

Item:



Finance, Administration and Audit Committee Report

DATE: Wednesday, June 06, 2018

WARD(S): ALL

TITLE: 2017 Draft Consolidated Financial Statements

FROM:

Laura Mirabella, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

Council's approval is requested on the 2017 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 2017 Audit Findings report is attached for Council review.

Report Highlights

- The statutory financial statements are a requirement prescribed by the *Municipal Act, 2001* that show the results of operations for the fiscal year and the financial position at the end of the fiscal year.
- 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 2017 budget and 2018-19 plan, and these differences are explained in this report and in the notes to the financial statements.

Recommendations

1. That the 2017 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management For The 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 be approved. (Attachment 1)
2. That the KPMG Audit Findings Report for the year ended December 2017 be received. (Attachment 2)

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 2017 Mayor's Gala and Golf events. The audited statement does not include \$350,000 in additional funds raised through the Live Auction at the Mayor's Gala on June 8, 2017 on behalf of the MacKenzie Health Care Foundation. Those funds were directed to and administered by the MacKenzie Health Care Foundation.

Unqualified Audit Opinion

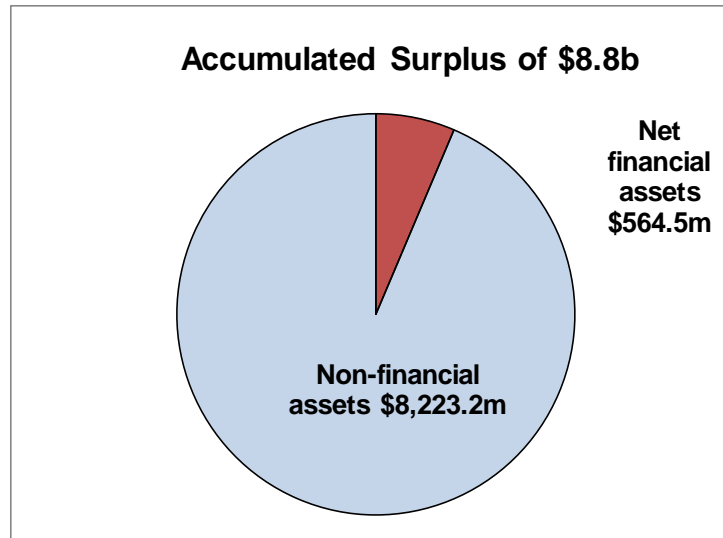
The City has received an “unqualified” audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Account Board (PSAB). Our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2017 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2017 in accordance with public sector accounting standards.

2017 Draft Financial Statements

Consolidated Statement of Financial Position:

The statement of financial position highlights four key figures that describe the financial position of the City at the financial statement date, December 31, 2017:

1. The cash resources of the City are its cash and cash equivalents ended 2017 at \$495.7 m (2016 - \$539.5m).
2. The net financial resources/net debt position of the City is calculated as the difference between financial assets and financial liabilities. Unlike many governments, the City is in a positive and stable net financial resource position at December 31 of \$564.5 m (2016 - \$344.3m).
3. The non-financial assets of the City are assets that are, by nature, normally held for use in the provision of services and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies and prepaid expenses. At the end of 2017, the City has non-financial assets totaling \$8.2b (2016 - \$7.8b) The change in 2017 from the prior year is mainly due to an increase in contributed assets.
4. The total net assets is the sum of the City’s net financial resources and the total non-financial assets and is also called the accumulated surplus (explained below).



Consolidated Statement of Financial Activities:

The statement of operations reports the surplus or deficit from operations in the accounting period. The statement displays the revenues that it has recognized in the period, the cost of City services provided and the difference between them. Our annual surplus for 2017 for statutory purposes was \$688.7m (2016 – 126.0m). This is an increase of \$562.7m over 2016 primarily due to an increase of \$312.5m in contributed assets assumed from developers and a gain on the merger of PowerStream to form Alectra of \$209.2m.

This statement also presents the City's accumulated surplus which is equal to the total net assets on the Statement of Financial Position. The accumulated surplus or deficit of the City is calculated as the sum of the net financial assets (debt) of the City and its non-financial assets and is also calculated by adding the 2017 annual surplus to the 2016 accumulated surplus. The City's Net Asset/Accumulated Surplus position at the end of 2017 is \$8.8b (2016 \$8.1b) itemized as follows:

	2017 (\$b)	2016 (\$b)
Investment in tangible capital assets	8.2	7.7
Investment in Hydro Vaughan Corporations	0.6	0.4
Discretionary Reserves	0.3	0.2
Amounts to be recovered in future years	(0.1)	(0.1)
Other	(0.2)	(0.1)
	8.8	8.1

Consolidated Statement of Change in Net Financial Assets:

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

Cash Flow:

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

	2017	2016
	(\$m)	(\$m)
Cash provided by (used in):		
Operating Activities	141.4	147.0
Capital Activities (acquisition & disposal of tangible capital assets)	(101.0)	(67.8)
Financing Activities (debt incurred and repaid)	4.7	(2.6)
Investment Activities (changes in investment portfolio and hydro)	(88.9)	(14.2)
Net Change in Cash	-43.8	62.4
Cash, Beginning of the Year	539.5	477.1
Cash, End of the Year	495.7	539.5

The increased cash flow used for capital activities was mainly related to land acquisition and development of new infrastructure in the VMC. The increase in investment activities was mainly related to increased investments in the City's long bond portfolio as interest rates increased and the equity contribution related to the Alectra merger.

Budget Presentation vs. Statutory Presentation

The City's statutory financial statements are presented in a different manner from the 2017 Budget and 2018-19 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.

The major differences between the two presentations are:

1. The City's 2017 Budget and 2018-19 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. 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. The City's 2017 budget and 2018-19 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. The City's 2017 Budget and 2018-19 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 2017 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Consolidated 4th Quarter Report ending December 31, 2017 and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

2017 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements	\$	-
Add:		
Water and Wastewater revenues		133.83
Contributed tangible capital assets		440.79
Share of net earnings in Hydro Vaughan Corporations		12.76
Gain on Alectra merger		209.20
Capital fund and other revenues		73.01
Contributions from developers		52.31
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)		(1.81)
Less:		
Amortization		(71.75)
Water and Wastewater expenditures		(121.63)
Post Employment Benefits		(19.51)
PSAB adjustments		(11.72)
Other: financing and transfers		(6.79)
	\$	688.69

Key Transactions

Employee future benefits liability:

Employee future benefits provided by the City include post retirement non-pension benefits and WSIB benefits. The City pays certain health, dental and life insurance benefits on behalf of its retired employees. The City must recognize these costs in the period in which the employee renders the service. The City is currently a self-insured Schedule 2 employer for WSIB obligations. The liability for both of these future benefits has been determined by two separate actuarial valuations.

A full actuarial valuation was performed January 1, 2017 for 3 years from 2017 to 2019 for post-retirement non-pension benefits. The projected liability increased from \$99.1m in 2016 to \$111.9m at December 31, 2017. This includes a prior services adjustment of \$3.6m. The City currently has a reserve of \$23.4m to fund these post retirement non-pension benefits. The current reserve is enough to fund nine years of benefits.

A full actuarial valuation was performed January 1, 2017 for 3 years from 2017 to 2019 for WSIB obligations. The estimated liability for WSIB at December 31, 2017 is \$6.3m, up \$5.2m from the prior year estimate of \$1.1m. The City has a reserve of \$1.2m to fund this liability.

Further details on the liability for employee future benefits can be found in Note 5 of the consolidated financial statements.

Alectra merger:

On February 1, 2017, PowerStream merged with Enersource and Horizon to form Alectra. In consideration for the disposition of 45.315% of PowerStream common shares, Vaughan Holdings Inc.(VHI) received a 21.49% ownership interest in Alectra's issued and outstanding common shares. The 21.49% ownership interest is valued at the fair value of the opening value of Alectra determined by an independent appraisal of each of the amalgamating entities resulting in a gain on merger in the Consolidated Statements of the City of Vaughan of \$209.2m.

Alectra also issued Class S shares to former PowerStream shareholders related to the Ring Fenced Solar Portfolio, now a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the division is beneficially owned indirectly by the former PowerStream shareholders. VHI owns 45.315% of the Class S shares.

