CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 12, 2019

Item 1, Report No. 8, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 12, 2019.

1. 2018 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance, Administration and Audit Committee recommends:

1) **That the recommendation contained in the following report of the Chief Financial Officer and City Treasurer, dated June 5, 2019, be approved; and**

2) **That the presentation by Mr. Kevin Travers, Partner, KPMG, North York, be received.**

Recommendations

1. That the 2018 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management for the Kleinburg Business Improvement Area Financial Statements, the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements be approved. (Attachment 2)

2. That the KPMG Audit Findings Report for the year ended December 2018 be received. (Attachment 3)

3. That the 2018 Draft City Consolidated Financial Statement Highlights be received. (Attachment 1)

Finance, Administration and Audit Committee Report

DATE: Wednesday, June 05, 2019 **WARD(S):** ALL

TITLE: 2018 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

FROM:

Michael Coroneos, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

Council's approval is requested on the 2018 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Kleinburg Business Improvement Area Financial statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements. The KPMG 2018 Audit Findings report is attached for Council review.

Report Highlights

- The statutory financial statements are a requirement prescribed by the Municipal Act, 2001 that shows the results of operations for the fiscal year and the financial position at the end of the fiscal year.
- These statements have been prepared in accordance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.
- The City's statutory financial statements are presented in a different manner than the 2018 budget and 2019-2021 plan, and these differences are explained in this report and in the notes to the financial statements.

Recommendations

1. That the 2018 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management for the Kleinburg Business

Improvement Area Financial Statements, the Statements of Revenue and Expenditures and Fund Balances of the Mayor’s Gala and Golf Events and the Trust Fund Financial Statements be approved. (Attachment 2)

2. That the KPMG Audit Findings Report for the year ended December 2018 be received. (Attachment 3)

3. That the 2018 Draft City Consolidated Financial Statement Highlights be received. (Attachment 1)

Background

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

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

- The City of Vaughan
- Vaughan Public Library Board
- Kleinburg Business Improvement Area
- Hydro Vaughan Corporations:
    - Alectra (21.49% ownership through Vaughan Holdings Inc.)
    - Vaughan Holdings Inc. (100% owned by the City of Vaughan)
    - Hydro Vaughan Energy Corporation (100% owned by Vaughan Holdings Inc.)
    - 1446631 Ontario Inc. (100% owned by the City of Vaughan)

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

Included are separate Financial Statements for the Vaughan Public Library Board, the Board of Management for the Kleinburg Business Improvement Area as well as a Statement of Revenues and Expenditures and Fund Balance of the Mayor’s Gala and Golf Events.

The Mayor’s Gala and Golf Event statements include funds raised and administered by the City of Vaughan for the 2018 Mayors Gala and Golf events held on June 21st and June 4th respectively. The audited statement does not include $20 million in additional funds donated by the DeGasperis and Kohn families to the Mackenzie Health Care Foundation. Those funds were directed to and administered by the Mackenzie Health Care Foundation.

Unqualified Audit Opinion

The City has received an “unqualified” audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounts Board (PSAB). Our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2018 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2018 in accordance with public sector accounting standards.

2018 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan’s 2018 Consolidated Statement of Financial Position demonstrates a continued strong position, as the City is in a net financial asset position of $591.7 million (2017 - $564.5 million).

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

Financial Statement Presentation Differences from Budget Presentation

The City’s statutory financial statements are presented in a different manner from the 2018 Budget and 2019-2021 Plan.

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

<table>
<tr><th>Statements</th><th>Budget Approved By Council</th><th>Statutory Financial Statements</th></tr>
<tr><td>Purpose</td><td>To set the tax rate in accordance with the Municipal Act</td><td>To comply with Provincial Statutory Reporting</td></tr>
<tr><td>Basis</td><td>Cash basis of accounting</td><td>Accrual basis of accounting</td></tr>
<tr><td rowspan="4">Differences</td><td>Presents a partial financial picture</td><td>Presents full financial picture</td></tr>
<tr><td>Expense tangible capital assets</td><td>Capitalize tangible capital assets</td></tr>
<tr><td>Reserve contributions / No amortization</td><td>Amortization over the useful life of tangible capital assets</td></tr>
<tr><td>Excludes unfunded liabilities</td><td>Includes unfunded liabilities</td></tr>
</table>

The major differences between the two presentations are:

1. <u>Amortization</u>
   The City's 2018 Budget and 2019-2021 Plan is developed excluding amortization on tangible capital assets. The statutory financial statements present the net book value of the City's tangible capital assets on the Statement of Financial Position and includes annual amortization to recognize the use of tangible capital assets in the current year in the Statement of Operations and Accumulated Surplus. Council has chosen not to include amortization expense in the tax levy requirements in accordance with *Regulation 284/09 of the Municipal Act, 2001*. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of these assets be raised through taxation each year to help smooth out potential large tax increases in the years of replacement.

2. <u>Contributed Tangible Capital Assets</u>
   The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's statutory financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.

3. <u>Post Employment Benefits</u>
   The City's 2018 budget and 2019-2021 Plan excludes future post-employment costs except for actual post-employment benefit payments as they are funded from taxation. However, post-employment benefits on the statutory financial statements represent the retirement benefits that have accrued over the service life of the City's employees to date but not yet paid. These are expensed over the life of the employees as they render the service. The result is a difference between the budget and the statutory statements due to the gap between the current funding and the liability for post-employment benefits.

4. <u>Share of net earnings in Hydro Vaughan Corporations/Dividends</u>
   The City's 2018 Budget and 2019-2021 Plan includes dividends paid by the Hydro Corporations to the City. The statutory financial statements exclude dividends received, but include the equity pickup of the 2018 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Fiscal Health Report for the year ending December 31, 2018 (presented to Council in May) and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

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

2018 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements	**$ -**
Add:	
Water, Wastewater & Stormwater revenues	150.40
Contributed tangible capital assets	316.24
Share of net earnings in Hydro Vaughan Corporations	25.22
Capital Fund and other revenues	72.00
Contributions from developers	64.59
Less:	
Water, Wastewater & Stormwater expenditures	(137.77)
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)	(2.21)
Amortization	(74.04)
Post Employment Benefits	(11.55)
PSAB adjustments	(45.09)
Annual surplus on a PSAB basis	**357.79**

Previous Reports/Authority

N/A

Analysis and Options

N/A

Financial Impact

N/A

Broader Regional Impacts/Considerations

N/A

Conclusion

The City of Vaughan’s 2018 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, the Trust Fund and the Statement of Revenues and Expenditures and Fund Balance of the Mayor’s Gala and Golf Events present fairly, in all material respects, the financial position of each entity as at December 31, 2018 and the results of operations and accumulated surplus, the change in net financial assets and the cash flows for each entity for the year ended December 31, 2018 in accordance with public sector accounting standards.

For more information, please contact: Dean Ferraro, Director of City Financial Services/Deputy Treasurer Ext. 8272 or Nancy Yates, Accounting Manager, Ext. 8984

Attachments

1. 2018 Draft City Consolidated Financial Statement Highlights
2. 2018 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Kleinburg Business Improvement Area Financial Statements and the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements
3. 2018 Audit Findings Report – KPMG LLP

Prepared by

Nancy Yates CPA, CA, BComm
Accounting Manager, Ext. 8984

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

FINANCE ADMINISTRATION AND AUDIT COMMITTEE - JUNE 5, 2019

2018 DRAFT CITY CONSOLIDATED FINANCIAL STATEMENT HIGHLIGHTS

Financial Assets

Cash and Cash Investments

- Cash balance totals $730.4M (2017, $495.7M)
- Net increase cash $234.7M (2017, decrease of $43.8M)
- Net increase in cash from operating activities $334.3M (2017, $139.6M)
- Significant items not involving cash
  - Amortization $74.0M (2017, $71.8M)
  - Contributed tangible capital assets $316.2M (2017, $440.8M)
    - Assumed assets lower in 2018, Land and land improvements decreased by $88.6M, roads infrastructure decreased by $11.9M and water and wastewater infrastructure decreased by $24.0M.
  - Share of net earnings of Hydro Vaughan Corps $25.2M (2017, $12.8M)
  - Increase in deferred revenues – obligatory reserve funds $208.1M (2017, 37.2M) due to increased prepayment of development charges before new development charge rates implemented
- Net decrease in cash from capital activities $126.5M (2017 $101.0M)
  - Cash used to acquire tangible capital assets $126.6M (2017, $101.1M)
- Net increase in cash from financing activities $2.5M (2017, increase $4.8M)
  - Debenture and other debt repaid $ 13.6M (2017, $8.4M)
  - Debenture and other debt incurred $16.1M (2017, $13.2M)
    - Debt incurred relates to amount owing re YMCA construction interest
- Net increase in cash from investing activities $24.4M (2017, decrease $87.1M)
  - Increase in investments $1.4M (Increase in 2017, $43.1M)
  - Increase in cash from Investment in Hydro Vaughan Corporations is $25.9M made up of repayment of deferred interest on note receivable of $8.8M, operating dividends on solar and common shares $12.7M and a capital dividend of $2.2M on solar shares. In 2017, there was a decrease in cash from Investment in Hydro Vaughan Corporations of $44.0M due to the equity investment in Vaughan Holdings Inc. (VHI) to finance PowerStream share of purchase of Brampton Hydro in Alectra Merger, $53.5M offset by Alectra dividends, $5.9M and capital dividend on Alectra Solar shares, $1.8M and decrease of City's equity interest in net assets of PowerStream Inc. of $1.8M.

Taxes Receivable

- Taxes receivable are monies owing from property owners as at December 31st, 2018 and include the City's portion, Regional portion and the Provincial portion for education.
- Taxes receivable totals $47.8M (2017, $41.3M)
  - Increase of $6.5M primarily due to timing.

Water and Wastewater Receivable

- The water and wastewater receivables total $23.1M (2017, $18.7M). Increase of $4.4M primarily due to increase in the accrual due to timing of billing $3.2M and an increase in December actual in 2017 over 2018 due to higher sales and a rate increase.

