,360	74,176,334	114,396,838	465,737	77,453,115	14,839,418	1,558,415	360,761,216
Annual surplus (deficit) before the undernoted	(11,922,486)	(1,003,812)	(19,896,642)	(13,500,946)	(2,295)	9,185,356	(735,295)	133,315,053	95,438,933
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)								1,059,600	1,059,600
Annual surplus (deficit)	$ (11,922,486)	$ (1,003,812)	$ (19,896,642)	$ (13,500,946)	$ (2,295)	$ 9,185,356	$ (735,295)	$ 134,374,653	$ 96,498,533

Year ended December 31, 2010

12. Segmented information (continued)

2010	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	2010 Consolidated Total
Revenue:									
Property and other taxation	$ 12,333,867	$ 32,127,556	$ 27,791,224	$ 7,599,501	$ 350,653	$ 33,696,071	$ 7,214,211	$ 19,197,799	$ 140,310,882
User charges	–	11,234,281	2,211,486	973,381	77,836	15,802,779	5,318,206	4,420,538	40,038,507
Water and sewer billings	–	–	–	78,103,663	–	–	–	–	78,103,663
Government transfers	13,784	-	6,625,284	835,792	–	2,312,256	–	–	9,787,116
Investment income	15,518	1,440,579	1,246,140	340,756	15,723	1,510,909	323,481	1,398,341	6,291,447
Penalties and interest on taxes	286,388	1,023,680	1,027,248	768,212	10,923	1,105,276	119,839	242,386	4,583,952
Other fees and services	129,409	1,388,324	2,059,508	(3,764)	–	1,619,501	–	–	5,192,978
Contributions from developers	1,011,450	494,077	80,908	(2,136,423)	–	27,228,487	–	–	26,678,499
Contributed assets	–	–	–	–	–	–	–	80,607,875	80,607,875
Hydro Vaughan Corporations	–	–	–	–	–	–	–	16,723,672	16,723,672
	13,790,416	47,708,497	41,041,798	86,481,118	455,135	83,275,279	12,975,737	122,590,611	408,318,591
Expenses:									
Salaries and benefits	9,704,042	40,340,795	6,093,950	4,201,081	19,841	34,915,982	11,015,777	14,897,125	121,188,593
Goods and services	2,848,067	3,465,892	16,336,242	74,542,289	243,703	13,976,874	926,448	9,774,873	122,114,388
Long term debt interest	–	–	2,269,754	129,247	–	–	–	–	2,399,001
Other	140,385	16,358	(455,263)	326,498	142,526	677,299	12,701	166,430	1,026,934
Corporate support allocation	1,381,332	4,736,509	2,485,032	8,876,719	45,587	5,409,646	1,292,069	(24,226,894)	0
Loss on disposal of tangible	49,880	(15,715)	2,370,424	318,956	–	2,335,293	–	–	5,058,838
capital assets									0
Amortization	1,297,221	1,321,232	24,245,767	18,024,056	–	11,841,880	3,783	–	56,733,939
Other capital related	4,184,919	727,100	13,899,277	283,790	–	4,028,154	1,039,008	–	24,162,248
	19,605,846	50,592,171	67,245,183	106,702,636	451,657	73,185,128	14,289,786	611,534	332,683,941
Annual surplus (deficit) before the undernoted	(5,815,430)	(2,883,674)	(26,203,385)	(20,221,518)	3,478	10,090,151	(1,314,049)	121,979,077	75,634,650
Adjustment for the increase in the City's equity interest in the net assets of PowerStream (note 4)								1,103,378	1,103,378
Annual surplus (deficit)	$ (5,815,430)	$ (2,883,674)	$ (26,203,385)	$ (20,221,518)	$ 3,478	$ 10,090,151	$ (1,314,049)	$ 123,082,455	$ 76,738,028

13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2011 operating and capital budgets approved by Council in 2011. 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
Revenues:		
Operating budget	$	305,931,100
Capital budget		81,633,089
Less:		
Transfers from other funds		(56,165,500)
Proceeds on debt issue		(1,595,000)
Hospital levy		(4,435,400)
Other capital funding and financing		(699,400)
Total revenue		324,668,889
Expenses:		
Operating budget	$	305,931,100
Capital budget		81,633,089
Less:		
Transfers to other funds		(33,401,800)
Capital expenses		(78,494,800)
Debt principal payments		(12,301,300)
Total expenses		263,366,289
Annual surplus	$	61,302,600

14. Trust funds:

Trust funds administered by the City amounting to $390,688 (2010 - $368,433) are presented in separate financial statement of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and financial activities.