The transaction is described in Note 4 of the Consolidated Financial Statements.

YMCA Agreement:

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 and City Library and Recreation Space as part of a mixed use development in the Vaughan Metropolitan Centre.

The YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation to obtain a construction loan of \$66m for the project. In the event of default by the YMCA, the City is required to step in and assume all liabilities and take first right to ownership of all assets related to the project as part of the agreement.

As of December 31, 2017, the City has spent \$24.5m on the construction of the facilities including \$11m for land, \$1.5m for insurance, \$4.6m for the City's portion of the building and \$7.4m for the YMCA's portion of the building. The \$24.5m has been treated as Work in Progress in the tangible capital assets (see Note 9 to the consolidated financial statements) and \$13.2m represents debt outstanding at year-end as described in Note 7 to the consolidated financial statements.

Contributed Assets:

The non-financial assets of the City are assets that are, by nature, normally held for use in the provision of services and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies and prepaid expenses. At the end of 2017, the City has non-financial assets totaling \$8.2b (2016 - \$7.8b). 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. In 2017, approximately \$440.8m contributed assets were recognized compared to \$128.3m recognized in 2016, representing an increase of \$312.5m. Contributed assets are

valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs. The value of these contributed assets fluctuates based on the volume and the unit cost of the assets contributed in a given year. In 2017, the City assumed more assets in land, road network, stormwater and water assets. Land assets, in particular, saw an increase of approximately \$260m. This increase is mainly due to higher volume of the land assets assumed, and in part is attributable to land value appreciation across the City.

Previous Reports/Authority

Not applicable

Analysis and Options

Not applicable

Financial Impact

Not applicable

Broader Regional Impacts/Considerations

Not applicable

Conclusion

The City of Vaughan's 2017 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, 2017 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, 2017 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. 2017 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
2. 2017 Audit Findings Report – KPMG LLP

Prepared by

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

DRAFT #10
May 8, 2018

Consolidated Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN**

Year ended December 31, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of the City of Vaughan (the "City"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Corporation of the City of Vaughan as at December 31, 2017, and its consolidated results of operations and accumulated surplus, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial Assets		
Cash and cash equivalents	\$ 495,713,988	\$ 539,464,292
Taxes receivable	41,301,479	37,491,990
Water and sewer billings receivable	18,658,468	18,385,122
Accounts receivable	15,762,980	14,839,339
Investments (note 3)	85,851,094	42,751,293
Investment in Hydro Vaughan Corporations (note 4)	636,514,705	370,552,708
	<u>1,293,802,714</u>	<u>1,023,484,744</u>
Financial Liabilities		
Accounts payable and accrued liabilities	103,930,589	118,489,137
Accrued interest on long-term liabilities	137,718	111,324
Employee future benefits (note 5)	124,575,834	105,877,775
Deposits and deferred revenue	31,939,480	27,941,335
Deferred revenue - obligatory reserve funds (note 6)	408,877,284	371,647,956
Debenture and other debt (note 7)	56,533,676	51,771,447
Note payable (note 8)	3,303,523	3,303,523
	<u>729,298,104</u>	<u>679,142,497</u>
Net financial assets	564,504,610	344,342,247
Non-Financial Assets		
Tangible capital assets (note 9)	8,221,834,718	7,754,069,606
Prepaid expenses	1,374,477	613,400
	<u>8,223,209,195</u>	<u>7,754,683,006</u>
Commitments (note 15)		
Contingencies (note 16)		
Accumulated surplus (note 10)	<u>\$ 8,787,713,805</u>	<u>\$ 8,099,025,253</u>

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2017, with comparative information for 2016

	Budget (note 13) (note 1(o))	2017	2016
Revenue:			
Property taxation	\$ 191,960,675	\$ 191,089,555	\$ 182,556,293
Taxation from other governments	1,500,000	1,451,643	1,452,411
User charges	47,714,001	63,652,074	59,913,954
Water and sewer billings	150,180,725	133,830,685	132,172,202
Government transfers (note 11)	7,561,286	8,055,260	7,347,025
Investment income	3,566,000	5,590,504	5,025,622
Penalties and interest on taxes	5,200,000	5,308,299	5,018,783
Other fees and services	310,700	12,862,779	5,428,540
Contributions from developers	38,855,282	52,314,732	21,872,934
Contributed assets (note 9(b))	–	440,789,763	128,328,832
Hydro Vaughan Corporations (note 4):			
Share of net earnings	7,420,020	12,762,675	9,957,612
Interest on notes receivable	4,700,000	4,111,033	4,730,859
	<u>458,968,689</u>	<u>931,819,002</u>	<u>563,805,067</u>
Expenses (note 12):			
General government	28,120,641	30,447,430	30,357,293
Protection to persons and property	76,962,325	80,893,279	77,521,266
Transportation services	30,111,276	62,103,431	61,630,670
Environmental services	221,370,740	155,509,826	156,246,882
Health services	123,123	140,241	159,872
Social and family services	317,591	149,323	159,054
Recreation and cultural services	89,985,510	98,635,712	91,224,713
Planning and development	52,126,489	22,634,977	18,652,209
	<u>499,117,695</u>	<u>450,514,219</u>	<u>435,951,959</u>
	(40,149,006)	481,304,783	127,853,108
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. (2016 - PowerStream Holdings Inc.) (note 4)	–	(1,812,578)	(1,812,600)
Annual surplus (deficit)	(40,149,006)	688,688,552	126,040,508
Accumulated surplus, beginning of year	8,099,025,253	8,099,025,253	7,972,984,745
Accumulated surplus, end of year	<u>\$ 8,058,876,247</u>	<u>\$ 8,787,713,805</u>	<u>\$ 8,099,025,253</u>

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, 2017, with comparative information for 2016

	Budget (note 13) (note 1(o))	2017	2016
Annual surplus (deficit)	\$ (40,149,006)	\$ 688,688,552	\$ 126,040,508
Amortization of tangible capital assets	–	71,754,674	68,983,367
Proceeds on disposal of tangible capital assets	–	71,614	9,537
Loss on disposal of tangible capital assets	–	2,270,979	1,420,589
Acquisition of tangible capital assets	–	(541,862,379)	(196,155,501)
	(40,149,006)	220,923,440	298,500
Use (acquisition) of prepaid expenses	–	(761,077)	742,543
Increase (decrease) in net financial assets	(40,149,006)	220,162,363	1,041,043
Net financial assets, beginning of year	344,342,247	344,342,247	343,301,204
Net financial assets, end of year	\$ 304,193,241	\$ 564,504,610	\$ 344,342,247

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 688,688,552	\$ 126,040,508
Items not involving cash:		
Amortization of tangible capital assets	71,754,674	68,983,367
Loss on disposal of tangible capital assets	2,270,979	1,420,589
Contributed tangible capital assets	(440,789,763)	(128,328,832)
Gain on merger by Vaughan Holdings Inc. (note 4)	(209,196,347)	-
Deduct share of net earnings of Hydro Vaughan Corporations	(12,762,675)	(9,957,612)
Decrease of the City's equity interest in the net assets of Alectra Inc. (2016 - PowerStream Holdings Inc.) (note 4)	1,812,578	1,812,600
Change in non-cash assets and liabilities:		
Decrease (increase) in accounts receivable	(923,641)	3,054,468
Increase (decrease) in accounts payable and accrued liabilities	(14,558,548)	6,259,913
Increase (decrease) in accrued interest on long-term liabilities	26,394	(103,255)
Decrease (increase) in taxes receivable	(3,809,489)	3,707,893
Decrease (increase) in prepaid expenses	(761,077)	742,543
Increase in water and sewer billings receivable	(273,346)	(1,101,911)
Increase in deferred revenue - obligatory reserve funds	37,229,328	62,469,628
Increase in employee future benefits	18,698,059	7,038,251
Increase in deposits and deferred revenue	3,998,145	4,972,979
	<u>141,403,823</u>	<u>147,011,129</u>
Capital activities:		
Proceeds on disposal of tangible capital assets	71,614	9,537
Cash used to acquire tangible capital assets	(101,072,616)	(67,826,669)
	<u>(101,001,002)</u>	<u>(67,817,132)</u>
Financing activities:		
Debenture and other debt repaid	(8,424,187)	(15,641,794)
Debenture and other debt incurred	13,186,416	13,028,000
	<u>4,762,229</u>	<u>(2,613,794)</u>
Investing activities:		
Increase in investments	(43,099,801)	(22,903,487)
Decrease (increase) in investment in Hydro Vaughan Corporations	(45,815,553)	8,700,593
	<u>(88,915,354)</u>	<u>(14,202,894)</u>
Increase (decrease) in cash and cash equivalents	(43,750,304)	62,377,309
Cash and cash equivalents, beginning of year	539,464,292	477,086,983
Cash and cash equivalents, end of year	<u>\$ 495,713,988</u>	<u>\$ 539,464,292</u>
Supplemental cash flow information:		
Interest paid	\$ 1,266,745	\$ 2,753,846
Interest and dividends received	19,110,625	19,684,596

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements

Year ended December 31, 2017

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

1. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Consolidated entities:

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

The consolidated financial statements include:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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. (2016 - PowerStream Holdings 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. Under the modified equity basis, the business enterprise's account 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 schools boards are not reflected in these consolidated financial statements. Information on amounts collected and remitted to the Region is provided in note 2.