Investments

- Investments total $87.3M (2017, $85.9M)
  - Increase of $1.4M primarily related to interest income and accrual

Accounts Receivable

- The City's accounts receivable totals $22.3M (2017, $15.8M)
- Comprise a wide range of monies owing from various levels of government, outside agencies, and businesses
  - Increase of $6.5M mainly due to an increase of $3.3 in HST receivable and an increase of $3.1M in miscellaneous receivables

Investment in Hydro Vaughan Corporations

- Investment is increased by share of cash invested and Alectra's net income but is decreased by receipt of dividends.
- Vaughan Holdings Inc. (VHI) – 21.49% share of Alectra
- Hydro Vaughan Energy Corporation – 100% subsidiary of VHI
- 1446631 Ontario Inc. – inactive – 100% owned by COV
- Investment in Hydro Vaughan Corporations is $635.9M (2017, $636.5M)
  - Return of capital on Solar Shares – $2.2M (2017, -$1.8M)
  - Repayment of deferred interest on note receivable of $8.8M
  - 2018 Net earnings is $25.2M (2017, $12.8M)
- PowerStream Holdings merged with Horizon Holdings and Enersource Holdings on February 1, 2017
- On February 28, 2017, the newly merged company named Alectra acquired Hydro One Brampton Networks
- Ring Fenced Solar business retained as an operating subsidiary of Alectra and existing PowerStream shareholders retain ownership of the economic interests in those assets represent by Class S of Common Shares
- Subsequent event - on January 1, 2019 Alectra amalgamated with Guelph Hydro Electric Systems Inc. VHI's percentage of ownership reduced to 20.5% from 21.49%

LIABILITIES

Accounts Payable and Accrued Liabilities

- City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the York Region and School Boards
- Balance at December 31, 2018 was $101.4M (2017, $103.9M)
  - Decrease of $2.5M is primarily due to a decrease in the year-end amount owing to the School Boards ($2.8M) and a reduction of ($0.7M) in the amount owing to York Region offset by an increase in trade payables and accruals of $0.7M.

Employee Future Benefit Liability

- Employee Future Benefit Liability totals $134.2M (2017, $124.6M)
- Includes:
  - Post retirement non-pension benefits $120.9M (2017, $111.9M)
  - Accrued Vacation Pay $6.6M (2017, $6.4M)
  - Workplace Safety and Insurance Board (WSIB) $6.7M (2017, $6.3)
- Post retirement non-pension benefits are based on 2017 actuarial study
- Represents the retirement benefits that have accrued over the service life of city employees to-date but not yet paid (ie. medical and dental)
- Costs of these benefits are recognized annually in the financial statements as the employees render their service
- A portion of these liabilities that are not funded annually are netted against the

accumulated surplus

- To fund this liability, Council approved the creation of a reserve for post employee's retirement benefits, which now totals $25.6M (2017, $23.4M)
- Vacation entitlement is earned during the course of employment and this liability represents the unused portion
- The WSIB valuation is based on a 2017 actuarial study
- WSIB liability represents the future expected claims and the liability is now $6.7M due to an increased number of firefighters on WSIB for post-traumatic stress which is now fully funded by WSIB.
- The WSIB reserve is $1.2M (2017, 1.2M) unchanged from the prior year.

<u>Deposits and Deferred Revenue</u>

- Deposits and Deferred Revenue represent pre-paid funds from developers, builders and other parties held by the City for capital projects to be constructed or various City services to be rendered in the future
- Deposits and deferred revenue total $40.0M (2017, $31.9M)
- Increase of $8.1M is due to development application fees collected in 2018 for applications related to development charge prepayment agreements. The bulk of this work will be completed in 2019.

<u>Deferred Revenue – Obligatory Reserve Fund</u>

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

	2018	2017
Recreational land (The Planning Act)	$ 67,884,484	$ 63,483,795
Development Charges Act	493,043,286	289,867,550
Subdivider contributions	13,080,990	11,777,937
Federal Gas Tax Revenues	27,395,908	27,029,668
Building Standards Act	12,847,968	15,938,530
Ontario Grants	2,753,115	779,804
	$ 617,005,751	**$ 408,877,284**

<u>Debenture and Other Debt</u>

- Debenture and other debt total $59.0M (2017, $56.5M)
- Consists of sinking fund debentures, serial debentures and other development related debt.
- 2018 debt ratio is 2%, well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%
  - Increase of $2.5M due to debt repayment of $13.6M offset by new debt issued in 2018 of $16.1M which is the debt payable to the YMCA for construction of the City Library and Recreation Space in the Vaughan Metropolitan Centre

Non–Financial Assets

- Non-financial assets are the City's tangible capital assets and prepaid expenses
- Tangible capital assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan
- The tangible capital assets net book value as at December 31, 2018 total $8.6B (2017, $8.2B)
- 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 2018 amortization expense was $74.0M (2017, $71.8M)
- Assets under construction totalling $174.1M (2017, $126.5M) will not be amortized until the assets are brought into service
    - ➢ Refer to Note 9 of the Draft Consolidated Financial Statements for a breakdown of tangible capital assets

Accumulated Surplus

- Consists of:
    - ➢ Investment in tangible capital assets
    - ➢ Investment in Hydro Vaughan Corporations
    - ➢ Discretionary reserves
    - ➢ Amounts to be recovered in future years – debt and employee future benefits
    - ➢ Opening operating and capital fund balances
- The accumulated surplus at December 31, 2018 is $9.1B (2017, $8.8B)
- Discretionary reserves increased to $302.2M (2017, $274.4M)
    - ➢ Refer to Note 10 of the Draft Consolidated Financial Statements for a further breakdown of the Accumulated Surplus

Annual Surplus

- The Annual Surplus is a result of the accrual basis of accounting as required under Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB). The cash basis of accounting used in the preparation of the budget (management reporting) will not yield the same result.
    - ➢ Statutory financial statements present an annual surplus for the year end December 31, 2018 is $357.8M (2017, $688.7M) versus breakeven results in 4th quarter Fiscal Health Report
- Significant differences between Statutory financial statements versus from 4th quarter Fiscal Health Report due to statutory reporting requirements include:
    - ➢ Contributed assets $316.2M (2017, $440.8M) included in statutory reporting revenue not in Fiscal Health Report
    - ➢ Statutory reporting for all Vaughan Hydro Corporations are done on an equity pick up basis, which includes 21.49% of Alectra income less dividends received from Alectra, 100% of VHI net income and 100% of HVEC net loss while 4th quarter results include 75% of Alectra dividends from VHI and do not include the net income or loss of VHI and HVEC
    - ➢ Statutory reporting expenses includes amortization of tangible capital assets of $74.0M (2017, $71.8M) versus reserve contributions of $46.0M in 4th quarter Fiscal Health Report
    - ➢ Statutory reporting includes an adjustment for the decrease in the City's equity interest in the net assets of Alectra of $2.2M (2017, decrease $1.8M) not included in 4th quarter Fiscal Health Report

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

- All Gala and Golf revenue and expenses through the City of Vaughan books have always been included in the City’s consolidated financial statements
- Note that donations made at the Gala are provided directly to the MacKenzie Health Foundation and are not reflected in the City of Vaughan published results. As such, the audited statement does not include $20 million donated by the DeGasperis and Kohn families to the Mackenzie Health Care Foundation.
- A total of $27 million has been raised through Golf and Gala events since 2011 but not all donations flow through the City of Vaughan’s books (as noted above).

ATTACHMENT 2

DRAFT #5
May 14, 2019

Consolidated Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of The Corporation of the City of Vaughan (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 12, 2019

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash and cash equivalents	$ 730,444,327	$ 495,713,988
Taxes receivable	47,789,114	41,301,479
Water and sewer billings receivable	23,111,989	18,658,468
Accounts receivable	22,340,589	15,762,980
Investments (note 3)	87,293,174	85,851,094
Investment in Hydro Vaughan Corporations (note 4)	635,860,859	636,514,705
	1,546,840,052	1,293,802,714
Financial Liabilities		
Accounts payable and accrued liabilities	101,371,381	103,930,589
Accrued interest on long-term liabilities	115,548	137,718
Employee future benefits (note 5)	134,218,756	124,575,834
Deposits and deferred revenue	40,032,009	31,939,480
Deferred revenue - obligatory reserve funds (note 6)	617,005,751	408,877,284
Debenture and other debt (note 7)	59,061,732	56,533,676
Note payable (note 8)	3,303,523	3,303,523
	955,108,700	729,298,104
Net financial assets	591,731,352	564,504,610
Non-Financial Assets		
Tangible capital assets (note 9)	8,551,359,525	8,221,834,718
Prepaid expenses	2,408,580	1,374,477
	8,553,768,105	8,223,209,195
Contractual rights (note 15)		
Commitments (note 16)		
Contingencies (note 17)		
Subsequent event (note 18)		
Accumulated surplus (note 10)	$ 9,145,499,457	$ 8,787,713,805

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, 2018, with comparative information for 2017

	Budget (note 13) (note 1(o))	2018	2017
Revenue (note 12):			
Property taxation	$ 200,724,391	$ 202,262,689	$ 191,089,555
Taxation from other governments	1,500,000	1,495,421	1,451,643
User charges	51,341,052	55,348,100	63,652,074
Water and sewer billings	159,270,885	150,397,663	133,830,685
Government transfers (note 11)	9,697,300	24,422,947	8,055,260
Investment income	3,929,100	6,132,140	5,590,504
Penalties and interest on taxes	5,200,000	5,736,228	5,308,299
Other fees and services	309,850	7,679,527	12,862,779
Contributions from developers	56,018,259	64,587,558	52,314,732
Contributed assets (note 9(b))	–	316,239,032	440,789,763
Hydro Vaughan Corporations (note 4):			
Share of net earnings	8,260,000	25,221,531	12,762,675
Interest on notes receivable	3,802,000	3,743,683	4,111,033
	500,052,837	863,266,519	931,819,002
Expenses (note 12):			
General government	35,930,938	29,951,241	30,447,430
Protection to persons and property	84,190,489	82,375,193	80,893,279
Transportation services	48,045,441	96,917,361	62,103,431
Environmental services	229,139,702	172,668,608	155,509,826
Health services	121,518	106,593	140,241
Social and family services	303,196	129,210	149,323
Recreation and cultural services	108,262,758	99,380,921	98,635,712
Planning and development	51,634,793	21,740,395	22,634,977
	557,628,835	503,269,522	450,514,219
	(57,575,998)	359,996,997	481,304,783
Gain on merger by Vaughan Holdings Inc. (note 4)	–	–	209,196,347
Adjustment for the decrease of the City's equity interest in the net assets of Alectra Inc. (note 4)	–	(2,211,345)	(1,812,578)
Annual surplus (deficit)	(57,575,998)	357,785,652	688,688,552
Accumulated surplus, beginning of year	8,787,713,805	8,787,713,805	8,099,025,253
Accumulated surplus, end of year	$ 8,730,137,807	$ 9,145,499,457	$ 8,787,713,805

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, 2018, with comparative information for 2017

	Budget (note 13) (note 1(o))	2018	2017
Annual surplus (deficit)	$ (57,575,998)	$ 357,785,652	$ 688,688,552
Amortization of tangible capital assets	–	74,041,429	71,754,674
Proceeds on disposal of tangible capital assets	–	120,100	71,614
Loss on disposal of tangible capital assets	–	39,163,780	2,270,979
Acquisition of tangible capital assets	–	(442,850,116)	(541,862,379)
	(57,575,998)	28,260,845	220,923,440
Acquisition of prepaid expenses	–	(1,034,103)	(761,077)
Increase (decrease) in net financial assets	(57,575,998)	27,226,742	220,162,363
Net financial assets, beginning of year	564,504,610	564,504,610	344,342,247
Net financial assets, end of year	$ 506,928,612	$ 591,731,352	$ 564,504,610