15. Commitments:

(a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments such as waste collection, snow clearing, etc., obtaining Council and other approvals as required. For these lease and operating commitments, minimum payments have been estimated to aggregate $53.9 million over the next five years. Expenditures relating to these agreements are recorded in the year in which the payments are made.

(b) Loan guarantees:

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

(i) For the accumulated sum, not exceeding $2.4 million with the Ontario Soccer Association.

(ii) For the accumulated sum, not exceeding $7.1 million with the Mentena Development Group.

(c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, PowerStream charged the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The net charge for services under these agreements were $1,558,191 (2010 - $1,627,134).

15. Commitments (continued):

(d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining Council and other approvals as required. The total value of approved and outstanding capital works at December 31, 2011 is approximately $151.7M. Expenditures relating to capital works are recorded in the year in which expenditures are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation.

(e) Vaughan Hospital:

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

16. Contingencies:

(a) Unsettled legal claims and potential other claims:

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

16. Contingencies (continued):

(b) Insurance claims:

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

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

PowerStream has been jointly named as a defendant in several actions. No provisions has been made for these potential liabilities in the financial statements of PowerStream for the year ended December 31, 2011 as PowerStream expects that these claims are adequately covered by its insurance.

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

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

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

16. Contingencies (continued):

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

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

17. Comparative figures:

Certain reclassification have been made to previously reported amounts in the consolidated financial statements in order to conform to the current presentation.

DRAFT 2

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Year ended December 31, 2011

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Corporation of the City of Vaughan Public Library Board as at December 31, 2011 and the statements of operations and accumulated surplus, changes 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, 2011 and its results of operations and accumulated surplus, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards**.**

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

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THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Financial assets:		
Cash	$ 27,954	$ 21,017
Due from the City of Vaughan	244,027	270,046
	271,981	291,063
Financial liabilities:		
Accounts payable and accrued liabilities	261,613	239,950
Employee future benefits (note 2(b))	4,742,000	3,856,000
Deferred revenue	46,194	51,113
	5,049,807	4,147,063
Net debt	(4,777,826)	(3,856,000)
Non-financial assets:		
Prepaid expenses	35,826	–
Tangible capital assets (note 3)	5,557,278	5,946,053
Accumulated surplus (note 4)	$ 815,278	$ 2,090,053

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Statement of Operations and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget 2011	Actual 2011	Actual 2010
	(Unaudited - note 5)		
Revenues:			
Municipal contributions for operations	$ 11,899,789	$ 11,716,098	$ 10,974,544
Province of Ontario grants	145,240	160,686	196,686
Fees, rental and sundry	282,690	319,007	325,540
Total revenue	12,327,719	12,195,791	11,496,770
Expenses:			
Salaries and wages	7,495,553	7,400,017	6,863,825
Employee benefits	1,543,862	2,415,441	1,756,764
General administration	575,977	543,386	596,785
Maintenance and repairs	438,606	452,492	451,998
Utilities	279,644	248,007	231,331
Periodicals	1,603,603	191,641	223,525
Office resources	140,435	140,077	92,610
Cleaning services	101,098	93,396	91,006
Insurance	50,900	50,900	42,750
Programmes	38,446	36,152	35,475
Supplies	39,243	42,835	32,761
Consulting and outside services	20,352	17,564	21,638
Amortization of tangible capital assets (note 3)	–	1,831,643	1,891,610
Total expenses	12,327,719	13,463,551	12,332,078
Annual deficit before the undernoted	–	(1,267,760)	(835,308)
Loss on disposal of capital assets	–	(7,015)	–
Annual deficit	–	(1,274,775)	(835,308)
Accumulated surplus, beginning of year	–	2,090,053	2,925,361
Accumulated surplus, end of year	$ –	$ 815,278	$ 2,090,053

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Statement of Change in Net Debt

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Annual deficit	$ (1,274,775)	$ (835,308)
Prepaid expenses	(35,826)	
Acquisition of tangible capital assets	(1,449,883)	(1,433,302)
Amortization of tangible capital assets	1,831,643	1,891,610
Loss on disposal of capital assets	7,015	–
Change in net debt	(921,826)	(377,000)
Net debt, beginning of year	(3,856,000)	(3,479,000)
Net debt, end of year	$ (4,777,826)	$ (3,856,000)