(iv) Trust funds:

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

(v) Sinking funds:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

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

(c) Cash and cash equivalents:

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

(d) Investments:

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

(e) Long-term debt:

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

(f) Government transfers:

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

(g) Deposits and deferred revenue:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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

A full actuarial valuation of the post-retirement non-pension 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.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(j) Taxation and related revenue:

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

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

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

(k) Investment income:

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

(l) Segment disclosures:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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

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

(ii) Contributions of tangible capital assets:

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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 2017 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.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(p) Future accounting pronouncements:

These standards and amendments were not effective for the year ended December 31, 2017, 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 3210, Assets, provides a definition of assets and further expands that definition as it relates to control. The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).
- (ii) PS 3320, Contingent Assets, defines contingent assets and outlines two basic characteristics of contingent assets: (a) an existing condition or situation that is unresolved at the financial statement date, (b) an expected future event that will resolve the uncertainty as to whether an asset exists. The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).
- (iii) PS 3380, Contractual Rights, defines contractual rights to future assets and revenue. The standard requires that a public sector entity's contractual rights to certain types of revenue for a considerable period into the future or revenues that are abnormal in relation to the financial position or usual business operations should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and timing. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).
- (iv) PS 2200, Related Party Disclosures, establishes related party disclosure requirements and defines related parties. This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts have been recognized. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

- (v) PS 3430, Restructuring Transactions, requires that assets and liabilities in restructuring transactions to 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).
- (vi) PS 3420, Inter-Entity Transactions, relates to the measurement of related party transactions and includes a decision tree to support the standard. Transactions are recorded at carrying amounts other than certain exceptions. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the City's December 31, 2018 year-end).
- (vii) 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 recently been deferred and is now effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2020 year-end).
- (viii) 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, 2019 (the City's December 31, 2020 year-end). Earlier adoption is permitted. A public sector entity adopting this standard must also adopt the new financial instruments standard.
- (ix) 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 CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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

During 2017, 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	\$ 301,905,723	\$ 329,857,509
Taxation from other governments	441,608	653,011
Amounts requisitioned and remitted	\$ 302,347,331	\$ 330,510,520

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 1.86% to 5.03% (2016 - 1.90% to 5.03%) with maturity dates September 14, 2018 to December 15, 2025 (2016 - May 30, 2017 to June 2, 2025). Market value of investments costing \$85,851,094 (2016 - \$42,751,293) is \$85,316,459 (2016 - \$43,005,476) at December 31, 2017.

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	
	2017	2016
Vaughan Holdings Inc. (including 100% ownership of Hydro Vaughan Energy Corporation and 21.49% (2016 - 45.315%) share interest in Alectra Inc. (2016 - PowerStream))	100%	100%
1446631 Ontario Inc.	100%	100%

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

4. Investment in Hydro Vaughan Corporations (continued):

On January 31, 2017, PowerStream Holdings Inc. ("PowerStream") merged with Enersource Holdings Inc. ("Enersource") and Horizon Holdings Inc. ("Horizon") to form Alectra Inc. ("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 Holdings Inc. 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.

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	2017	2016
Assets		
Current	\$ 703,941,790	\$ 295,802,972
Capital	2,892,000,000	1,203,054,000
Investment in Hydro Vaughan Corporations	636,514,705	370,552,708
Other	519,303,035	(105,199,804)
Total assets	\$ 4,751,759,530	\$ 1,764,209,876
Liabilities		
Current	739,765,223	587,283,146
Long-term debt	2,094,000,000	553,031,000
Total liabilities	2,833,765,223	1,140,314,146
Shareholders' equity		
Share capital	1,166,859,952	497,535,257
Retained earnings and contributed surplus	751,134,355	126,360,473
Total shareholders' equity	1,917,994,307	623,895,730
Total liabilities and shareholders' equity	\$ 4,751,759,530	\$ 1,764,209,876

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

4. Investment in Hydro Vaughan Corporations (continued):

	2017	2016
Results of operations and non-operations:		
Revenue	\$ 3,237,278,174	\$ 1,357,512,168
Expenses	3,176,888,059	1,335,318,787
Net income	\$ 60,390,115	\$ 22,193,381

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

	2017	2016
Equity pickup Hydro Vaughan Corporations	\$ 12,762,675	\$ 9,957,612
Gain on merger	209,196,347	–
Increase (decrease) in share capital	49,882,539	(3,625,200)
Dividend	(5,879,564)	(6,887,993)
Net change in equity in Hydro Vaughan Corporations	265,961,997	(555,581)
Opening investment in Hydro Vaughan Corporations	370,552,708	371,108,289
Closing investment in Hydro Vaughan Corporations	\$ 636,514,705	\$ 370,552,708

Notes receivable of \$84,133,025 includes an unsecured note receivable from Alectra Inc. 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 has been deferred for five years. The deferred interest was renegotiated in 2013 to defer eight quarterly interest payments for a period of five years at a reduced interest rate of 4.03%. The remaining \$5,896,740 portion of the note receivable represents an amount due from Vaughan Holdings Inc. without interest and no specified terms of repayment.

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Employee future benefits:

(a) Pension:

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

Total OMERS contributions amounted to \$27,577,358 in 2017 (2016 - \$26,012,546), of which \$13,856,538 (2016 - \$12,911,593) 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 \$6,345,700 (2016 - \$1,108,237) 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.

(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 \$6,362,681 (2016 - \$5,695,538).

(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, 2017 of \$111,867,453 (2016 - \$99,074,000) and the expense for the year ended December 31, 2017 of \$14,149,745 (2016 - \$7,818,000) was determined by actuarial valuation using a discount rate of 3.50% (2016 - 4.25%).

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Employee future benefits (continued):

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

	2017	2016
Accrued benefit obligation:		
Balance, end of prior year	\$ 99,074,000	\$ 92,726,000
Actuarial loss (gain)	3,594,214	(7,264,000)
Prior service adjustment	3,575,805	–
Service cost	6,398,164	4,678,000
Interest cost	3,918,747	3,800,000
Unamortized actuarial gain (loss)	(3,337,484)	6,604,000
Benefits paid	(1,355,993)	(1,470,000)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 111,867,453	\$ 99,074,000

Components of benefit expense:

	2017	2016
Service cost	\$ 6,398,164	\$ 4,678,000
Prior service adjustment	3,575,805	–
Interest cost	3,918,747	3,800,000
Amortization of actuarial gain (loss)	256,730	(660,000)
Benefit expense	\$ 14,149,446	\$ 7,818,000

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

(i) Interest (discount) rate:

The rate used to discount future benefits in City's 2017 actuarial study is assumed to be 3.50% per annum reflecting Canadian Municipal bond yields and lending rates. The discount rate for 2016 of 4.25% corresponds to the assumed CPI rate of 2.00% plus an assumed real rate of return of 2.25%.

(ii) Salary levels:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Employee future benefits (continued):

(iii) Medical costs:

Medical costs were assumed to increase at 6.20% in 2017 decreasing by about 4.0% per year to 4.50% in 2025 and thereafter.

(iv) Dental costs:

Dental costs were assumed to increase at 4.50% in 2017 and in each future year until 2025 and thereafter.