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 357,785,652	$ 688,688,552
Items not involving cash:		
Amortization of tangible capital assets	74,041,429	71,754,674
Loss on disposal of tangible capital assets	39,163,780	2,270,979
Contributed tangible capital assets	(316,239,032)	(440,789,763)
Gain on merger by Vaughan Holdings Inc. (note 4)	–	(209,196,347)
Deduct share of net earnings of Hydro Vaughan Corporations	(25,221,531)	(12,762,675)
Change in non-cash assets and liabilities:		
Increase in accounts receivable	(6,577,609)	(923,641)
Decrease in accounts payable and accrued liabilities	(2,559,208)	(14,558,548)
Increase (decrease) in accrued interest on long-term liabilities	(22,170)	26,394
Increase in taxes receivable	(6,487,635)	(3,809,489)
Increase in prepaid expenses	(1,034,103)	(761,077)
Increase in water and sewer billings receivable	(4,453,521)	(273,346)
Increase in deferred revenue - obligatory reserve funds	208,128,467	37,229,328
Increase in employee future benefits	9,642,922	18,698,059
Increase in deposits and deferred revenue	8,092,529	3,998,145
	334,259,970	139,591,245
Capital activities:		
Proceeds on disposal of tangible capital assets	120,100	71,614
Cash used to acquire tangible capital assets	(126,611,084)	(101,072,616)
	(126,490,984)	(101,001,002)
Financing activities:		
Debenture and other debt repaid	(13,576,921)	(8,424,187)
Debenture and other debt incurred	16,104,977	13,186,416
	2,528,056	4,762,229
Investing activities:		
Increase in investments	(1,442,080)	(43,099,801)
Decrease (increase) in investment in Hydro Vaughan Corporations	25,875,377	(44,002,975)
	24,433,297	(87,102,776)
Increase (decrease) in cash and cash equivalents	234,730,339	(43,750,304)
Cash and cash equivalents, beginning of year	495,713,988	539,464,292
Cash and cash equivalents, end of year	$ 730,444,327	$ 495,713,988
Supplemental cash flow information:		
Interest paid	$ 881,561	$ 1,266,745
Interest and dividends received	31,740,490	19,110,625

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 Chartered Professional Accountants of Canada. Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

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

The consolidated financial statements include:

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

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

1. Significant accounting policies (continued):

(ii) Investments in government business enterprises:

The City's investments in Vaughan Holdings Inc., Hydro Vaughan Energy Corporation, 1446631 Ontario Inc. and Alectra 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. On January 31, 2017, PowerStream Holdings Inc. ("PowerStream") merged with Enersource Holdings Inc. ("Enersource") and Horizon Holdings Inc. ("Horizon") to form Alectra Inc. ("Alectra"). Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its consolidated statement of operations and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City receives from the Hydro Vaughan Corporations are reflected as reductions in the investment asset account.

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

The taxation, other revenue, expenses, assets and liabilities with respect to the operations of the Region and the school boards are not reflected in these consolidated financial statements. Information on amounts collected and remitted to the Region and the school boards is provided in note 2.

(iv) Trust funds:

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

(v) Sinking funds:

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

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

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

(c) Cash and cash equivalents:

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

(d) Investments:

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

(e) Long-term debt:

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

(f) Government transfers:

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

(g) Deposits and deferred revenue:

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

1. Significant accounting policies (continued):

(h) Deferred revenue - obligatory reserve funds:

The City receives development charge contributions and payments in lieu of parkland under the authority of provincial legislation and City bylaws. The City also receives federal gas tax revenue and other transfer payment from other levels of governments. These funds, by their nature, are restricted in their use and, until applied to applicable capital works, are recorded as deferred revenue. Amounts applied to qualifying capital projects are recorded as revenue in the fiscal period they are expensed.

(i) Pension, vacation entitlements and employee benefits:

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

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

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

A full actuarial valuation of the post-retirement non-pension benefit obligation and the WSIB obligation was completed in February 2018 for 2017, 2018 and 2019 in accordance with the financial reporting guidelines established by PSAB.

1. Significant accounting policies (continued):

(j) Taxation and related revenue:

Property tax bills are prepared by the City based on assessment rolls issued by the Municipal Property Assessment Corporation. Tax rates are established annually by City Council, incorporating amounts to be raised for local services, the requisition made by the Region in respect of regional services and amounts the City is required to collect on behalf of the Province of Ontario in respect of education taxes. The Province of Ontario has enacted legislation known as "Continued Protection for Property Taxpayers" which, commencing with the 2005 tax year, limits assessment-related increases in property tax bills to 10% annually for commercial, industrial and multi-residential classes of property until the affected properties are taxed at a level equivalent to the tax otherwise calculated based on their current value assessment.

The assessment process includes the issuance of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the City determines the taxes applicable and renders supplementary tax billings. Taxation revenue and taxes receivable are recognized when they meet the definition of an asset, the tax is authorized and taxable event has occurred. Property assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

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

(k) Investment income:

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

(l) Segment disclosures:

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

1. Significant accounting policies (continued):

(m) Non-financial assets:

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

(i) Tangible capital assets:

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

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

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

(ii) Contributions of tangible capital assets:

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

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

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.

1. Significant accounting policies (continued):

(iv) Interest capitalization:

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

(v) Leased tangible capital assets:

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

(n) Use of estimates:

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

(o) Presentation of budget information:

The 2018 budget figures, as presented in these consolidated financial statements, consist of the operating, capital, and water, wastewater and stormwater budgets as approved by City Council.

1. Significant accounting policies (continued):

(p) Adoption of new accounting policies:

The City has adopted the following PSAB Standards effective January 1, 2018:

(i) Assets (PS 3210):

PS 3210 provides additional guidance on the definition of assets and what is meant by economic resources, control, past transactions and events and from which future economic benefits are to be obtained. For the year ended December 31, 2018, all material assets have been disclosed and reported within this definition.

(ii) Contingent assets (PS 3320):

PS 3320 introduces a definition for possible assets arising from existing conditions or situations involving uncertainty which will be ultimately resolved when one or more future events occur that are not wholly within the government's control. Disclosure of a contingent asset is required under this standard when the occurrence of a confirming future event is likely.

Government funding established through an agreement and not yet received at December 31, 2018 are included in receivables and do not fall within this standard.

(iii) Contractual rights (PS 3380):

PS 3380 requires disclosure of information pertaining to future rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Note 15 provides disclosure regarding the nature, extent and timing of contractual rights.

(iv) Related party disclosures (PS 2200):

A related party exists when one party has the ability to exercise control or shared control over the other. Related parties include key management personnel, their close family members and the entities they control or have shared control over. Related party transactions are disclosed if they occurred at a value different from that which would have been arrived at if parties were unrelated and the transaction has a material effect on the consolidated financial statements.

1. Significant accounting policies (continued):

For the year ended December 31, 2018, there are no such related party transactions to disclose. The City has a number of city-wide controls, guidelines and policies to mitigate risk that related party transactions are not identified or non-compliant, including policies covering procurement, conflicts of interest, use of City resources, and standards of behaviour.

(v) Inter-entity transactions (PS 3420):

PS 3420 provides guidance on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The main features of this new standard deal with the measurement of these transactions. All City transactions are recorded at the exchange amount, being the amount agreed to by both parties. For the year ended December 31, 2018, there were no material inter-entity transactions to disclose.

(q) Future accounting pronouncements:

These standards and amendments were not yet effective for the year ended December 31, 2018, and have therefore not been applied in preparing these consolidated financial statements. Management is currently assessing the impact of the following accounting standards updates on the future consolidated financial statements.

(i) PS 3430, Restructuring Transactions, requires that assets and liabilities in restructuring transactions be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 (the City's December 31, 2019 year-end).

(ii) PS 1201, Financial Statement Presentation, was issued in June, 2011. This standard requires entities to present a new statement of remeasurement gains and losses separate from the consolidated statement of operations and accumulated surplus. This new statement includes unrealized gains and losses arising from remeasurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This section is effective for fiscal years beginning on or after April 1, 2019 and applies when PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, are adopted (the City's December 31, 2020 year-end).

1. Significant accounting policies (continued):

(iii) PS 3450, Financial Instruments, establishes the standards on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2021 (the City's December 31, 2022 year-end).

(iv) PS 2601, Foreign Currency Translation, establishes the standards on accounting for and reporting transactions that are denominated in a foreign currency. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2021 (the City's December 31, 2022 year-end). Earlier adoption is permitted. A public sector entity adopting this standard must also adopt the new financial instruments standard.

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

During 2018, requisitions were made by the district school boards and the Region of York requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are not recorded in these consolidated financial statements and are summarized below:

	District school boards	The Region
Property taxes	$ 311,643,140	$ 342,948,003
Taxation from other governments	441,936	666,544
Amounts requisitioned and remitted	$ 312,085,076	$ 343,614,547

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 1.83% to 5.03% (2017 - 1.86% to 5.03%) with maturity dates from April 29, 2019 - December 15, 2025 (2017 - September 14, 2018 to December 15, 2025). Market value of investments costing $87,293,174 (2017 - $85,851,094) is $85,663,590 (2017 - $85,316,459) at December 31, 2018.

4. Investment in Hydro Vaughan Corporations:

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

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

	Interest held	
	2018	2017
Vaughan Holdings Inc. (including 100% ownership of Hydro Vaughan Energy Corporation and 21.49% share interest in Alectra)	100%	100%
1446631 Ontario Inc.	100%	100%

On January 31, 2017, PowerStream merged with Enersource and Horizon to form Alectra. Alectra's primary business is to distribute electricity to customers in municipalities in the greater golden horseshoe area as well as provide non-regulated energy services. In consideration for its disposition of 45.315% share of PowerStream common shares, Vaughan Holdings Inc. received a 21.49% ownership interest in Alectra's issued and outstanding common shares.

Alectra also issued Class S shares to the former PowerStream shareholders related to the Ring Fenced Solar Portfolio, a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the solar division is beneficially owned indirectly by the former PowerStream shareholders and as such, allocates the risks and rewards of the Ring Fenced Solar Portfolio's operations to the former PowerStream shareholders through Alectra's Class S shares. Vaughan Holdings Inc. owns 45.315% of the Class S shares of Alectra.