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Statement of Cash Flows

Year ended December 31, 2011 with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operating activities:		
Annual deficit	$(1,274,775)	$ (835,308)
Items not involving cash:		
Amortization of tangible capital assets	1,831,643	1,891,610
Loss on disposal of capital assets	7,015	–
Increase in employee future benefits	886,000	377,000
Change in non-cash assets and liabilities:		
Prepaid expenses	(35,826)	–
Due from the City of Vaughan	26,019	(33,958)
Accounts payable and accrued liabilities	21,663	29,379
Deferred revenue	(4,919)	(10,631)
Net change in cash from operating activities	1,456,820	1,418,092
Capital activities:		
Purchase of tangible capital assets	(1,449,883)	(1,433,302)
Increase (decrease) in cash	6,937	(15,210)
Cash, beginning of year	21,017	36,227
Cash, end of year	$ 27,954	$ 21,017

See accompanying notes to financial statements.

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Basis of accounting:

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

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

(c) Non-financial assets:

(i) Tangible capital assets:

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

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:

Asset	Useful life - Years
Books	7
Audio visual material	7
Furniture and fixtures	10
Equipment	5 – 10

(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 they provide to the community. The historic cost of art and treasures are not determinable or relevant to their significance, hence a valuation is not assigned to these assets nor would they be disclosed in the financial statements.

(iv) Leased tangible capital assets:

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

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 revenues 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 expenditures 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.

1. Significant accounting policies (continued):

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

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 the date of hire; and ending at the earliest age the employee could retire and qualify for benefits. Compensated absence and termination benefits that do not vest or accumulate are recognized as an expense when the event occurs.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the Library's implementation of the PSAB Standard 3150 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 separate budget reviews for its operating and capital budgets each year. The approved budget figures for 2010 are reflected on the statement of operations and accumulated surplus and in note 5. Actual revenues and expenses may differ significantly from annual budgets. Budget figures are unaudited.

2. Employee future benefits:

(a) Pensions:

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

Total OMERS contributions amounted to $942,754 in 2011 (2010 - $756,203), of which $471,377 (2010 - $378,102) represented the Library's portion.

(b) Post retirement non-pension benefits:

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

The projected benefit obligation for active employees and retirees at December 31, 2011 of $4,472,000 (2010 - $3,606,000) and the expense for the year ended December 31, 2011 of $635,000 (2010 - $439,000) were determined by actuarial valuation using a discount rate of 4.25% (2010 - 5%).

2. Employee future benefits (continued):

(b) Post retirement non-pension benefits:

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

	2011	2010
Accrued benefit obligation:		
Balance, end of prior year	$ 3,606,000	$ 3,270,000
Actuarial loss	1,581,000	394,000
Service cost for the year	356,000	215,000
Interest cost for the year	238,000	191,000
Unamortized actuarial loss	(1,243,000)	(361,000)
Benefits paid for the year	(66,000)	(103,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	$ 4,472,000	$ 3,606,000

	2011	2010
Components of benefit expense:		
Service cost for the year	$ 356,000	$ 215,000
Interest cost for the year	238,000	191,000
Amortization of actuarial loss	41,000	33,000
Benefit expenses	$ 635,000	$ 439,000

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

	2011	2010
Post retirement non-pension benefits	$ 4,472,000	$ 3,606,000
Vacation pay	270,000	250,000
	$ 4,742,000	$ 3,856,000

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

Notes to Financial Statements (continued)

Year ended December 31, 2011

3. Tangible capital assets:

Cost	Balance at December 31, 2010	Additions	Disposals	Balance at December 31, 2011
Books	$ 10,011,597	$ 933,550	$ 1,789,223	$ 9,155,924
Audio visual material	3,290,004	492,075	305,630	3,476,449
Furniture and fixtures	1,429,870	-	–	1,429,870
Equipment	494,248	24,258	155,293	363,213
Total	$ 15,225,719	$ 1,449,883	$ 2,250,146	$ 14,425,456