(v) Expected average remaining service life (EARSL) of the current active group is assumed to be 14 years.

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

	2017	2016
Post-retirement non-pension benefits	\$ 111,867,453	\$ 99,074,000
Vacation entitlements	6,362,681	5,695,538
WSIB	6,345,700	1,108,237
	<u>\$ 124,575,834</u>	<u>\$ 105,877,775</u>

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:

	2017	2016
Recreational land (The Planning Act)	\$ 63,483,795	\$ 68,122,322
Development Charges Act	289,867,550	249,043,454
Sub-divider contributions	11,777,937	10,823,228
Federal gas tax	27,029,668	25,121,115
Building Standards Act	15,938,530	16,541,843
Ontario Grants	779,804	1,995,994
	<u>\$ 408,877,284</u>	<u>\$ 371,647,956</u>

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

6. Deferred revenue - obligatory reserve funds (continued):

Deferred revenue - obligatory reserve funds continuity schedule:

	Opening balance	Received	Recognized as revenue	Other	Closing balance
Recreational land (The Planning Act)	\$ 68,122,322	\$ 16,775,264	\$ (22,074,818)	\$ 661,027	\$ 63,483,795
Development Charges Act	249,043,454	66,596,631	(28,868,324)	3,095,789	289,867,550
Sub-divider contributions	10,823,228	1,649,623	(780,925)	86,011	11,777,937
Federal gas tax	25,121,115	8,920,442	(7,298,551)	286,662	27,029,668
Building Standards Act	16,541,843	485,781	(1,259,271)	170,177	15,938,530
Ontario Grants	1,995,994	–	(1,216,190)	–	779,804
	\$ 371,647,956	\$ 94,427,741	\$ (61,498,079)	\$ 4,299,666	\$ 408,877,284

7. Debenture and other debt:

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

	2017	2016
Debenture debt issued by the Region:		
Serial debt	\$ 36,260,288	\$ 42,860,985
Sinking fund debt	–	1,823,489
	36,260,288	44,684,474
Debt payable to Block 11 Landowners' Group for Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain, principal portion is \$5,413,221 and \$1,673,752, respectively	7,086,973	7,086,973
Debt payable to YMCA for construction of City Library and Recreation Space in the Vaughan Metropolitan Centre	13,186,415	–
	\$ 56,533,676	\$ 51,771,447

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.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

7. Debenture and other debt (continued):

In 2009 the City entered into an agreement to pay its share of the construction of Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain. The obligation is without interest and is payable in 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 principle 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 principle and interest payments due over an amortization period of up to 20 years. The City's obligation outstanding at December 31, 2017 includes accrued construction and interest costs to date.

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

	Block 11 Landowners' Group	YMCA	York Region	Total
2018	\$ 6,945,303	\$ 22,073	\$ 6,638,697	\$ 13,606,073
2019	141,670	–	6,678,697	6,820,367
2020	–	658,217	5,733,698	6,391,915
2021	–	658,217	5,733,698	6,391,915
2022	–	658,217	4,453,098	5,111,315
2023 - 2028	–	11,189,691	7,022,400	18,212,091
	\$ 7,086,973	\$ 13,186,415	\$ 36,260,288	\$ 56,533,676

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

	2017	2016
Principal payments, including contributions to the sinking fund	\$ 8,424,187	\$ 15,641,794
Interest	1,266,745	2,753,846
	\$ 9,690,932	\$ 18,395,640

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

8. Note payable:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

9. Tangible capital assets:

	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	
2017									
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

	Cost				Accumulated amortization				Net book value, December 31, 2016
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2016									
Land	\$ 5,380,712,743	\$ 102,913,055	\$ -	\$ 5,483,625,798	\$ -	\$ -	\$ -	\$ -	\$ 5,483,625,798
Land improvements	170,360,859	3,624,240	729,880	173,255,219	74,087,462	5,507,722	665,187	78,929,997	94,325,222
Buildings and building improvements	337,769,824	16,436,779	1,045,143	353,161,460	108,675,829	10,188,426	606,979	118,257,276	234,904,184
Machinery and equipment	35,039,791	3,948,960	1,562,930	37,425,821	19,440,492	3,036,665	1,562,930	20,914,227	16,511,594
Vehicles	30,761,419	2,255,434	682,579	32,334,274	19,634,641	1,833,775	682,579	20,785,837	11,548,437
Furniture and fixtures	10,231,402	849,995	-	11,081,397	5,065,812	541,307	-	5,607,119	5,474,278
Information technology	5,611,056	905,121	38,481	6,477,696	3,559,996	1,027,557	26,902	4,560,651	1,917,045
Leasehold improvements	3,110,393	-	-	3,110,393	2,317,336	177,238	-	2,494,574	615,819
Roads infrastructure	931,240,692	24,172,383	69,621	955,343,454	406,137,855	26,680,253	55,699	432,762,409	522,581,045
Water and sewer infrastructure	1,616,297,169	35,771,577	983,474	1,651,085,272	339,211,814	19,990,424	469,323	358,732,915	1,292,352,357
Assets under construction	85,323,487	5,277,957	387,617	90,213,827	-	-	-	-	90,213,827
	\$ 8,606,458,835	\$ 196,155,501	\$ 5,499,725	\$ 8,797,114,611	\$ 978,131,237	\$ 68,983,367	\$ 4,069,599	\$ 1,043,045,005	\$ 7,754,069,606

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$126,537,321 (2016 - \$90,213,827) 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 \$415,013 (2016 - \$27,946,794).

(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 \$440,789,763 (2016 - \$128,328,832) comprised of land and land improvements of \$349,473,194 (2016 - \$92,716,625), roads infrastructure of \$33,024,666 (2016 - \$9,883,182), and water and wastewater infrastructure of \$58,291,903 (2016 - \$25,729,025)

(c) Tangible capital assets disclosed at nominal values:

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

(d) Works of art and historical treasures:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

10. Accumulated surplus (deficit):

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

	2017	2016
Surplus (deficit):		
Investment in tangible capital assets	\$ 8,221,834,718	\$ 7,754,069,606
Amounts to be recovered in future years:		
From future revenue	(130,122,334)	(121,728,165)
From reserves and reserve funds on hand	(23,380,588)	(22,141,333)
Investment in Hydro Vaughan Corporations (note 4)	636,514,705	370,552,708
Other	(191,516,770)	(128,378,594)
	<u>8,513,329,731</u>	<u>7,852,374,222</u>
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	4,447,672	3,943,785
Fire equipment replacement	4,593,896	5,141,770
General working capital	13,615,860	15,342,710
Tax rate stabilization	1,472,453	60,296
Waterworks	67,422,124	54,535,516
Wastewater (sanitary sewers)	46,992,055	59,350,833
Stormwater reserve	25,740,984	-
Keele Valley landfill	1,219,409	1,683,738
Heritage Fund	3,128,049	2,939,580
Employee benefits	23,380,588	22,141,333
Buildings	17,257,461	20,369,270
Roads infrastructure	8,093,858	7,919,106
Sale of public lands	6,974,414	6,636,745
Parks infrastructure	6,081,933	6,998,715
Other	15,646,377	13,022,834
Debenture payments	2,789,771	3,508,125
Engineering	4,744,260	1,936,524
Planning	1,014,389	1,006,667
City Hall Funding	28,612	28,308
Expenditure reserve	2,551,916	2,899,563
Capital from taxation	17,187,993	17,185,613
	<u>274,384,074</u>	<u>246,651,031</u>
	<u>\$ 8,787,713,805</u>	<u>\$ 8,099,025,253</u>

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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:

	2017	2016
Provincial grants:		
General government	\$ 80,000	\$ 70,585
Environmental services	5,509	–
Recreation and cultural services	186,287	249,337
Planning and development	477,661	310,073
	<u>749,457</u>	<u>629,995</u>
Federal grants:		
General government	200,344	474,016
Transportation services	6,791,008	4,621,160
Environmental services	(365,117)	1,181,356
Recreation and cultural services	679,568	428,034
Planning and development	–	12,464
	<u>7,305,803</u>	<u>6,717,030</u>
	<u>\$ 8,055,260</u>	<u>\$ 7,347,025</u>