4. Investment in Hydro Vaughan Corporations (continued):

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

Financial position	2018	2017
Assets		
Current	$ 10,060,751	$ 5,763,979
Investment in Hydro Vaughan Corporations	635,860,859	636,514,705
Other	170,839	123,081
Total assets	$ 646,092,449	$ 642,401,765
Liabilities		
Current	$ 1,007,985	$ 765,223
Total liabilities	1,007,985	765,223
Shareholders' equity		
Share capital	196,859,952	196,859,952
Retained earnings and contributed surplus	448,224,512	444,776,590
Total shareholders' equity	645,084,464	641,636,542
Total liabilities and shareholders' equity	$ 646,092,449	$ 642,401,765

Results of operations and non-operations:

	2018	2017
Revenue	$ 25,526,142	$ 13,077,054
Expenses	304,611	314,379
Net income	$ 25,221,531	$ 12,762,675

4. Investment in Hydro Vaughan Corporations (continued):

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

	2018	2017
Equity	$ 550,858,189	$ 542,710,019
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	869,645	9,671,661
Investment in Hydro Vaughan Corporations	$ 635,860,859	$ 636,514,705

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

	2018	2017
Equity pickup in Hydro Vaughan Corporations	$ 25,221,531	$ 12,762,675
Payment of deferred interest	(8,802,015)	–
Gain on merger	–	209,196,347
Increase (decrease) in share capital	(4,422,691)	49,882,539
Dividend	(12,650,671)	(5,879,564)
Net change in investment in Hydro Vaughan Corporations	(653,846)	265,961,997
Opening investment in Hydro Vaughan Corporations	636,514,705	370,552,708
Closing investment in Hydro Vaughan Corporations	$ 635,860,859	$ 636,514,705

Notes receivable of $84,133,025 includes an unsecured note receivable from Alectra in the amount of $78,236,285, repayable within 90 days following demand by the City. The note receivable was renegotiated in 2017 and now bears interest at an annual rate of 4.41% down from 5.58% and the interest for eight quarters commencing October 1, 2006 on the note receivable was previously deferred for five years. The deferred interest was renegotiated in 2013 to defer eight quarterly interest payments for a period of five years at a reduced interest rate of 4.03%. The previously deferred interest amounting to $8,743,130 was repaid by Alectra on October 31, 2018. The remaining $5,896,740 portion of the note receivable represents an amount due from Vaughan Holdings Inc. without interest and no specified terms of repayment.

4. Investment in Hydro Vaughan Corporations (continued):

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

5. Employee future benefits:

The components of the liability for employee future benefits are as follows:

	2018	2017
Post-retirement non-pension benefits [d]	$ 120,859,117	$ 111,867,453
Vacation entitlements [c]	6,648,433	6,362,681
WSIB [b]	6,711,206	6,345,700
	$ 134,218,756	$ 124,575,834

(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 $29,091,253 in 2018 (2017 - $27,577,358), of which $14,586,957 (2017 - $13,856,538) represented the City's portion.

(b) Workplace safety and insurance obligations:

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

An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability of $6,711,206 (2017 - $6,345,700) reported in these consolidated financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to $1,000,000.

5. Employee future benefits (continued):

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is $6,648,433 (2017 - $6,362,681).

(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, 2018 of $120,859,117 (2017 - $111,867,453) and the expense for the year ended December 31, 2018 of $10,895,324 (2017 - $14,149,446) was determined by actuarial valuation using a discount rate of 3.5% (2017 - 3.5%).

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

	2018	2017
Accrued benefit obligation:		
Balance, end of prior year	$ 111,867,453	$ 99,074,000
Actuarial loss	3,337,484	3,594,214
Prior service adjustment	–	3,575,805
Service cost	6,415,204	6,398,164
Interest cost	4,223,391	3,918,747
Unamortized actuarial loss	(3,080,755)	(3,337,484)
Benefits paid	(1,903,660)	(1,355,993)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	$ 120,859,117	$ 111,867,453

5. Employee future benefits (continued):

Components of benefit expense:

		2018		2017
Service cost	$	6,415,204	$	6,398,164
Prior service adjustment		–		3,575,805
Interest cost		4,223,391		3,918,747
Amortization of actuarial loss		256,729		256,730
Benefit expense	$	10,895,324	$	14,149,446

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

(i) Interest (discount) rate:

The rate used to discount future benefits in the City's 2017 actuarial study is assumed to be 3.50% (2017 - 3.50%) per annum reflecting Canadian Municipal bond yields and lending rates.

(ii) Salary levels:

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

(iii) Medical costs:

Medical costs were assumed to increase at 6.20% in 2018 decreasing by about 0.25% per year to 4.50% in 2025 and thereafter.

(iv) Dental costs:

Dental costs were assumed to increase at 4.50% in 2018 and thereafter.

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

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:

	2018	2017
Recreational land (The Planning Act)	$ 67,884,484	$ 63,483,795
Development Charges Act	493,043,286	289,867,550
Sub-divider contributions	13,080,990	11,777,937
Federal gas tax	27,395,908	27,029,668
Building Standards Act	12,847,968	15,938,530
Ontario grants	2,753,115	779,804
	$ 617,005,751	$ 408,877,284

Deferred revenue - obligatory reserve funds continuity schedule:

	Opening balance	Received	Recognized as revenue	Other	Closing balance
Recreational land (The Planning Act)	$ 63,483,795	$ 23,732,266	$ (20,689,652)	$ 1,358,075	$ 67,884,484
Development Charges Act	289,867,550	240,552,764	(44,834,342)	7,457,314	493,043,286
Sub-divider contributions	11,777,937	592,377	(468,319)	1,178,995	13,080,990
Federal gas tax	27,029,668	9,182,666	(9,357,684)	541,258	27,395,908
Building Standards Act	15,938,530	66,000	(3,444,571)	288,009	12,847,968
Ontario grants	779,804	–	749,262	1,224,049	2,753,115
	$ 408,877,284	$ 274,126,073	$ (78,045,306)	$ 12,047,700	$ 617,005,751

7. Debenture and other debt:

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

	2018	2017
Debenture debt issued by the Region:		
Serial debt	$ 29,621,590	$ 36,260,288
Debt payable to Block 11 Landowners' Group for Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain	148,750	7,086,973
Debt payable to YMCA for construction of City Library and Recreation Space in the Vaughan Metropolitan Centre	29,291,392	13,186,415
	$ 59,061,732	$ 56,533,676

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

In 2017, the City entered into an agreement with the YMCA of Greater Toronto to be a funding partner for the construction of a YMCA, City Library and City Recreation Space in the Vaughan Metropolitan Centre. The YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation to obtain a construction loan for the project that converts to a term loan within three years from the date of the first construction loan advance. The City is responsible for payment of all interest and principal in respect of its agreed upon share of the financed project costs and is the guarantor of the YMCA's obligations under the Financing Agreement. The construction loan is a non-revolving floating rate loan with interest-only payments. The term loan will be a non-revolving fixed rate loan with principal and interest payments due over an amortization period of up to 20 years. The City's obligation outstanding at December 31, 2018 includes accrued construction and interest costs to date.

7. Debenture and other debt (continued):

Principal payments, including repayment from the sinking fund, are as follows:

	Block 11 Landowners' Group	YMCA	York Region	Total
2019	$ 148,750	$ 161,097	$ 6,678,696	$ 6,988,543
2020	–	1,092,386	5,733,698	6,826,084
2021	–	1,456,515	5,733,698	7,190,213
2022	–	1,456,515	4,453,098	5,909,613
2023	–	1,456,515	2,208,400	3,664,915
2024- 2040	–	23,668,364	4,814,000	28,482,364
	$ 148,750	$ 29,291,392	$ 29,621,590	$ 59,061,732

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

	2018	2017
Principal payments, including contributions to the sinking fund	$ 13,576,921	$ 8,424,187
Interest	881,561	1,266,745
	$ 14,458,482	$ 9,690,932

8. Note payable:

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

9. Tangible capital assets:

2018	Cost				Accumulated amortization				Net book value, December 31, 2018
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
Land	$ 5,848,741,325	$ 290,965,355	$ (29,457,122)	$ 6,110,249,558	$ –	$ –	$ –	$ –	$ 6,110,249,558
Land improvements	180,874,580	7,533,564	(207,876)	188,200,268	84,715,116	6,140,007	(186,155)	90,668,968	97,531,300
Buildings and facilities	361,236,402	5,210,254	–	366,446,656	127,161,166	10,763,393	–	137,924,559	228,522,097
Machinery and equipment	38,416,941	3,954,265	(1,655,160)	40,716,046	22,549,632	3,294,390	(1,650,854)	24,193,168	16,522,878
Vehicles	32,800,044	2,890,431	(1,041,729)	34,648,746	21,225,773	2,010,149	(1,039,439)	22,196,483	12,452,263
Furniture and fixtures	11,116,510	620,796	(901)	11,736,405	6,205,854	604,896	(901)	6,809,849	4,926,556
Information technology	7,429,689	1,621,336	–	9,051,025	5,403,616	906,577	–	6,310,193	2,740,832
Leasehold improvements	3,110,393	–	–	3,110,393	2,538,116	16,803	–	2,554,919	555,474
Roads infrastructure	1,003,618,795	34,073,692	(5,888,554)	1,031,803,933	458,524,991	29,029,399	(3,683,262)	483,871,128	547,932,805
Water and sewer infrastructure	1,715,487,786	40,910,327	(173,723)	1,756,224,390	379,210,804	21,275,815	(126,980)	400,359,639	1,355,864,751
Assets under construction	126,537,321	55,070,096	(7,546,406)	174,061,011	–	–	–	–	174,061,011
	$ 9,329,369,786	$ 442,850,116	$ (45,971,471)	$ 9,726,248,431	$ 1,107,535,068	$ 74,041,429	$ (6,687,591)	$ 1,174,888,906	$ 8,551,359,525

2017	Cost				Accumulated amortization				Net book value, December 31, 2017
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
Land	$ 5,483,625,798	$ 365,115,527	$ –	$ 5,848,741,325	$ –	$ –	$ –	$ –	$ 5,848,741,325
Land improvements	173,255,219	7,619,361	–	180,874,580	78,929,997	5,785,119	–	84,715,116	96,159,464
Buildings and facilities	353,161,460	10,496,909	(2,421,967)	361,236,402	118,257,276	10,578,589	(1,674,699)	127,161,166	234,075,236
Machinery and equipment	37,425,821	2,676,919	(1,685,799)	38,416,941	20,914,227	3,319,348	(1,683,943)	22,549,632	15,867,309
Vehicles	32,334,274	1,965,600	(1,499,830)	32,800,044	20,785,837	1,939,398	(1,499,462)	21,225,773	11,574,271
Furniture and fixtures	11,081,397	35,113	–	11,116,510	5,607,119	598,735	–	6,205,854	4,910,656
Information technology	6,477,696	951,993	–	7,429,689	4,560,651	842,965	–	5,403,616	2,026,073
Leasehold improvements	3,110,393	–	–	3,110,393	2,494,574	43,542	–	2,538,116	572,277
Roads infrastructure	955,343,454	51,723,619	(3,448,278)	1,003,618,795	432,762,409	27,935,255	(2,172,673)	458,524,991	545,093,804
Water and sewer infrastructure	1,651,085,272	64,710,670	(308,156)	1,715,487,786	358,732,915	20,711,723	(233,834)	379,210,804	1,336,276,982
Assets under construction	90,213,827	36,566,668	(243,174)	126,537,321	–	–	–	–	126,537,321
	$ 8,797,114,611	$ 541,862,379	$ (9,607,204)	$ 9,329,369,786	$ 1,043,045,005	$ 71,754,674	$ (7,264,611)	$ 1,107,535,068	$ 8,221,834,718

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of $174,061,011 (2017 - $126,537,321) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Tangible capital assets transferred from assets under construction to other asset categories during the year is $37,444,221 (2017 - $28,989,675).