Accumulated amortization	Balance at December 31, 2010	Amortization expense	Disposals	Balance at December 31, 2011
Books	$ 6,055,689	$ 1,292,887	$ 1,789,223	$ 5,559,353
Audio visual material	1,770,964	435,400	305,630	1,900,734
Furniture and fixtures	985,076	99,286	–	1,084,362
Equipment	467,937	4,070	148,278	323,729
Total	$ 9,279,666	$ 1,831,643	$ 2,243,131	$ 8,868,178

	Net book value December 31, 2011	Net book value December 31, 2010
Books	$ 3,596,572	$ 3,955,908
Audio visual material	1,575,715	1,519,040
Furniture and fixtures	345,506	444,794
Equipment	39,485	26,311
Total	$ 5,557,278	$ 5,946,053

4. Accumulated surplus:

Accumulated surplus consists of the following:

	2011	2010
Surplus invested in tangible capital assets (note 3)	$ 5,557,278	$ 5,946,053
Unfunded employee benefits (note 2)	(4,742,000)	(3,856,000)
	$ 815,278	$ 2,090,053

5. Budget data:

The unaudited budget data presented in these financial statements is based upon the 2011 operating and capital budgets approved by the Library in 2010. 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
Revenues:	
Operating budget	$ 12,327,719
Capital budget	9,110,950
Total revenue	21,438,669
Expenses:	
Operating budget	12,327,719
Capital budget	9,110,950
Total expenses	21,438,669
Annual surplus	$ –

Financial Statements of

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Year ended December 31, 2011

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Board of Management for the Kleinburg Business Improvement Area as at December 31, 2011 and the statements of operations and accumulated surplus, change in net financial assets, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Board of Management for the Kleinburg Business Improvement Area as at December 31, 2011 and its results of operations, change in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

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Toronto, Canada

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

		2011		2010
Financial Assets				
Cash	$	8,558	$	6,850
Other		878		615
Net financial assets, being accumulated surplus	$	9,436	$	7,465

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Statement of Operations and Accumulated Surplus

Year ended December 31, 2011, with comparative figures for 2010

	Budget 2011	Actual 2011	Actual 2010
	(Unaudited)		
Revenues:			
Kleinburg Business Improvement Area special area levy	$ 21,800	$ 21,800	$ 25,000
Event dollars raised	–	5,728	11,360
	21,800	27,528	36,360
Expenses:			
Special events	9,500	11,076	15,334
Advertising	16,000	2,827	14,776
Liability insurance	1,500	1,404	1,404
Miscellaneous	–	3,239	441
Website	1,000	410	1,835
Administration	500	-	109
Sponsorship	500	350	4,658
Donation		6,251	-
	29,000	25,557	38,557
Annual surplus (deficit)	(7,200)	1,971	(2,197)
Accumulated surplus, beginning of year	7,465	7,465	9,662
Accumulated surplus (deficit), end of year	$ 265	$ 9,436	$ 7,465

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Statement of Change in Net Financial Assets

Year ended December 31, 2011, with comparative figures 2010

		2011		2010
Annual surplus (deficit), being change in net financial assets	$	1,971	$	(2,197)
Net financial assets, beginning of year		7,465		9,662
Net financial assets, end of year	$	9,436	$	7,465

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Statement of Cash Flows

Year ended December 31, 2011, with comparative figures 2010

		2011		2010
Cash provided by (used in):				
Operations:				
Annual surplus (deficit)	$	1,971	$	(2,197)
Change in non-cash other financial asset		(263)		4,273
Increase in cash		1,708		2,076
Cash, beginning of year		6,850		4,774
Cash, end of year	$	8,558	$	6,850

See accompanying notes to financial statements.

1. Nature of operations:

The financial statements of the Board of Management for the Kleinburg Business Improvement Area (the "Board") was established by a City of Vaughan by-law 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 ("PSAB") of the Canadian Institute of Chartered Accountants.

(b) Accrual basis of accounting:

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

(c) Government transfers:

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

2. Significant accounting policies (continued):

(d) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(e) Budget information:

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

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

Year ended December 31, 2011

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying trust funds statement of financial position of the trust funds of The Corporation of the City of Vaughan as at December 31, 2011 and the trust funds statement of financial activities and changes in fund balances 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 funds held in trust by The Corporation of the City of Vaughan as at December 31, 2011 and its results of operations and its changes in its financial position for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