12. Segmented information:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

12. Segmented information (continued):

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

12. Segmented information (continued):

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

(a) General government:

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

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

(e) Health services, social and family services:

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

12. Segmented information (continued):

(f) Recreation and cultural services:

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

(g) Planning and development:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

13. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2017 operating and capital budgets approved by Council on December 13, 2016. 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	\$ 278,356,881
Water budget	62,682,652
Wastewater budget	76,609,304
Stormwater budget	12,481,953
Capital budget	114,405,627
Less:	
Transfers from other funds	(55,308,216)
Proceeds from debt issue	(29,933,831)
Hospital levy	7,094,339
Hydro Dividends	(7,420,020)
	<u>458,968,689</u>
Expenses:	
Operating budget	278,356,881
Water budget	55,027,984
Wastewater budget	68,517,019
Stormwater budget	6,949,371
Capital budget	114,405,627
Less:	
Transfers from other funds	(22,606,675)
Debt principal payments	(8,626,851)
Hospital levy	7,094,339
	<u>499,117,695</u>
Annual deficit	<u>\$ (40,149,006)</u>

14. Trust funds:

Trust funds administered by the City amounting to \$1,369,152 (2016 - \$1,326,744) are presented in a separate financial statement of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and consolidated financial activities.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

15. Commitments:

(a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments, such as waste collection 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:

2018	\$ 35,218,600
2019	25,929,900
2020	20,717,500
2021	19,486,100
2022	15,921,300
Thereafter	69,249,100
	<hr/> \$ 186,522,500 <hr/>

(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, 2017 is \$4.1 million (2016 - \$4.4 million).
- (ii) for the accumulated sum, not exceeding \$4.5 million with the Mentena Development Group. The loan balance as at December 31, 2017 is \$3.8 million (2016 - \$4.4 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 2017 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.

THE CORPORATION OF THE CITY OF VAUGHAN

DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

15. Commitments (continued):

(d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining City Council and other approvals as required. The total value of approved and outstanding capital works at December 31, 2017 is approximately \$229.4 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.

16. Contingencies:

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

DRAFT #4
April 24, 2018

Financial Statements of

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

Year ended December 31, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Corporation of the City of Vaughan Public Library Board, which comprise the statement of financial position as at December 31, 2017, the statements of operations and accumulated surplus, change in net debt and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Vaughan Public Library Board as at December 31, 2017, and its results of operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial Assets		
Cash	\$ 4,448	\$ 4,154
Due from the City of Vaughan	310,385	150,385
	<u>314,833</u>	<u>154,539</u>
Financial Liabilities		
Accounts payable and accrued liabilities	252,594	138,651
Employee future benefits (note 2(b))	6,653,000	6,329,000
Deferred revenue	70,537	30,081
	<u>6,976,131</u>	<u>6,497,732</u>
Net debt	(6,661,298)	(6,343,193)
Non-Financial Assets		
Prepaid expenses	8,298	14,193
Tangible capital assets (note 3)	8,580,734	8,738,778
	<u>8,589,032</u>	<u>8,752,971</u>
Accumulated surplus (note 4)	<u>\$ 1,927,734</u>	<u>\$ 2,409,778</u>

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Statement of Operations and Accumulated Surplus

Year ended December 31, 2017, with comparative information for 2016

	Budget 2017 (note 5)	Actual 2017	Actual 2016
Revenue:			
Municipal contributions	\$ 15,600,542	\$ 17,018,715	\$ 18,256,935
Province of Ontario grants	145,200	152,171	199,091
Fees, rental and sundry	397,900	367,658	366,046
	<u>16,143,642</u>	<u>17,538,544</u>	<u>18,822,072</u>
Expenses:			
Salaries and wages	10,818,536	10,516,391	9,837,466
Employee benefits	2,516,639	2,783,268	2,293,505
General administration	785,500	788,065	749,281
Maintenance and repairs	555,700	503,164	501,208
Periodicals	459,000	500,134	470,539
Utilities	474,540	400,866	370,236
Office furniture and technology	243,700	193,979	301,177
Cleaning services	130,200	126,602	114,511
Supplies	84,827	76,559	58,660
Programmes	51,000	63,824	83,536
Consulting and outside services	24,000	4,325	16,653
Amortization of tangible capital assets (note 3)	–	2,063,411	1,696,584
	<u>16,143,642</u>	<u>18,020,588</u>	<u>16,493,356</u>
Annual surplus (deficit)	–	(482,044)	2,328,716
Accumulated surplus, beginning of year	2,409,778	2,409,778	81,062
Accumulated surplus, end of year	<u>\$ 2,409,778</u>	<u>\$ 1,927,734</u>	<u>\$ 2,409,778</u>

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, 2017, with comparative information for 2016

	2017	2016
Annual surplus (deficit)	\$ (482,044)	\$ 2,328,716
Net decrease in prepaid expenses	5,895	68,684
Acquisition of tangible capital assets	(1,905,367)	(4,097,300)
Amortization of tangible capital assets	2,063,411	1,696,584
Increase in net debt	(318,105)	(3,316)
Net debt, beginning of year	(6,343,193)	(6,339,877)
Net debt, end of year	\$ (6,661,298)	\$ (6,343,193)

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, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus (deficit)	\$ (482,044)	\$ 2,328,716
Items not involving cash:		
Amortization of tangible capital assets	2,063,411	1,696,584
Increase in employee future benefits	324,000	72,000
Change in non-cash assets and liabilities:		
Accounts payable and accrued liabilities	113,943	48,090
Prepaid expenses	5,895	68,684
Due from the City of Vaughan	(160,000)	(121,920)
Deferred revenue	40,456	5,586
	<u>1,905,661</u>	<u>4,097,740</u>
Capital activities:		
Purchase of tangible capital assets	(1,905,367)	(4,097,300)
Increase in cash	294	440
Cash, beginning of year	4,154	3,714
Cash, end of year	<u>\$ 4,448</u>	<u>\$ 4,154</u>

See accompanying notes to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements

Year ended December 31, 2017

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Accrual basis of accounting:

Revenue and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as they become available and measurable; expenditures are the costs of goods and services and are recognized when acquired in the period, 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 period.

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

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and 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 Corporation of the City of Vaughan and are not recorded as tangible capital assets in the Library's financial statements.

(d) Government transfers:

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

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

(e) Deferred revenue:

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

(f) Vacation entitlements:

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

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

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

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

(h) Use of estimates:

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

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

1. Significant accounting policies (continued):

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

(i) Presentation of budget information:

The Library completes an operating budget review each year. The approved budget figures for 2017 are reflected on the statement of operations and accumulated surplus and in note 5. Actual revenue and expenses may differ significantly from annual budgets.

2. Employee future benefits:

(a) Pensions:

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

Total OMERS contributions amounted to \$1,700,000 in 2017 (2016 - \$1,566,000), of which \$850,000 (2016 - \$783,000) 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 City recognizes these post retirement non-pension benefit costs in the period in which the employee rendered the services.

The projected benefit obligation for active employees and retirees at December 31, 2017 of \$6,285,000 (2016 - \$5,965,000) and the expense for the year ended December 31, 2017 of \$231,000 (2016 - \$137,000) was determined by actuarial valuation using a discount rate of 3.5% (2016 - 4.25%).