(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 $316,239,032 (2017 - $440,789,763) comprising of land and land improvements of $260,831,461 (2017 - $349,473,194), roads infrastructure of $21,124,899 (2017 - $33,024,666), and water and wastewater infrastructure of $34,282,672 (2017 - $58,291,903).

(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.

10. Accumulated surplus (deficit):

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

	2018	2017
Surplus (deficit):		
Investment in tangible capital assets	$ 8,551,359,525	$ 8,221,834,718
Amounts to be recovered in future years:		
From future revenue	(130,545,724)	(130,122,334)
From reserves and reserve funds on hand	(25,648,194)	(23,380,588)
Investment in Hydro Vaughan Corporations (note 4)	635,860,859	636,514,705
Other	(187,728,899)	(191,516,770)
	8,843,297,567	8,513,329,731
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	3,931,896	4,447,672
Fire equipment replacement	4,536,101	4,593,896
General working capital	15,981,459	13,615,860
Tax rate stabilization	2,090,520	1,472,453
Waterworks	77,251,496	67,422,124
Wastewater (sanitary sewers)	58,226,519	46,992,055
Stormwater reserve	27,801,947	25,740,984
Keele Valley landfill	696,544	1,219,409
Heritage Fund	3,374,856	3,128,049
Employee benefits	25,648,194	23,380,588
Buildings	15,479,937	17,257,461
Roads infrastructure	8,220,575	8,093,858
Sale of public lands	6,963,216	6,974,414
Parks infrastructure	5,239,340	6,081,933
Other	17,210,862	15,646,377
Debenture payments	5,250,886	2,789,771
Engineering	1,841,923	4,744,260
Planning	1,032,623	1,014,389
City Hall Funding	29,160	28,612
Expenditure reserve	2,749,278	2,551,916
Capital from taxation	18,644,558	17,187,993
	302,201,890	274,384,074
	$ 9,145,499,457	$ 8,787,713,805

11. Government transfers:

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

	2018	2017
Provincial grants:		
General government	$ 80,007	$ 80,000
Transportation services	372,327	–
Environmental services	4,047,868	5,509
Recreation and cultural services	243,774	186,287
Planning and development	468,769	477,661
	5,212,745	749,457
Federal grants:		
General government	363,858	200,344
Transportation services	8,839,256	6,791,008
Environmental services	8,323,090	(365,117)
Recreation and cultural services	1,683,998	679,568
	19,210,202	7,305,803
	$ 24,422,947	$ 8,055,260

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.

12. Segmented information (continued):

2018	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	$ 26,876,172	$ 30,784,114	$ 36,218,611	$ 64,527,315	$ 88,121	$ 37,139,259	$ 8,124,518	$ –	$ 203,758,110
User charges	3,492,866	4,735,624	740,619	1,924,556	101,592	20,644,700	23,708,143	–	55,348,100
Water and sewer billings	–	–	–	150,397,663	–	–	–	–	150,397,663
Investment income	808,844	926,453	1,090,006	1,941,962	2,652	1,117,714	244,509	–	6,132,140
Other fees and services	200,888	11,969	1,542,335	(74,701)	1,440,466	1,685,196	2,873,374	–	7,679,527
Government transfers	443,865	–	9,211,583	12,370,958	–	1,927,772	468,769	–	24,422,947
Penalties and interest on taxes	756,622	866,639	1,019,632	1,816,581	2,481	1,045,550	228,723	–	5,736,228
Contributions from developers	45,609	2,064,414	31,146,834	(5,531,260)	–	35,151,521	1,710,440	–	64,587,558
Hydro Vaughan Corporations	–	–	–	–	–	–	–	28,965,214	28,965,214
Contributed assets	–	–	–	–	–	–	–	316,239,032	316,239,032
	32,624,866	39,389,213	80,969,620	227,373,074	1,635,312	98,711,712	37,358,476	345,204,246	863,266,519
Expenses:									
Salaries and benefits	42,260,252	67,155,285	6,110,904	9,149,901	32,879	56,700,393	18,382,494	–	199,792,108
Goods and services	22,427,156	4,556,804	17,835,047	117,743,381	140,525	17,428,017	1,830,279	–	181,961,209
Long-term debt interest	–	–	881,561	–	–	–	–	–	881,561
Other	(2,529,564)	117,277	(469,421)	5,862,329	36,075	621,896	(2,015,693)	–	1,622,899
Corporate support allocation	2,242,869	8,686,123	2,938,437	16,752,084	26,324	9,126,348	2,194,504	(41,966,689)	–
Loss on disposal of tangible capital assets	88,534	(10,561)	34,792,144	4,031,262	–	262,401	–	–	39,163,780
Amortization of tangible capital assets	5,727,042	1,810,588	30,135,795	21,811,158	–	14,472,711	84,135	–	74,041,429
Other capital related	1,701,641	59,677	4,692,894	(2,681,507)	–	769,155	1,264,676	–	5,806,536
	71,917,930	82,375,193	96,917,361	172,668,608	235,803	99,380,921	21,740,395	(41,966,689)	503,269,522
Annual surplus (deficit) before the undernoted	(39,293,064)	(42,985,980)	(15,947,741)	54,704,466	1,399,509	(669,209)	15,618,081	387,170,935	359,996,997
Adjustment for the increase of the City's equity interest in the net assets of Alectra (note 4)	–	–	–	–	–	–	–	(2,211,345)	(2,211,345)
Annual surplus (deficit)	$ (39,293,064)	$ (42,985,980)	$ (15,947,741)	$ 54,704,466	$ 1,399,509	$ (669,209)	$ 15,618,081	$ 384,959,590	$ 357,785,652

12. Segmented information (continued):

2017	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
Revenue:									
Property and other taxation	$ 27,496,127	$ 31,783,130	$ 24,400,560	$ 61,100,118	$ 113,770	$ 38,754,166	$ 8,893,327	$ –	$ 192,541,198
User charges	6,049,715	4,732,219	1,676,852	2,011,173	81,581	20,413,224	28,687,310	–	63,652,074
Water and sewer billings	–	–	–	133,830,685	–	–	–	–	133,830,685
Investment income	798,360	922,835	708,479	1,774,064	3,304	1,125,241	258,221	–	5,590,504
Other fees and services	657,101	294,761	(18,271)	65,867	8,877,751	1,189,491	1,796,079	–	12,862,779
Government transfers	280,344	–	6,791,008	(359,608)	–	865,855	477,661	–	8,055,260
Penalties and interest on taxes	758,058	876,251	672,717	1,684,511	3,137	1,068,440	245,185	–	5,308,299
Contributions from developers	93,269	725,497	8,767,432	100,677	–	41,297,812	1,330,045	–	52,314,732
Hydro Vaughan Corporations	–	–	–	–	–	–	–	16,873,708	16,873,708
Contributed assets	–	–	–	–	–	–	–	440,789,763	440,789,763
	36,132,974	39,334,693	42,998,777	200,207,487	9,079,543	104,714,229	41,687,828	457,663,471	931,819,002
Expenses:									
Salaries and benefits	39,509,178	66,751,300	7,868,295	10,955,522	44,453	53,703,749	17,474,498	–	196,306,995
Goods and services	20,422,194	3,919,251	18,255,237	107,487,985	176,546	16,941,824	1,429,137	–	168,632,174
Long-term debt interest	–	–	1,266,745	–	–	–	–	–	1,266,745
Other	287,172	160,968	(698,257)	376,640	36,075	653,150	13,981	–	829,729
Corporate support allocation	2,184,626	8,250,409	3,247,175	15,130,204	32,490	8,527,868	2,161,951	(39,534,723)	–
Loss on disposal of tangible capital assets	(30,303)	(34,955)	1,401,982	101,617	–	804,884	27,754	–	2,270,979
Amortization of tangible capital assets	5,661,467	1,706,003	29,047,721	21,156,489	–	14,116,181	66,813	–	71,754,674
Other capital related	1,947,819	140,303	1,714,533	301,369	–	3,888,056	1,460,843	–	9,452,923
	69,982,153	80,893,279	62,103,431	155,509,826	289,564	98,635,712	22,634,977	(39,534,723)	450,514,219
Annual surplus (deficit) before the undernoted	(33,849,179)	(41,558,586)	(19,104,654)	44,697,661	8,789,979	6,078,517	19,052,851	497,198,194	481,304,783
Gain on merger by Vaughan Holdings Inc. (note 4)	–	–	–	–	–	–	–	209,196,347	209,196,347
Adjustment for the decrease of the City's equity interest in the net assets of Alectra (note 4)	–	–	–	–	–	–	–	(1,812,578)	(1,812,578)
Annual surplus (deficit)	$ (33,849,179)	$ (41,558,586)	$ (19,104,654)	$ 44,697,661	$ 8,789,979	$ 6,078,517	$ 19,052,851	$ 704,581,963	$ 688,688,552

12. Segmented information (continued):

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

(a) General government:

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

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

(e) Health, social and family services:

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

12. Segmented information (continued):

(f) Recreation and cultural services:

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

(g) Planning and development:

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

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

13. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2018 operating and capital budgets approved by Council on January 30, 2018. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements:

	Budget amount
Revenue:	
Operating budget	$ 298,286,720
Water budget	69,234,466
Wastewater budget	82,502,216
Stormwater budget	9,730,543
Capital budget	146,500,653
Less:	
Transfers from other funds	(59,690,507)
Proceeds from debt issue	(45,345,593)
Hospital levy	7,094,339
Hydro Dividends	(8,260,000)
	500,052,837
Expenses:	
Operating budget	298,286,720
Water budget	61,136,949
Wastewater budget	84,032,486
Stormwater budget	8,572,598
Capital budget	146,500,653
Less:	
Transfers from other funds	(39,351,498)
Debt principal payments	(8,643,412)
Hospital levy	7,094,339
	557,628,835
Annual deficit	$ (57,575,998)

14. Trust funds:

Trust funds administered by the City amounting to $1,411,960 (2017 - $1,369,152) are presented in a separate financial statement of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and consolidated financial activities.

15. Contractual rights:

The City is involved with various contracts and agreements arising in the ordinary course of business. This results in contractual rights to economic resources, leading to both assets and revenue in the future.

The City has a number of federal and provincial funding agreements with estimated future funding of $61.3 million (for the period 2019 to 2023). The City has also entered into a number of third party contracts to provide shared services with estimated future recoveries of $15.8 million (for the period 2019 to 2020). Future revenues from lease agreements for City-owned properties are approximately $2.6 million (for the period 2019 to 2066).

16. 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 and snow clearing, obtaining City Council and other approvals as required. Expenses relating to these agreements are recorded in the year in which the payments are made. For these lease and operating commitments, minimum payments have been estimated as follows:

2019	$ 48,393,000
2020	40,468,000
2021	26,259,000
2022	18,890,000
2023	16,639,000
Thereafter	58,493,000
	$ 209,142,000

(b) Loan guarantees:

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

(i) for the accumulated sum not exceeding $5.0 million with the Ontario Soccer Association. The loan balance as at December 31, 2018 is $3.7 million (2017 - $4.1 million).