Statement of Financial Position

December 31, 2011, with comparative figures for 2010

	2011	2010
Financial Assets		
Cash	$ 345,916	$ 467,296
Due from The Corporation of the City of Vaughan	16,287	-
Investments:		
Guaranteed investment certificates, at cost which approximates market value	28,485	27,351
	$ 390,688	$ 494,647
Liability and Fund Balance		
Current liability:		
Due to City of Vaughan	$ -	$ 126,214
Fund balance	390,688	368,433
	$ 390,688	$ 494,647

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

Statement of Financial Activities and Changes in Fund Balances
Year ended December 31, 2011, with comparative figures for 2010

	Cemetery Perpetual Care	Election Surplus	Total 2011	Total 2010
Sources of funds:				
Capital receipts - sale of plots	$ 22,153	$ –	$ 22,153	$ 28,383
Interest earned	5,968	-	5,968	5,164
Surplus election proceeds	-	34,998	34,998	-
	28,121	34,998	63,119	33,547
Use of funds:				
Maintenance	5,968	–	5,968	4,797
Transfer to The Corporation of the City of Vaughan	-	34,896	34,896	-
Refund of deposits	–	-	-	149,800
	5,968	34,896	40,864	154,597
Net activity	22,153	102	22,255	(121,050)
Fund balance, beginning of year	368,535	(102)	368,433	489,483
Fund balance, end of year	$ 390,688	$ -	$ 390,688	$ 368,433

See accompanying notes to financial statements.

1. Significant accounting policies:

(a) General:

These financial statements reflect the fund balances 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 Balances are reported on the cash basis of accounting. Other items are reported on an accrual basis.

2. Election Surplus:

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

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

Attachment 2

AUDIT

The Corporation of the City of Vaughan

Audit Findings Report

For the year ending December 31, 2011

KPMG LLP Chartered Accountants, Licensed Public Accountants

kpmg.ca

Dear Finance and Administration Committee members,

We have prepared this audit findings report to assist you with your review of the financial statements and the carrying out of your committee responsibilities. We are here to help. We encourage you to ask us for more information on any of the matters covered in this report—and beyond.

Audit quality

The quality of an audit and the resulting financial statements are receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.

Reaching out to audit committees

KPMG's Audit Committee Institute holds Audit Committee Roundtables across the country twice yearly. You are cordially invited to attend. For information and registration, please visit **www.kpmg.ca/auditcommittee/roundtables.html**.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you as you carry out your agenda, and we look forward to discussing our findings and answering your questions at the upcoming finance and administration committee meeting.

Yours sincerely,

Kevin M. Travers, CA
Partner

Contents

Executive summary

Overview

The purpose[1] of this Audit Findings Report is to assist you, as a member of the finance and administration committee, in your review of the consolidated financial statements of The Corporation of the City of Vaughan for the period ended December 31, 2011.

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 engagement letter
- bank confirmation outstanding for the KBIA and Library
- receipt of signed management representation letter
- completing our discussions with the finance and administration committee
- obtaining evidence of the finance and audit committee's approval of the financial statements.

Please refer to the Appendices for our draft audit report. We will update you on any significant matters arising from the completion of the audit, including completion of the above procedures. Our audit report will be dated upon completion of any remaining procedures.

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

Significant audit, accounting and reporting matters

Matters to discuss

Included in this report are matters we have highlighted for discussion at the upcoming finance and administration 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:

Investment in PowerStream Inc

- The shareholders of PowerStream Inc. ("PowerStream") are the City (through its wholly-owned subsidiary Vaughan Holdings Inc.), 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.) (collectively, "the Shareholders") with share interests of 45.315%, 34.185% and 20.5% respectively.

KPMG comments [regarding effect on the audit]

- During 2011 PowerStream issued an additional 3,899 of the Class A common shares under the subscription agreement signed on November 23, 2010. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. The City, through Vaughan Holdings Inc. now holds 3,604 of this class of shares (1,838 issued in 2010 and 1766 in 2011), representing its continued 45.315% share of PowerStream.
- The adjustment relating to the Subscription Agreement resulted in an addition to the City's equity interest by $1,059,600 to a total equity interest of $99,162,978. This additional contribution is recorded as an adjustment to the City's proportionate share of PowerStream's retained earnings and share capital.
- The Shareholders continue to hold the same number of existing common shares that were held prior to the Subscription Agreement.
- In addition, Vaughan Holdings Inc. received a dividend for $6,279,300.