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

2. Employee future benefits (continued):

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

	2017	2016
Accrued benefit obligation:		
Balance, beginning of year	\$ 5,966,000	\$ 5,916,000
Actuarial gain	(1,887,000)	(2,425,000)
Service	212,000	202,000
Interest	154,000	155,000
Unamortized actuarial gain	1,752,000	2,205,000
Benefits paid	(56,000)	(87,000)
Prior service adjustment	144,000	-
Projected accrued benefit obligation, end of year, as determined by actuarial valuation		
	\$ 6,285,000	\$ 5,966,000
Components of benefit expense:		
Service	\$ 212,000	\$ 202,000
Interest	154,000	155,000
Amortization of actuarial loss	(135,000)	(220,000)
Prior service adjustment	144,000	-
Benefit expense	\$ 375,000	\$ 137,000

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

	2017	2016
Post-retirement non-pension benefits	\$ 6,285,000	\$ 5,966,000
Vacation pay	368,000	363,000
	\$ 6,653,000	\$ 6,329,000

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

3. Tangible capital assets:

Cost	Balance, December 31, 2016	Additions	Disposals	Balance, December 31, 2017
Books	\$ 8,423,802	\$ 1,244,529	\$ 953,112	\$ 8,715,219
Audiovisual materials	3,948,366	466,934	440,186	3,975,114
Furniture and fixtures	2,547,350	6,002	–	2,553,352
Equipment	999,779	187,902	–	1,187,681
Total	\$ 15,919,297	\$ 1,905,367	\$ 1,393,298	\$ 16,431,366

Accumulated amortization	Balance, December 31, 2016	Amortization expense	Disposals	Balance, December 31, 2017
Books	\$ 3,469,882	\$ 1,240,883	\$ 953,112	\$ 3,757,653
Audiovisual materials	1,694,229	574,946	440,186	1,828,989
Furniture and fixtures	1,363,359	122,872	–	1,486,231
Equipment	653,049	124,710	–	777,759
Total	\$ 7,180,519	\$ 2,063,411	\$ 1,393,298	\$ 7,850,632

Net book value	2017	2016
Books	\$ 4,957,566	\$ 4,953,920
Audiovisual materials	2,146,125	2,254,137
Furniture and fixtures	1,067,121	1,183,991
Equipment	409,922	346,730
Total	\$ 8,580,734	\$ 8,738,778

THE CORPORATION OF THE CITY OF VAUGHAN PUBLIC LIBRARY BOARD

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

4. Accumulated surplus (deficit):

Accumulated surplus (deficit) consists of the following:

	2017	2016
Surplus invested in tangible capital assets (note 3)	\$ 8,580,734	\$ 8,738,778
Unfunded employee benefits (note 2)	(6,653,000)	(6,329,000)
	<u>\$ 1,927,734</u>	<u>\$ 2,409,778</u>

5. Budget data:

The audited budget data presented in these financial statements is based upon the 2017 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	\$ 16,143,642
Approved capital budget	37,263,572
	<u>53,407,214</u>
Less elimination of capital expense budget	37,263,572
Total revenue and expense	<u>\$ 16,143,642</u>

DRAFT #6
April 23, 2018

Financial Statements of

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

Year ended December 31, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Board of Management for the Kleinburg Business Improvement Area, which comprise the statement of financial position as at December 31, 2017, the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Board of Management for the Kleinburg Business Improvement Area as at December 31, 2017, and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial Assets		
Cash	\$ 2,609	\$ 13,504
Taxes receivable	1,728	—
Financial Liabilities		
Accounts payable and accrued liabilities	—	—
Net financial assets	4,337	13,504
Non-Financial Assets		
Prepaid expenses	5,256	703
Accumulated surplus	\$ 9,593	\$ 14,207

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, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
Revenue:			
Kleinburg Business Improvement			
Area special area levy	\$ 46,000	\$ 46,000	\$ 40,000
Event dollars raised	–	50	20,385
Other income	–	1,728	–
	<u>46,000</u>	<u>47,778</u>	<u>60,385</u>
Expenses:			
Advertising and marketing	20,000	26,410	50,815
Outside contract services	10,000	10,024	–
Consulting fees	4,500	8,164	3,164
Chamber of Commerce Partnership	4,000	4,520	–
Insurance	2,500	1,517	1,474
Miscellaneous	2,850	570	1,318
OBIAA Conference and Membership	1,150	1,187	–
Christmas decoration replacement	1,000	–	980
Special events	–	–	19,792
Donation	–	–	1,250
	<u>46,000</u>	<u>52,392</u>	<u>78,793</u>
Annual deficit	–	(4,614)	(18,408)
Accumulated surplus, beginning of year	14,207	14,207	32,615
Accumulated surplus, end of year	<u>\$ 14,207</u>	<u>\$ 9,593</u>	<u>\$ 14,207</u>

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, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
Net financial assets, beginning of year	\$ 13,504	\$ 13,504	\$ 22,502
Annual deficit, being change in net financial assets	–	(4,614)	(18,408)
Acquisition and use of prepaid expenses	–	(4,553)	9,410
Net financial assets, end of year	\$ 13,504	\$ 4,337	\$ 13,504

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Annual deficit	\$ (4,614)	\$ (18,408)
Change in taxes receivable	(1,728)	—
Change in prepaid expenses	(4,553)	9,410
Change in accounts payable and accrued liabilities	—	(7,066)
Decrease in cash	(10,895)	(16,064)
Cash, beginning of year	13,504	29,568
Cash, end of year	\$ 2,609	\$ 13,504

See accompanying notes to financial statements.

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements

Year ended December 31, 2017

1. Nature of operations:

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

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

2. Significant accounting policies:

(a) Basis of presentation:

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

(b) Accrual basis of accounting:

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

(c) Government transfers:

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

BOARD OF MANAGEMENT FOR THE KLEINBURG BUSINESS IMPROVEMENT AREA

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2017

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 December 13, 2016.

DRAFT #2a
April 23, 2018

Financial Statements of

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

Year ended December 31, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Corporation of the City of Vaughan Trust Funds, which comprise the statement of financial position as at December 31, 2017, the statement of financial activities and changes in fund balance for the year then ended, and note, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the City of Vaughan Trust Funds as at December 31, 2017, and its results of operations and its changes in fund balance for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

DRAFT Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Financial Assets		
Cash	\$ 1,341,536	\$ 592,431
Due from The Corporation of the City of Vaughan	27,616	734,313
	<u>\$ 1,369,152</u>	<u>\$ 1,326,744</u>
Fund Balance	\$ 1,369,152	\$ 1,326,744
	<u>\$ 1,369,152</u>	<u>\$ 1,326,744</u>

See accompanying note to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

DRAFT Statement of Financial Activities and Changes in Fund Balance

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Sources of funds:		
Capital receipts - sale of plots/markers (note 1(a))	\$ 42,408	\$ 40,177
Interest earned (note 1(a))	14,792	5,864
Contribution from The Corporation of the City of Vaughan (note 2)	-	700,000
	<u>57,200</u>	<u>746,041</u>
Use of funds:		
Maintenance (note 1(a))	14,792	5,864
Net activity	42,408	740,177
Fund balance, beginning of year	1,326,744	586,567
Fund balance, end of year	<u>\$ 1,369,152</u>	<u>\$ 1,326,744</u>

See accompanying note to financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN TRUST FUNDS

DRAFT Note to Financial Statements

Year ended December 31, 2017

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 financial activities and changes in fund balance are reported on the cash basis of accounting. Other items are reported on an accrual basis.

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

In the prior year, the City sold land for net proceeds of \$800,000 of which \$700,000 was directed to the Cemetery Perpetual Care Trust Fund.

DRAFT #3
April 12, 2018

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, 2017

INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of revenue and expenditures and fund balance of the Mayor's Gala and Golf Events, and notes, comprising significant accounting policies and other explanatory information for the year ended December 31, 2017 for The Corporation of the City of Vaughan. The financial statement has been prepared by management in accordance with the basis of accounting in note 1 to the financial statement.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

In common with many events run by charitable organizations, the Mayor's Gala and Golf Events derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenue was limited to the amounts recorded in the records of the Mayor's Gala and Golf Events. Therefore, we were not able to determine whether, as at and for the years ended December 31, 2017 and December 31, 2016, any adjustments might be necessary to revenue, total surplus from Mayor's Gala Event and Mayor's Golf Tournament, and fund balance reported in the statement of revenue and expenditures and fund balance. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial information in the statement of revenue and expenditures and fund balance for the year ended December 31, 2017 is prepared, in all material respects, in accordance with the basis of accounting in note 1 to the financial statement.