16. Commitments (continued):

(ii) for the accumulated sum not exceeding $4.5 million with the Mentena Development Group. The loan balance as at December 31, 2018 is $3.4 million (2017 - $3.8 million).

(iii) for the total obligations outstanding under the Financing Agreement between the YMCA of Greater Toronto Area and Ontario Infrastructure and Lands Corporation in connection with the construction of a YMCA, City Library and City Recreation Space in the Vaughan Metropolitan Centre.

(c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, which was continued by Alectra and the City, Alectra charges the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to Alectra. The total commitment under the agreement for 2018 is $1.8 million in charges to the City by Alectra. A new five-year agreement was finalized in 2016 before the merger with Alectra in February 2017 and this agreement continues through 2020.

(d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining City Council and other approvals as required. The total value of approved and outstanding capital works at December 31, 2018 is approximately $222.9 million. Expenses relating to capital works are recorded in the year in which expenses are incurred and measurable as a result of receipt of goods or services under/or the creation of a legal obligation.

(e) Vaughan Hospital Precinct Development Plan:

In 2009, the City approved a grant in the amount of $80 million, being a contribution toward the local share for land acquisition and development of a hospital in Vaughan. A special property tax levy was approved in 2009 to collect the funds of the grant required to cover the land and development costs. The total contribution is anticipated to be collected by 2022. In August 2010, the City purchased land for the hospital in the amount of $60 million. The cost of the land is included in the City's tangible capital assets. The remaining $20 million has been spent on development costs.

17. Contingencies:

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

18. Subsequent event:

On January 1, 2019, Alectra amalgamated with Guelph Hydro Electric Systems Inc. ("GHESI"). Alectra issued 485,000 Class G common shares to Guelph Municipal Holdings Inc. ("GMHI") in consideration for all the issued and outstanding shares of GHESI. This common share issuance by Alectra represents an effective 4.6% interest in its aggregate issued and outstanding classes of common shares. The amalgamation is expected to result in more efficient and enhanced service delivery through lower operating costs, while providing significant benefits for communities and shareholders.

The new shareholder ownership structure as a result of this merger is as follows: Barrie Hydro Holdings - 8.4%, Enersource Corporation - 29.6%, Hamilton Utilities Corporation - 17.3%, Markham Enterprises Corporation - 15.0%, St. Catharines Hydro Inc. - 4.6%, Vaughan Holdings Inc. - 20.5% and GMHI - 4.6%.

The accounting and valuation for the amalgamation is still being finalized. Consequently, disclosures regarding the amount of the purchased assets and liabilities cannot be determined.

DRAFT #6a
May 21, 2019

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

And Independent Auditors' Report thereon

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The Corporation of the City of Vaughan Public Library Board (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and accumulated surplus for the year then ended
- the statement of change in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

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THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	$ 8,172	$ 4,448
Due from the City of Vaughan (note 5)	210,356	310,385
	218,528	314,833
Financial Liabilities		
Accounts payable and accrued liabilities	193,611	252,594
Employee future benefits (note 2(b))	6,810,000	6,653,000
Deferred revenue	37,863	70,537
	7,041,474	6,976,131
Net debt	(6,822,946)	(6,661,298)
Non-Financial Assets		
Prepaid expenses	12,946	8,298
Tangible capital assets (note 3)	9,218,063	8,580,734
	9,231,009	8,589,032
Accumulated surplus (note 4)	$ 2,408,063	$ 1,927,734

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018 (note 6)	Actual 2018	Actual 2017
Revenue:			
Municipal contributions (note 5)	$ 16,817,325	$ 18,872,578	$ 17,018,715
Province of Ontario grants	145,200	209,344	152,171
Fees, rental and sundry	427,350	382,478	367,658
	17,389,875	19,464,400	17,538,544
Expenses:			
Salaries and wages	11,663,243	11,159,093	10,516,391
Employee benefits	2,785,923	2,796,833	2,783,268
General administration	797,937	867,561	788,065
Maintenance and repairs	549,441	551,633	503,164
Periodicals	498,898	432,886	500,134
Utilities	540,912	386,948	400,866
Office furniture and technology	262,400	356,415	193,979
Cleaning services	125,200	122,520	126,602
Programmes	54,800	78,754	63,824
Supplies	90,121	87,429	76,559
Consulting and outside services	21,000	20,225	4,325
Amortization of tangible capital assets (note 3)	–	2,123,774	2,063,411
	17,389,875	18,984,071	18,020,588
Annual surplus (deficit)	–	480,329	(482,044)
Accumulated surplus, beginning of year	1,927,734	1,927,734	2,409,778
Accumulated surplus, end of year	$ 1,927,734	$ 2,408,063	$ 1,927,734

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Change in Net Debt

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Annual surplus (deficit)	$ 480,329	$ (482,044)
Net (increase) decrease in prepaid expenses	(4,648)	5,895
Acquisition of tangible capital assets	(2,765,409)	(1,905,367)
Amortization of tangible capital assets	2,123,774	2,063,411
Loss on disposal of tangible capital assets	4,306	–
Increase in net debt	(161,648)	(318,105)
Net debt, beginning of year	(6,661,298)	(6,343,193)
Net debt, end of year	$ (6,822,946)	$ (6,661,298)

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	$ 480,329	$ (482,044)
Items not involving cash:		
Amortization of tangible capital assets	2,123,774	2,063,411
Loss on disposal of tangible capital assets	4,306	–
Increase in employee future benefits	157,000	324,000
Change in non-cash assets and liabilities:		
Accounts payable and accrued liabilities	(58,983)	113,943
Prepaid expenses	(4,648)	5,895
Due from the City of Vaughan	100,029	(160,000)
Deferred revenue	(32,674)	40,456
	2,769,133	1,905,661
Capital activities:		
Purchase of tangible capital assets	(2,765,409)	(1,905,367)
Increase in cash	3,724	294
Cash, beginning of year	4,448	4,154
Cash, end of year	$ 8,172	$ 4,448

See accompanying notes to financial statements.

The Corporation of the City of Vaughan Public Library Board (the "Library") is a local board of the Corporation of the City of Vaughan (the "City of Vaughan"). The Library is deemed to be a separate incorporated public library board established under the Public Libraries Act (Ontario) and is responsible for providing public library services that reflect the community's needs.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements of the Library are prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(b) Accrual basis of accounting:

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

(c) Non-financial assets:

(i) Tangible capital assets:

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

1. Significant accounting policies (continued):

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

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

(ii) Contributions of tangible capital assets:

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

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

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

(iv) Leased tangible capital assets:

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

(v) Land and buildings:

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

1. Significant accounting policies (continued):

(d) Government transfers:

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

(e) Deferred revenue:

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

(f) Vacation entitlements:

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

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

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

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

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Library's implementation of the PSAB section 3150, Tangible Capital Assets, requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.

(i) Presentation of budget information:

The Library completes an operating budget review each year. The approved budget figures for 2018 are reflected on the statement of operations and accumulated surplus and in note 5. Actual revenue and expenses may differ significantly from annual budgets.

(j) Adoption of new accounting policies:

Effective January 1, 2018, the Library adopted the following standards issued by PSAB:

(i) PS 2200 - Related party disclosures;

(ii) PS 3210 - Assets;

(iii) PS 3320 - Contingent assets;

(iv) PS 3380 - Contractual rights; and

(v) PS 3420 - Inter-entity transactions.

The adoption of these standards has not resulted in any significant impact to the financial statements.

2. Employee future benefits:

(a) Pensions:

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

Total OMERS contributions amounted to $1,838,000 in 2018 (2017 - $1,700,000), of which $919,000 (2017 - $850,000) 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 year in which the employee rendered the services.

The projected benefit obligation for active employees and retirees at December 31, 2018 of $6,416,000 (2017 - $6,285,000) and the expense for the year ended December 31, 2018 of $237,000 (2017 - $375,000) was determined by actuarial valuation using a discount rate of 3.5% (2017 - 3.5%).

2. Employee future benefits (continued):

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

	2018	2017
Accrued benefit obligation:		
Balance, beginning of year	$ 6,285,000	$ 5,966,000
Actuarial gain	(1,752,000)	(1,887,000)
Service	208,000	212,000
Interest	164,000	154,000
Unamortized actuarial gain	1,617,000	1,752,000
Benefits paid	(106,000)	(56,000)
Prior service adjustment	–	144,000
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	$ 6,416,000	$ 6,285,000
Components of benefit expense:		
Service	$ 208,000	$ 212,000
Interest	164,000	154,000
Amortization of actuarial gain	(135,000)	(135,000)
Prior service adjustment	–	144,000
Benefit expense	$ 237,000	$ 375,000

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

	2018	2017
Post-retirement non-pension benefits	$ 6,416,000	$ 6,285,000
Vacation pay	394,000	368,000
	$ 6,810,000	$ 6,653,000

3. Tangible capital assets:

Cost	Balance, December 31, 2017	Additions	Disposals	Balance, December 31, 2018
Books	$ 8,715,219	$ 1,499,550	$ 933,551	$ 9,281,218
Audiovisual materials	3,975,114	641,141	492,075	4,124,180
Furniture and fixtures	2,553,352	214,523	–	2,767,875
Equipment	1,187,681	410,195	19,875	1,578,001
Total	$ 16,431,366	$ 2,765,409	$ 1,445,501	$ 17,751,274

Accumulated amortization	Balance, December 31, 2017	Amortization expense	Disposals	Balance, December 31, 2018
Books	$ 3,757,653	$ 1,285,673	$ 933,551	$ 4,109,775
Audiovisual materials	1,828,989	581,778	492,075	1,918,692
Furniture and fixtures	1,486,231	130,131	–	1,616,362
Equipment	777,759	126,192	15,569	888,382
Total	$ 7,850,632	$ 2,123,774	$ 1,441,195	$ 8,533,211

Net book value	2018	2017
Books	$ 5,171,443	$ 4,957,566
Audiovisual materials	2,205,488	2,146,125
Furniture and fixtures	1,151,513	1,067,121
Equipment	689,619	409,922
Total	$ 9,218,063	$ 8,580,734

4. Accumulated surplus:

Accumulated surplus consists of the following:

	2018	2017
Surplus invested in tangible capital assets (note 3)	$ 9,218,063	$ 8,580,734
Unfunded employee benefits (note 2)	(6,810,000)	(6,653,000)
	$ 2,408,063	$ 1,927,734

5. Related party transactions and balance:

During the year, the Library received municipal contributions from the City of Vaughan of $18,872,578 (2017 - $17,018,715).

Amounts due from the City of Vaughan of $210,356 (2017 - $310,385) have no specific terms of repayment and the amounts do not bear any interest due from the City of Vaughan.