<u>Actions Taken by Management</u>

- PowerStream is accounted for on a modified equity basis. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City and inter-organizational transactions and balances are not eliminated.
- The City's share of the net earnings of PowerStream for the year ended December 31, 2011 is approximately $13.7 million and has been recorded in the consolidated statement of operations and accumulated surplus.

<u>Effects on the audit</u>

- We are in agreement with the accounting treatment adopted by the City as at and for the year ended December 31, 2011.

International Financial Reporting Standards
• It was noted in prior year that commencing with their 2011 financial statements, PowerStream would be adopting International Financial Reporting Standards (IFRS). Since then, PowerStream has elected to take the eligible one year deferral for qualifying entities with rate-regulated activities and accordingly the adoption of IFRS is expected to occur on January 1, 2012. • As previously noted this adoption may cause more volatility in their reported results as IFRS as it currently stands does not support rate regulated accounting practices currently allowed under Canadian GAAP which permits certain costs and revenues to be deferred on the balance sheet when specifically approved by the Ontario Electricity Board.
Misstatements and Significant deficiencies
• There were no misstatements. • We concur with the disclosures made in the financial statements.

Contingent liabilities
• *PS3300 Contingent Liabilities*, of the CICA Handbook, requires that the City recognize a liability when "…it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated." • At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims.
KPMG comments [regarding effect on the audit]
• We reviewed the City's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed. • As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates based on the information presently available.
Misstatements and Significant deficiencies
• There were no misstatements. • We concur with the disclosures made in the financial statements.

Significant qualitative aspects of accounting practices

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

Fraud and non-compliance with laws and regulations	• We did not identify:
	  • any fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the annual financial statements
	  • any matters related to fraud that are, in our judgment, relevant to your responsibilities
	  • any identified non-compliance with laws or regulations or suspected non-compliance, other than when the identified or suspected non-compliance is clearly inconsequential.

Significant unusual transactions	• We did not identify any significant unusual transactions.
Modifications to the audit plan	• We conducted our audit in accordance with our audit plan.
Related parties and related party transactions	• We did not identify any related party transactions outside the normal course of business that involve significant judgments made by Management concerning measurement and/or disclosure.

The following are the significant qualitative aspects of accounting practices that we plan to discuss with you:

Significant accounting policies	• The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB") • The City's significant accounting policies are set out in Note 1 to the financial statements. There were no changes in significant accounting policies adopted in the current year • Refer to Appendix for current developments in accounting standards and policies
Significant accounting estimates	• The following are the significant areas where management was required to make estimates in the preparation of the financial statements: o Assumptions that affect certain accrued liabilities and contingent liabilities o Assumptions used in actuarial valuations of employee future benefits provisions o Estimated useful lives of tangible capital assets and depreciation thereon
Significant disclosures	• There were no changes in significant disclosures

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

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

Uncorrected misstatements

Professional standards require that we request of management that all uncorrected misstatements be corrected.

	Income effect	Financial Position	Financial Position	Financial Position
Description	**(Decrease) Increase**	**Assets (Decrease) Increase**	**Liabilities (Decrease) Increase**	**Net Assets (Decrease) Increase**
To adjust the 2011 loss on disposal of the walkway property	$626,000	$626,000		$626,000

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

Corrected misstatements

We have not identified misstatements that have been corrected.

Control deficiencies

Background and professional standards

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

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies

Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Identification

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

We have previously communicated to management other deficiencies in ICFR identified during the audit that, in our professional judgment, are of sufficient importance to merit management's attention and that have not been communicated to management by other parties. The following is a description of the performance improvement observation,

Capital Project Communication
The City of Vaughan needs to improve communication among departments in relation to tangible capital asset projects. The City is involved with various significant projects which are recorded as work in progress (Assets Under Construction in the Tangible Capital Asset Schedule) until the project is completed, where it is then capitalized into its appropriate tangible capital asset category. Operating departments are responsible for the development of capital projects and the maintenance and management of tangible capital asset inventory. As such, their involvement at the beginning, throughout and at the end of the project is significant. The Finance Department is responsible for the financial records of the city, including these capital projects. Thus, it is critical that Finance is made aware of the specifics of projects in an accurate and timely manner. This will allow for the financial statements to accurately reflect the stage and activity of the capital projects.
Recommendation
It is recommended that all departments involved in capital projects increase their flow of communication in order for all parties to have the required information for financial records. This will also allow for a more timely transfer between works in process and the capitalization of a project.