6. Budget data:

The audited budget data presented in these financial statements is based upon the 2018 operating and capital budgets approved by the Library on September 14, 2017. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Revenue:	
Approved operating budget	$ 17,389,875
Approved capital budget	40,271,000
	57,660,875
Less elimination of capital expense budget	40,271,000
Total revenue and expense	$ 17,389,875

DRAFT #2a
May 10, 2019

Financial Statements of

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the Board of Management for the Kleinburg Business Improvement Area (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 12, 2019

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	$ 2,462	$ 2,609
Taxes receivable	5,289	1,728
	7,751	4,337
Financial Liabilities		
Accounts payable and accrued liabilities	4,356	–
Net financial assets	3,395	4,337
Non-Financial Assets		
Prepaid expenses	739	5,256
Accumulated surplus	$ 4,134	$ 9,593

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
	(note 2(e))		
Revenue:			
Kleinburg Business Improvement Area special area levy	$ 46,000	$ 46,000	$ 46,000
Event dollars raised	–	1,433	50
Grants	–	3,767	–
Other income		14,169	1,728
	46,000	65,369	47,778
Expenses:			
Advertising and marketing	14,750	10,631	26,410
Outside contract services	12,500	37,383	10,024
Street Art	5,000	7,194	–
Consulting fees	4,000	1,801	8,164
Chamber of Commerce partnership	4,000	4,520	4,520
Insurance	1,550	1,993	1,517
Miscellaneous	1,800	2,153	570
OBIAA conference and membership	1,650	1,927	1,187
Christmas decoration replacement	750	3,226	–
	46,000	70,828	52,392
Annual deficit	–	(5,459)	(4,614)
Accumulated surplus, beginning of year	9,593	9,593	14,207
Accumulated surplus, end of year	$ 9,593	$ 4,134	$ 9,593

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Changes in Net Financial Assets

Year ended December 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
Annual deficit	$ –	$ (5,459)	$ (4,614)
Use (acquisition) of prepaid expenses	–	4,517	(4,553)
Increase (decrease) in net financial assets	–	(942)	(9,167)
Net financial assets, beginning of year	4,337	4,337	13,504
Net financial assets, end of year	$ 4,337	$ 3,395	$ 4,337

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Annual deficit	$ (5,459)	$ (4,614)
Change in taxes receivable	(3,561)	(1,728)
Change in prepaid expenses	4,517	(4,553)
Change in accounts payable and accrued liabilities	4,356	–
Decrease in cash	(147)	(10,895)
Cash, beginning of year	2,609	13,504
Cash, end of year	$ 2,462	$ 2,609

See accompanying notes to financial statements.

1. Nature of operations:

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

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

2. Significant accounting policies:

(a) Basis of presentation:

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

(b) Accrual basis of accounting:

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

(c) Government transfers:

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

2. Significant accounting policies (continued):

(d) Use of estimates:

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

(e) Budget information:

The audited budget information presented in these financial statements is based on the budget approved by City Council on January 30, 2018.

DRAFT #1
April 9, 2019

Financial Statements of

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of The Corporation of the City of Vaughan Trust Funds (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations and changes in fund balance for the year then ended
- and note to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

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THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

DRAFT Statement of Financial Position

December 31, 2018, with comparative information for 2017

	2018	2017
Financial Assets		
Cash	$ 1,395,348	$ 1,341,536
Due from The Corporation of the City of Vaughan	16,612	27,616
	$ 1,411,960	$ 1,369,152
Fund Balance	$ 1,411,960	$ 1,369,152
	$ 1,411,960	$ 1,369,152

See accompanying note to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

DRAFT Statement of Operations and Changes in Fund Balance

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Sources of funds:		
Capital receipts - sale of plots/markers (note 1(a))	$ 42,808	$ 42,408
Interest earned (note 1(a))	26,196	14,792
	69,004	57,200
Use of funds:		
Maintenance (note 1(a))	26,196	14,792
Net activity	42,808	42,408
Fund balance, beginning of year	1,369,152	1,326,744
Fund balance, end of year	$ 1,411,960	$ 1,369,152

See accompanying note to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN
TRUST FUNDS

DRAFT Note to Financial Statements

Year ended December 31, 2018

1. Significant accounting policies:

(a) General:

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

The City administers the Cemetery 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 operations and changes in fund balance are reported on the cash basis of accounting. Other items are reported on an accrual basis.

DRAFT #5
May 10, 2019

Statement of Revenue and Expenditures and
Fund Balance of

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

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

Qualified Opinion

We have audited the statement of revenue and expenditures and fund balance of Mayor's Gala and Golf Events, and notes, comprising significant accounting policies (Hereafter referred to as the "statement") for the year ended December 31, 2018 for The Corporation of the City of Vaughan (the Entity). The statement has been prepared by management in accordance with the basis of accounting in Note 1 to the statement.

In our opinion, except for the possible effects of the matter described in the ***"Basis for Qualified Opinion"*** section of our report, the accompanying statement for the year ended December 31, 2018 of the Mayor's Gala and Golf Events is prepared, in all material respects, in accordance with the financial reporting framework described in Note 1 to the statement.

Basis for Qualified Opinion

In common with many charitable organizations, the Mayor's Gala and Golf Events derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of the Mayor's Gala and Golf Events.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the revenue and surpluses reported in the statement for the years ended December 31, 2018 and December 31, 2017
- the fund balances, at the beginning and end of the year, reported in the statement for the years ended December 31, 2018 and December 31, 2017

Our opinion on the statement for the year ended December 31, 2017 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Statement"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statement in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 in the statement which describes the applicable financial reporting framework.

The statement is prepared for income purposes only. As a result, the statement may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Statement

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

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

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THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Mayor's Gala Event		
Revenue:		
Revenue received by City, net of harmonized sales tax	$ 583,467	$ 708,594
Expenditures:		
Mayor's Gala Event	170,439	165,262
City administration recovery (note 2)	23,816	25,307
Professional fees	22,147	31,783
	216,402	222,352
Surplus from Mayor's Gala Event	367,065	486,242
Mayor's Golf Tournament		
Revenue:		
Revenue received by City, net of harmonized sales tax	194,142	271,371
Expenditures:		
Mayor's Golf Tournament	83,539	89,572
City administration recovery (note 2)	23,372	21,872
Professional fees	2,125	4,728
	109,036	116,172
Surplus from Mayor's Golf Tournament	85,106	155,199
Total surplus from Mayor's Gala Event and Mayor's Golf Tournament	452,171	641,441
Balance carried forward from previous years	149,017	174,586
Total funds available for distribution	601,188	816,027
City distributions to qualified recipients (note 3)	–	667,010
Fund balance, end of year	$ 601,188	$ 149,017

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

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Notes to Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2018

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1. Basis of accounting:

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

2. City administration recovery:

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

3. City distributions to qualified recipients:

Under a resolution by City Council, recipients for the net proceeds raised from the Mayor's Gala and Golf Events include, but are not limited to, Vaughan-based charities, not-for-profit organizations, community groups and disaster relief assistance. During 2018, no distributions (2017 - $667,010) were made to these qualified recipients.

The Corporation of the City of Vaughan

Audit Findings Report
for the year ended December 31, 2018

KPMG LLP

Licensed Public Accountants

May 13, 2019

kpmg.ca/audit

KPMG

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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Finance, Administration and Audit Committee, in your review of the results of our audit of the consolidated financial statements of the City of Vaughan as at and for the year ended December 31, 2018.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report.

Finalizing the audit

As of May 13, 2019, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of signed management representation letters (to be signed upon City Council approval of the consolidated and related entity financial statements);
- updating our discussions regarding subsequent events, including receipt of the final legal enquiry letter;
- completing our discussions with the Committee;
- obtaining evidence of City Council's approval of the financial statements.

We will update the Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance, Administration and 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.

Executive summary

Adjustments and differences

We did not identify differences that remain uncorrected.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Significant accounting policies and practices

The City adopted 5 new public sector accounting standards in the current year. See page 10 for considerations regarding the implementation of the new standards in the current year financial statements.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial report (ICFR).

Accounting estimates

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

We believe management's process for identifying critical accounting estimates for these balances to be adequate. We did not identify any indicators of possible management bias. See page 13.

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

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why
Fraud risk from revenue recognition	This is a presumed fraud risk. The risk resides with development charges revenue, particularly with respect to revenue recognition on an accrual basis and cut-off of fiscal periods.

Our response and significant findings

In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing development charges revenue, including:

- Evaluated the design and implementation and tested the operating effectiveness of selected relevant controls, including those relating to the tracking and reporting of capital project expenditures.

Other audit procedures included:

- Tested development charges cash receipts and their deferral.
- Obtained the deferred revenue, obligatory reserve fund continuity schedule and selected samples for testing to determine if the original development charges received in prior years were used to fund capital expenditures in the current year and in accordance with the appropriate legislation. Based on our procedures, we conclude that the development charges recorded as revenue in fiscal 2018 were used to fund capital projects.
- Reviewed recognition considerations for the other revenue streams.

We did not identify any issues related to fraud risk associated with revenue recognition.

Audit risks and results

Significant financial reporting risks	Why
Fraud risk from management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.

- Using our Data & Analytics software, we tested manual and automated journal entries by extracting all journal entries recorded in the general ledger system and other adjustments. Please see page 14 for details and results.
- We evaluated the reasonableness of estimates. We found that management's process for identifying accounting estimates is considered adequate.
- We did not identify any significant unusual transactions or any specific additional risks of management override during our audit.

We did not identify any issues related to fraud risk associated with management override of controls.

Other areas of focus

Significant findings from the audit regarding other areas of focus are as follows:

Other area of focus

Vaughan Holdings Inc.

Our response and significant findings

- Vaughan Holdings Inc. ("VHI") is considered a significant component of the City's consolidated financial statements.
- The City recognizes its investment in Hydro Vaughan Corporations using the modified equity method. We reviewed the criteria under Public Sector Accounting Standards ("PSA Standards") PS 3070 – Investment in Government Business Enterprises and noted that the City's investment in Hydro Vaughan Corporations continues to meet all criteria of the standard and therefore it is appropriate to continue to record the investment using the modified equity method of accounting.
- In 2018, the City's share of VHI's net income and dividends paid out totalled $25.2M and $12.7M, respectively (2017 - $12.6M and $5.8M, respectively).
- VHI received a $2.2M (2017 - $1.8M) capital dividend from Alectra, which was recorded as a reduction to VHI's investment in Alectra. VHI issued a similar capital dividend of $2.2M to the City.
- These transactions are described in note 4 to the financial statements.
- We verified the transactions between each of the respective entities, and performed a reconciliation of the amounts reported in the financial statements of the City, VHI, and Alectra as at December 31, 2018.
- **Based on our audit, we conclude that management has appropriately recorded and presented its investment in Hydro Vaughan Corporations using modified equity accounting.**
- There was a subsequent event on January 1, 2019 relating to an amalgamation of Alectra with Guelph Hydro Electric Systems Inc. As a result of the amalgamation, VHI's investment in Alectra effectively changed from 21.49% to 20.5%. This has been described in note 18 to the financial statements.

Other area of focus

YMCA Project

Our response and significant findings

- In 2017, the City entered into an arrangement with YMCA Toronto ("YMCA") and Penguin Calloway Vaughan Partnership for the construction of a YMCA and City Facility (together, "facility") that is within a mixed use building being developed in the Vaughan Metropolitan Centre. The facility will be shared between the City and YMCA for occupancy whereby the City will use 30% of the facility and YMCA will use the remaining 70%. It is intended that the City will enter into a lease to use this 30% portion of the facility for a nominal rent of $1 per year.
- YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation (OILC) to obtain a construction loan of up to $66M, which the City has guaranteed. In the event of default by YMCA, the City is required to assume all liabilities and take first right to ownership of all assets related to the facility, as part of this transaction.
- As at December 31, 2018, the City has spent a cumulative $40.5M (2017 - $24.5M) on the project, comprising:

(millions)	2018	2017
Land	$11.0	$11.0
Land transfer tax	1.5	1.5
The City's portion of the facility	10.8	4.6
The YMCA's portion of the facility	17.2	7.4
	$40.5	$24.5

- The City has reported the $40.5M (2017 - $24.5M) as assets under construction as part of its tangible capital assets. A total of $11.4M (2017 - $11.4M) has been paid by the City with a remainder of $29.3M (2017 - $13.2M) recorded as long-term debt.
- These transactions are described in note 7 to the financial statements, including the repayment schedule of debt payments owing to YMCA.
- We obtained and reviewed relevant agreements related to this facility between the City and other parties. We reviewed the detail of costs related to this facility that were incurred during 2018. We obtained a direct confirmation from YMCA of the long term debt and repayment schedule owing to them.
- We did not note any issues with management's estimates and assumptions and we find the measurement and disclosures related to this project to be appropriate.

Other area of focus

Adoption of public sector accounting standards

Our response and significant findings

Beginning in fiscal 2018, the City is required to adopt the following new public sector accounting standards (PSAS) :

- **PS 2200 – Related Party Disclosures**
  - This standard defines related parties and requires disclosure of material transactions occurring between related parties at a value that is different from that which would have been arrived at if the parties were unrelated.
  - The City has internal policies over procurement and conduct that address conflicts of interest and transactions with individuals or parties at non-arms' length. We held discussions with management who informed us that there were no material related party transactions that were not at fair value during the year. Our findings from our review of Council and committee meeting minutes were consistent in this regard. At the completion of the audit (upon Council approval of the financial statements), we will obtain from management a signed representation letter indicating that there were no related parties or transactions not identified to us or disclosed in the financial statements.
- **PS 3420 – Inter-Entity Transactions**
  - These are transactions occurring between commonly controlled entities. There are no inter-entity transactions to consider as there are no commonly-controlled entities to the City.
- **PS 3380 – Contractual Rights**
  - Contractual rights, which are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future, must be disclosed and described. As at December 31, 2018, there were a number of contracts and commitments for funding support, shared services, and leases. The aggregate amounts for each of these types of arrangements are disclosed in note 15 to the financial statements.
  - For a sample of contracts and commitments, we verified the maximum amount available to the City, ensured that amounts are to be earned in future periods, and recalculated the future portions by deducting actual revenues earned to date on the contracts.
- **PS 3320 – Contingent Assets**
  - Contingent assets, which exist when an unresolved existing condition exists and an expected future event will resolve that uncertainty as to whether an asset exists, must be disclosed. Management has considered a number of circumstances, including litigation where the City is the plaintiff and situations with the potential for recoveries. Management has not identified any contingent assets, which is supported by the City Solicitor. No disclosures are required.
- **PS 3210 – Assets**
  - Items meeting the expanded definition of assets must be recorded as assets in the statement of financial position. The City has recorded all such assets. This standard does not have a significant impact on the financial statements.

Other area of focus

Employee Future Benefits

Our response and significant findings

- Employee future benefits provided by the City, which will require funding in future periods, include post-retirement non-pension benefits and WSIB.
- The post-retirement non-pension benefits include certain health, dental and life insurance benefits for retired employees. WSIB benefits include benefits under the Workplace Safety and Insurance Board Act.
- The liability of these future benefits has been determined by two separate actuarial valuations:
  - **Post-retirement non-pension benefits:** A full actuarial valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019.
  - **WSIB**: A valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019.
- We reviewed the 2018 projections made in the 2017 actuarial valuation reports. We obtained written confirmation from management's experts (the actuaries), and performed an evaluation of the competence, capabilities, and objectivity of the actuaries, as required by professional standards when using their work as audit evidence.
- Our procedures included an assessment of management's estimates and assumptions used in determining the valuation of the liability, including management's best estimates over inflation rate, discount rate, benefit cost trend rates, retirement age and expected average remaining service life.
- The details related to employee future benefits are described in note 5 to the financial statements.
- **We did not note any issues with management's estimates and assumptions and we find the measurement and disclosures of post-retirement non-pension benefits and WSIB liability to be appropriate.**

Critical accounting estimates

Under Public Sector (PS) Accounting Standards, management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Asset / liability	KPMG comments
Employee Future Benefits	– We reviewed actuarial reports regarding estimates related to Employee Future Benefits, and conducted tests of detail to assess the reliability of the information used within the reports. – We recalculated the accruals based on the information noted above and did not identify any discrepancies.
Contingent Liabilities	– PSAS section PS3300 - Contingent Liabilities requires that the City recognize a liability when "it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements, and the amount can be reasonably estimated." – At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as collectability of certain accounts receivable, legal claims, contract settlement accruals, etc. – KPMG has reviewed the City's assessments of contingent liabilities, including evaluation by the City Solicitor thereon, and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years, and has been appropriately reviewed. – As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates of exposure given the information presently available.

We believe management's process for identifying critical accounting estimates is considered adequate.

Technology in the audit

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

Areas of the audit where Technology and D&A routines were used

Area	Our results and insights
Journal entry testing	We utilized our proprietary D&A tool, IDEA, to evaluate the completeness of the journal entry population through a roll-forward of all accounts, analyze journal entries and determine sub-populations for more focused and risk-based testing, and apply certain criteria to sub-populations to identify potential high-risk journal entries for further testing. — We did not identify any issues with completeness through our roll-forward procedures. — We are satisfied with the results of our testing of specific relevant journal entries, which were identified for testing using the computer assisted auditing techniques.
Tangible capital assets	**WIP transfers to asset additions:** We utilized IDEA to ensure that asset additions to tangible capital assets recorded in the Citywide database transferred from work in progress are removed from work in progress completely. — We compared the asset additions listing to transfers out of work in progress and we investigated any significant asset additions that are not completely removed from work in progress. — We did not identify any issues with the completeness of transfers out of work in progress as any remaining items were supported. **Disposals:** We utilized IDEA to verify that assets that were disposed of during the year were completely removed from the register of assets in the Citywide database. — Our comparison of the disposals listing to the asset register continued to list assets that were disposed of, however, consistent with our findings in the past, they were identified with unique asset IDs and were all reported at nil cost values. — We did not identify any issues with the overstatement of assets being retained on the books for disposed assets. **Depreciation expense:** We utilized IDEA to analyze depreciation expense on an asset level. — We replicated the formula used to determine individual assets' annual amortization expense and recalculated an expected amount after verifying the appropriate inputs were used. — We did not find any issues in our recalculation of amortization expense compared to the amounts recorded by the City.

Holdback completeness

We utilized IDEA to evaluate whether construction holdbacks liabilities have been completely and consistently recorded for significant projects in work in progress at year-end.

- We obtained the asset register for work in progress by project ID and the listing of contractor expenditures by business unit. We compared the holdbacks details from these two listings to identify significant projects that did not include a holdback.
- We did not find any issues with the completeness of holdbacks liabilities.

Cash deposits deferred revenue

We utilized IDEA to evaluate the year-over-year change (on a project level) for 100% of the population of projects for which cash deposits have been collected in the current or prior year.

- We used the cash deposits reconciliation listing for current year and prior year. We extracted cash receipts details from the prior year listing and compared them to cash on hand in the current year listing to determine if the deferred revenue roll-forward was accurately calculated.
- There were no issues with the completeness of prior year deposits in the records of the current year.

Vendor files

We utilized D&A to perform routines over procurement and vendor set-up to identify unusual vendor/payment activity, specifically:

- We identified a number of vendors with blank addresses, which were identified as employees receiving reimbursements, parties receiving refunds, or vendors being paid for less than $5,000.
- New vendors created in 2018 for which there was no payment activity, which were attributed to reasons such as recent setups for quote submissions or payments due later upon completion of long-term projects.

We shared the findings with management and understand that these findings are in the normal course of business and are within the City’s procurement protocols. There were no issues with vendor set-up.

Adjustments and differences

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

Professional standards require that we request of management that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments
We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected difference
We did not identify differences that remain uncorrected.

Audit trends

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	Link to report
Audit Quality 2018	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report
Cyber defense in depth	High walls alone won't defend the castle. Assume that you have been compromised and work on what needs to be done to address it.	Link to report

The 2018 Auditors' Report

Highlights of changes to your 2018 auditors' report
Re-ordering of the auditors' report including moving opinion to the first section.
Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.
Separate section on "Other Information" (e.g. Annual Report).
Expanded descriptions of management's responsibility, including those related to assessing the Entity's ability to continue as a going concern.
New description of responsibilities of those charged with governance.
Expanded descriptions of management's, those charged with governance and auditors' responsibilities.

Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.

Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.

Current developments

Public Sector Accounting Standards

The following are upcoming changes that will be effective in future periods. We have provided an overview of what these standards are and what they mean to your financial reporting so that you may evaluate any impact to your future financial statements.

Standard	Summary and implications
Asset Retirement Obligations	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021 (the City's 2022 year-end). – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022 (the City's 2023 year-end). – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Financial Instruments and Foreign Currency Translation	– New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021 (the City's 2022 year-end). – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – Based on stakeholder feedback received, PSAB is considering certain scope amendments to PS 3450 *Financial Instruments*. An exposure draft with the amendments is expected to be issued in December 2018. The proposed amendments are expected to include the accounting treatment of bond repurchases, scope exclusions for certain activities by the federal government, and improvements to the transitional provisions.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Three Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. A third Invitation to Comment sought guidance on non-traditional pension plans. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships ("P3")	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles ("SOP") was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. – The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, with a liability of the same amount if one exists. Cost would be measured by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.

Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018 and has closed. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes: • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before liabilities. • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). • A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
International Strategy	– PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: KPMG’s Audit approach and methodology

Appendix 4: Background and professional standards

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit.

These include:

Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft consolidated financial statements.

Management representation letter

In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee.

Audit findings report

As attached.

Appendix 2: Audit Quality and Risk Management

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

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

Visit our Audit Quality Resources page for more information including access to our audit quality report, Audit quality: Our hands-on process.

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

We do not offer services that would impair our independence.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Rotation of partners
- Performance evaluation
- Development and training
- Appropriate supervision and coaching

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 3: KPMG's audit approach and methodology

This year expanded our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit

A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification

Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers

Deep industry insights

Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations

Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting

Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 4: Background and professional standards

Internal control over financial reporting

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

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

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

Documents containing or referring to the audited financial statements

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

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