Management comments
Since the development of the Tangible Capital Asset Inventory in 2009 to comply with the new Public Sector Accounting Board standard, procedures have been put in place to improve communication between the operating departments and the finance department around the completion of capital projects and their subsequent transfer into service and asset inventory. Corporate Asset Management is a primary corporate goal in the Vaughan Vision 2020 so asset management will continue to evolve over the next five years with the implementation of corporate asset management systems and procedures.

Management's responses

Management's responses have not been subjected to the audit procedures applied in the audit, and accordingly, we express no opinion on them.

Definitions

Terminology	Definition
Deficiency in internal control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when: (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
Significant deficiency in internal control	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is less severe than a material weakness, yet is of sufficient importance to merit the attention of those charged with governance.
Material weakness in internal control	A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's annual financial statements will not be prevented or detected and corrected on a timely basis.

Designated Public Documents

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

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

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

Appendices

Independence letter

Management representation letter

KPMG's Audit Quality Framework

What has changed from last year

KPMG Audit Committees' Resources

Independence letter

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September 10, 2012

The Finance & Administration Committee – The Corporation of the City of Vaughan

Dear Members of the Finance & Administration Committee:

We have been engaged to audit the consolidated financial statements of the Corporation of the City of Vaughan, and the financial statements of its Public Library Board, Board of Management for the Kleinberg Business Improvement Area and Trust Funds (the "City") for the year ended December 31, 2011.

Professional standards require that we communicate at least annually with you regarding all relationships between the City (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence.

A related entity is defined as:

(a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries.

(b) in the case of a client that is not a reporting issuer, an entity over which the client has control, or that has control over the client provided the client is material to such entity, and an entity that is under common control with the client provided such entity and the client are both material to the controlling entity.

(c) an entity over which a client has significant influence, unless the entity is not material to the client.

(d) an entity that has significant influence over a client, unless the client is not material to the entity.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Institute of Chartered Accountants of Ontario and applicable legislation, 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.

We have been primarily involved in the audit of the financial statements of the City and related entities, but have also provided advisory services relative to Harmonized Sales Tax.

OTHER RELATIONSHIPS

We are not aware of any relationships between the City (and its related entities) and us that, in our professional judgment, may reasonably be thought to bear on our independence that has occurred from September 19, 2011, the date of our last letter, to September 10, 2012.

CONFIRMATION OF INDEPENDENCE

Professional standards require that we confirm our independence to you in the context of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

Accordingly, we hereby confirm that, we are independent with respect to the City (and its related entities) within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of September 10, 2012.

OTHER MATTERS

This letter is confidential and intended solely for use by those with oversight responsibility for the financial reporting process in carrying out and discharging its responsibilities and should not be used for any other purposes. No responsibility for loss or damages, if any, to any third party is accepted as this letter has not been prepared for, and is not intended for, any other purpose. This letter should not be distributed to others outside the entity without our prior written consent.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Management representation letter

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

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

September 10, 2012

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 period ended December 31, 2011.

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

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 29, 2010 and amended November 28, 2011, for:

   a) the preparation and fair presentation of the financial statements.

   b) providing you with all relevant information and access.

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

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

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

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

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

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

COMMITMENTS & CONTINGENCIES:

4) 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) other environmental matters that may have an impact on the financial statements.

SUBSEQUENT EVENTS:

5) 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:

6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

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

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

8) 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:

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

MISSTATEMENTS:

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

Yours very truly,

THE CORPORATION OF THE CITY OF VAUGHAN

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

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By: Mr. Barry Jackson, Director of Finance

cc: Finance and Administration Committee

Attachment I – Definitions

MATERIALITY

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

FRAUD & ERROR

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

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

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

RELATED PARTIES

In accordance with Canadian Public Sector Accounting Standards 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:

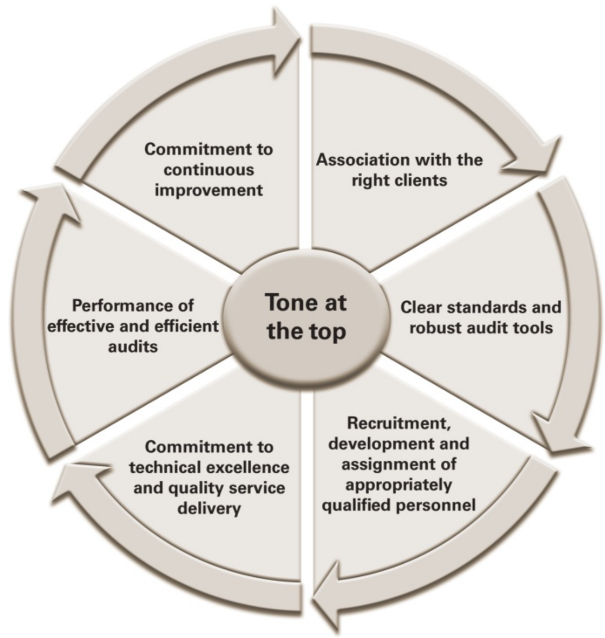
- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result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

Attachment II – Summary of uncorrected audit misstatement

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

	Statement of Financial Position			
Description	Financial Assets	Financial Liabilities	Accumulated Surplus	Statement of Operations
To adjust the 2011 loss on disposal of the walkway property	$626,000	-	($626,000)	$626,000
Total impact	**$626,000**	**-**	**($626,000)**	**$626,000**

KPMG's Audit Quality Framework



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

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

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

The framework comprises seven key drivers of audit quality.

The seven key drivers of audit quality

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

Allows the right behaviours to permeate across our entire organization and each of our engagements</td><td rowspan="4">Assures you that:
• Our culture supports our promise to you of excellent client service and a high quality audit—consistently
• You're receiving an independent, transparent, audit opinion
• You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements.

Provides you with:
• An engagement team handpicked for your business needs – a team with relevant professional and industry experience
• An audit engagement team whose qualifications evolve</td></tr>
<tr><td>Association with the right clients</td><td>Ethics above all

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

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

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

Assigns Partners' portfolios based on</td></tr>
</table>

<table>
<tr><th>Driver</th><th>What it does</th><th>What it means to you</th></tr>
<tr><td></td><td>their specific skill sets</td><td rowspan="4">as your business grows and changes

• An audit opinion that continues to meet your needs as a participant in the capital markets

Assists you with:

• Assessing the effectiveness and efficiency of the audit

• Performing your governance role with confidence.</td></tr>
<tr><td>Commitment to technical excellence and quality service delivery</td><td>The right tools for the right job

Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</td></tr>
<tr><td>Performance of effective and efficient audits</td><td>We understand that how an audit is conducted is as important as the final result.

A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</td></tr>
<tr><td>Commitment to continuous improvement</td><td>Comprehensive and effective monitoring

We solicit our clients regularly for feedback. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed clients are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accountability Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</td></tr>
</table>

The regulatory landscape is changing

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

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

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

Our commitment to quality

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

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

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

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

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

What has changed from last year

Regulatory environment

- The Accessibility Standards for Customer Service (Ontario Regulation 429/07) of the Accessibility for Ontarians with Disabilities Act (AODA) has come into effect January 1, 2012. Corporations must comply with the requirements set out in the standard. Organizations with 20 or more employees have additional requirements to meet.
- Implementation of Canada's Anti-Spam Law (CASL) is not expected until mid 2012. Organizations should review the legislation and draft regulations to ensure compliance.

Accounting standards

Financial Instruments

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

Government Transfers

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

Liability for Remediation and Mitigation of Contaminated Sites

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

- This standard is effective for fiscal years beginning on or after April 1, 2014.

Auditing standards

- Canadian Auditing Standards (“CAS”) were effective for fiscal years ending on or after December 14, 2010 making them consistent with the clarified International Auditing Standards
- No changes to auditing standards in the current year.

KPMG's Audit Committee resources

General

- *Ten To-Do's for Audit Committee in 2012*, Audit Committee Institute (Feb 2012) **http://www.kpmg.com/Ca/en/Hidden/Documents/ACI-ten-to-dos-2012-English.pdf**
- *What is the role of audit committee*, Audit Committee Institute (Jan 2012) **http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Publications-surveys-and-resources.aspx**
- Audit Committee Roundtables held each spring and fall, Audit Committee Institute **http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/AuditCommittee/Pages/Roundtables.aspx**
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at **www.kpmg.ca/accountability**
- Audit Committee Institute Web site – **www.kpmg.ca/auditcommittee**
- KPMG's Not for Profit Web site - **http://www.kpmg.com/Ca/en/WhatWeDo/Industries/PublicSector/Pages/Not-for-Profit.aspx**