Basis of Accounting

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

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Mayor's Gala Event		
Revenue:		
Revenue received by City, net of harmonized sales tax	\$ 708,594	\$ 630,789
Expenditures:		
Mayor's Gala Event	165,262	172,503
City administration recovery (note 2)	25,307	47,519
Professional fees	31,783	31,596
	<u>222,352</u>	<u>251,618</u>
Surplus from Mayor's Gala Event	486,242	379,171
Mayor's Golf Tournament		
Revenue:		
Revenue received by City, net of harmonized sales tax	271,371	200,834
Expenditures:		
Mayor's Golf Tournament	89,572	78,798
City administration recovery (note 2)	21,872	—
Professional fees	4,728	1,150
	<u>116,172</u>	<u>79,948</u>
Surplus from Mayor's Golf Tournament	155,199	120,886
Total surplus from Mayor's Gala Event and Mayor's Golf Tournament	641,441	500,057
Balance carried forward from previous years	174,586	275,994
Total funds available for distribution	816,027	776,051
City distributions to qualified recipients (note 3)	667,010	601,465
Fund balance, end of year	<u>\$ 149,017</u>	<u>\$ 174,586</u>

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

THE CORPORATION OF THE CITY OF VAUGHAN

MAYOR'S GALA AND GOLF EVENTS

DRAFT Notes to Statement of Revenue and Expenditures and Fund Balance

Year ended December 31, 2017

1. Basis of accounting:

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

2. City administration recovery:

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

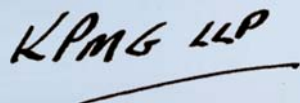
3. City distributions to qualified recipients:

Under a resolution by City Council, recipients for the net proceeds raised from the Mayor's Gala and Golf Events include, but are not limited to, Vaughan-based charities, not-for-profit organizations, community groups and disaster relief assistance. During 2017, distributions were made to these qualified recipients.



The Corporation of the City of Vaughan

**Audit Findings Report
For the year ended December 31, 2017**



Licensed Public Accountants

June 6, 2018

kpmg.ca/audit



The contacts at KPMG in connection with this report are:

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Table of Contents

Executive summary	3
How we deliver audit quality	5
Audit risks and results	6
Critical accounting estimates	11
Data & Analytics in the audit	12
Financial statement presentation and disclosure	14
Adjustments and differences	15
Control observations	16
Appendices	17
Appendix 1: Required communications	18
Appendix 2: Independence	19
Appendix 3: Audit Quality and Risk Management	20
Appendix 4: Background and professional standards	21
Appendix 5: Data & Analytics in Audit	22
Appendix 6: New Auditor Reporting	23
Appendix 7: KPMG's Cyber Security Protocol	24
Appendix 8: Current developments	25
Appendix 9: Audit trends	28

Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Administration Committee, in your review of the results of our audit of the consolidated financial statements of the Corporation of the City of Vaughan (“the City”) as at and for the year ended December 31, 2017.

Changes from the Audit Plan

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

Adjustments and differences

Please see page 15 for details on uncorrected adjustments.

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

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

Executive summary

Finalizing the audit

As of June 6, 2018, 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 Finance & Administration Committee;
- obtaining evidence of the City Council's approval of the financial statements.

We will update the Finance & Administration 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.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical 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.

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

Significant accounting policies and practices

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

How we deliver audit quality



Audit risks and results

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

Significant financial reporting risks	Why	Our response and significant findings
<p>Fraud risk from revenue recognition</p>	<p>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 fiscal periods.</p>	<p>In order to address the presumed fraud risk from revenue recognition, we performed various audit procedures over the City's process for recognizing development charges revenue, including:</p> <ul style="list-style-type: none"> – 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. <p>Other audit procedures included:</p> <ul style="list-style-type: none"> – 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 2017 were used to fund capital projects. – Reviewed recognition considerations for the other revenue streams. <p>We did not identify any issues related to fraud risk associated with revenue recognition.</p>
<p>Fraud risk from management override of controls</p>	<p>This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Professional standards require certain procedures to be performed to address the presumed risks of management override of controls.</p> <ul style="list-style-type: none"> – 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 9 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. <p>No issues were noted.</p>

Audit risks and results

We identified other areas of focus for our audit in our discussion with you in the Audit Plan.

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

Other areas of focus	Our response and significant findings
<p>Vaughan Holdings Inc.</p>	<ul style="list-style-type: none"> – Vaughan Holdings Inc. (“VHI”) is considered a significant component to the City’s 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 the City’s investment in Hydro Vaughan Corporations continues to meet all criteria of the section and therefore it is appropriate to continue to record the investment using the modified equity method of accounting. – In 2017, the City’s share of VHI’s net income and dividends paid out totalled \$12.8M and \$7.8M, respectively (2016 - \$9.9M and \$9.1M respectively). – Vaughan Holdings Inc. (“VHI”) received a \$1.8M (2016 - \$1.8M) capital dividend from Alectra (previously PowerStream), which was recorded as a reduction to VHI’s investment in Alectra (previously PowerStream). VHI issued a similar capital dividend of \$1.8M to the City. – These transactions are described in financial statements note 4. – We reviewed the VHI Board minutes, and noted that 28,118 additional common shares of PowerStream were purchased in January, 2017 bringing the total common shares of PowerStream held by VHI to 82,049 or 48.42% as at January 31, 2017. – The new share ownership of VHI in Alectra is 21.49%. VHI’s share ownership in Ring Fenced Solar (previously PS Solar) of 45.315% is unchanged from prior year. – 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 Inc. as at December 31, 2017. – Based on the work performed, KPMG concludes that management has appropriately reflected its investment in Hydro Vaughan Corporations using modified equity accounting.
<p>Alectra Inc.</p>	<ul style="list-style-type: none"> – On January 31, 2017, through a series of transactions, VHI’s partially owned operating company was merged with certain utility holding companies in Ontario to form a new entity, known as Alectra Inc. – As part of the merger, VHI disposed all of the outstanding shares of PowerStream in exchange for 21.49% ownership interest in Alectra Inc. As this transaction is considered to be a non-monetary transaction, the event is required to be valued at the fair value of the proceeds of disposition. Accordingly, the investment in Alectra Inc. is valued at 21.49% of the fair value of the opening value of Alectra Inc. The fair value was determined from an independent appraisal of each of the amalgamating entities. This calculation resulted in VHI recognizing a gain on merger.

Other areas of focus	Our response and significant findings
	<ul style="list-style-type: none"> – In addition, VHI retained a 45.315% interest in Ring Fenced Solar (“RFS”). RFS is a division from PowerStream, carried into Alectra Inc. Only legacy shareholders of PowerStream will be eligible to share in future profits or losses of RFS. – The City’s share of this gain totalled \$209M. The transaction is described in consolidated financial statements note 4. The gain on merger is reported as a separate line item in the statement of operations to highlight the impact of this transaction. – As noted in our Audit planning report, Alectra Inc. is considered a significant component of the City and is also audited by KPMG LLP. We did not note any significant issues during the audit of Alectra Inc. – We reviewed the transactions and disclosure in VHI 2017 draft financial statements and are satisfied that the transaction is appropriately reported within the City’s 2017 financial statements.
YMCA Project	<ul style="list-style-type: none"> – The City entered into an agreement with YMCA Toronto (“YMCA”) and Penguin Calloway Vaughan Partnership (“Penguin”) for the construction of an Office Tower and City Facility (together, “Building”) in Vaughan Metropolitan Centre. The building will be shared between the City and YMCA for occupancy where City will use 30% of the building and YMCA will use the remainder 70%. City will enter a lease to use this 30% portion of the building 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 \$66M. – In the event of default by YMCA, City is required to step in and assume all liabilities and take first right to ownership of all assets related to the building, as part of this agreement. – As at December 31, 2017, City has spent \$24.5M on the construction of this building including \$11M for Land, \$1.5M for insurance, \$4.6M for City’s portion of the building and \$7.4M for YMCA’s portion of the building. City has reported the \$24.5M as work-in-progress as part of the tangible capital assets. \$13.2M as debt represents the accrual for amount outstanding at year-end. – The City has not included the holdbacks in the amount of work-in-progress and debt reported in the financial statements due to the delay in the receipt of this information. This adjustment is reported as uncorrected on page 15. – These transactions are described in financial statements note 7. – We obtained and reviewed relevant agreements related to this building between City and other parties. We reviewed detail of costs related to this building that were incurred during 2017. – We did not note any issues with management’s estimates and assumptions and we find the measurement and disclosures related to this project as appropriate. – KPMG has reported an uncorrected adjustment for holdbacks, see page 15 for details.
Employee Future Benefits	<ul style="list-style-type: none"> – 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:

Other areas of focus	Our response and significant findings
	<ul style="list-style-type: none"> ○ Post-retirement non-pension benefits: A full actuarial valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019, as the valuation was required to be updated in the current year. The projected liability as at December 31, 2017 includes a prior service adjustment of \$3,575,805 based on the new valuation assessment completed in 2017. ○ WSIB: A valuation was performed as at January 1, 2017 for the 3 years of 2017 to 2019, as the valuation was required to be updated in the current year. <ul style="list-style-type: none"> – We reviewed 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.
Block 11 Debt	<ul style="list-style-type: none"> – As at December 31, 2017, City had set up an accrual for a contract settlement related to Block 11 Spine Services Agreement from the year 2009 between the City and Landowners’ Group (“Vendor”). As at December 31, 2017, this accrual represented the full balance of the claims submitted by the Vendor of approximately \$5M. – Since these Vendor claims were in excess of initial amount approved by the council, an independent third party engineering firm was engaged during the year to perform an independent assessment of these eligible costs. This independent assessment resulted in a reduction of the total amount outstanding to approximately \$3.8M. – The revised lower amount was agreed upon by all parties involved and approved by the City’s council subsequent to year-end. – As at year-end Management has not corrected this adjustment due to its immaterial nature. – KPMG discussed this with Management and agreed with management’s assessment as at year-end. – KPMG has reported this as an uncorrected adjustment, see page 15 for details.
Contingent Liabilities	<ul style="list-style-type: none"> – PSA Standard – PS 3300 Contingent Liabilities requires that the City recognize a liability when “...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.” – At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, and contract settlement accruals.

Other areas of focus	Our response and significant findings
	<ul style="list-style-type: none"><li data-bbox="569 310 1915 427">– KPMG has reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.<li data-bbox="569 440 1915 496">– 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.<li data-bbox="569 509 1915 532">– KPMG did not note any significant issues related to contingent liabilities other than the item noted above.

Critical accounting estimates

Under IFRS (IAS 1.125), 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 comment
Employee Future Benefits	<ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> – The CPA Handbook PS Standard 3300 Contingent Liabilities requires that the City recognize a liability when “...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated.” – At any point in time, the City is subject to a number of matters which could potentially result in the determination of a contingent liability as defined above, including, but not limited to matters such as legal claims, and contract settlement accruals. – KPMG has reviewed the City’s assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, KPMG discussed with the individuals responsible for the process and is satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed. – As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management’s best estimates of exposure given the information presently available.
Amortization expense	<ul style="list-style-type: none"> – We have reviewed the estimated useful lives of the various additions from work in progress to tangible capital assets and conclude that they are reasonable. – We also recalculated the amortization expense for 2017 and it was determined that management’s calculation of the amortization expense was appropriate.

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

Data & Analytics in the audit

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit. We have summarized areas of the audit where D&A tools and routines were used.

Area(s) of focus	D&A tools and routines	Our results	Conclusions
Journal entry testing	<ul style="list-style-type: none"> Utilize computer-assisted audit techniques (“CAATs”) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing. 	<ul style="list-style-type: none"> The GL roll consists of a summation of all automated and manual journal entries posted during the fiscal year and comparison of the calculated amounts to the account balances as at and for the year ended December 31, 2017 as reported by management. We developed our criteria based on our understanding of the underlying risks and where errors are more likely to occur. We applied this criteria to the entire population of journal entries. A sub-population of journal entries was determined for more focused and risk-based testing. 	<ul style="list-style-type: none"> The GL extraction was found to be complete and containing all automated and manual journal entries recorded during the year. We were able to use this complete extraction for our testing of journal entries. Journal entries meeting the select criteria were tested to verify if they were supported by proper documentation and followed the journal entry initiation and approval controls and process in place. We did not find any exceptions in our testing over journal entries.
Cash deposits deferred revenue	<ul style="list-style-type: none"> Utilize CAATs 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. 	<ul style="list-style-type: none"> We used the cash deposits reconciliation listing for current year and prior year. We extracted the amount of cash receipts per prior year listing and compared to cash on hand from prior year in current year listing to determine if the deferred revenue roll was appropriately calculated. 	<ul style="list-style-type: none"> No issues noted
Tangible capital assets WIP additions	<ul style="list-style-type: none"> Utilize CAATs to assess the assets additions to tangible capital assets transferred from work in progress are removed from Work in progress appropriately. 	<ul style="list-style-type: none"> We compared the asset additions listing to Work in progress to identify any significant asset additions that are not appropriately removed from Work in progress. 	<ul style="list-style-type: none"> No issues noted

Area(s) of focus	D&A tools and routines	Our results	Conclusions
Tangible capital asset disposals	<ul style="list-style-type: none"> – Utilize CAATs to evaluate the completeness of the disposal listing 	<ul style="list-style-type: none"> – The asset register continued to list assets that were disposed of, however, they were identified with unique asset IDs and were all reported at nil cost values. 	<ul style="list-style-type: none"> – No issues noted
Depreciation expense	<ul style="list-style-type: none"> – Utilize CAATs to analyse depreciation expense on an asset level. 	<ul style="list-style-type: none"> – We replicated the formula used to determine individual assets' amortization and recalculated an expected amount after verifying the appropriate inputs were used 	<ul style="list-style-type: none"> – No issues noted
Holdback completeness	<ul style="list-style-type: none"> – Utilize CAATs to evaluate whether holdbacks have been appropriately and consistently set up for significant projects in Work in progress at year-end. 	<ul style="list-style-type: none"> – We obtained asset register for Work in progress by Project ID and the listing of contractor expenditures by business unit. We compared the holdbacks per these two listings to identify significant projects that did not include a holdback. 	<ul style="list-style-type: none"> – No issues noted

Financial statement presentation and disclosure

The presentation and disclosure of the consolidated financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. We also highlight the following:

**Form, arrangement,
and content of the
financial statements**

KPMG did not note any presentation or disclosure misstatements that have a material impact on the consolidated financial statements.

**Application of
accounting
pronouncements
issued but not yet
effective**

No concerns at this time regarding future implementation.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

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

Uncorrected differences

The uncorrected audit differences relate to the following items:

1. **Block 11 debt**, as discussed on page 9. As a result, this adjustment proposes to decrease “Debenture and other debt” by \$1,241,760 with a corresponding decrease to tangible capital assets for the same amount. This adjustment was considered not material by management and thus not corrected in the financial statements for the year-ended December 31, 2017. KPMG agreed with management’s assessment.
2. **YMCA debt**, as discussed on page 8. As a result, this adjustment proposes to increase “Debenture and other debt” by \$935,977 with a corresponding increase to work-in-progress in tangible capital assets for the same amount. This adjustment was considered not material by management and thus not corrected in the financial statements for the year-ended December 31, 2017. KPMG agreed with management’s assessment.

The management representation letter also includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial.

Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

Significant deficiencies

No significant deficiencies have been identified.

Appendices

Appendix 1: Required communications

Appendix 2: Independence

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

Appendix 5: Data & Analytics in Audit

Appendix 6: New Auditor Reporting

Appendix 7: KPMG's Cyber Security Protocol

Appendix 8: Current developments

Appendix 9: Audit trends

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 financial statements.
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. Management have provided you with a copy of the representation letter for the audit of the financial statements.
- **CPAB Big Four Firm Public Report (November 2017)** – Please refer to <http://www.cpab-crc.ca/Documents/News%20and%20Publications/2017%20Big%20Four%20Report%20EN.pdf>

Appendix 2: Independence

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

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since our annual independence letter dated April 27, 2018.

The following summarizes the professional services rendered by us to the City from January 1, 2017 to June 6, 2018:

Description of professional services

Audit of annual financial statements of:

- The Corporation of the City of Vaughan
- The Corporation of the City of Vaughan Public Library Board
- Board of Management for the Kleinberg Business Improvement Area
- Trust Funds
- Hydro Vaughan Corporations:
 - o Vaughan Holdings Inc.
 - o Hydro Vaughan Energy Corporation
 - o 1446631 Ontario Inc.
- The Corporation of the City of Vaughan Mayor's Gala and Gold Events

Tax:

- Income tax compliance services for the Hydro Vaughan Corporations

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

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

Appendix 3: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit 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; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 4: Background and professional standards

Internal control over financial reporting

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

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

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

Documents containing or referring to the audited financial statements

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

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

Appendix 5: Data & Analytics in Audit

Turning data into value

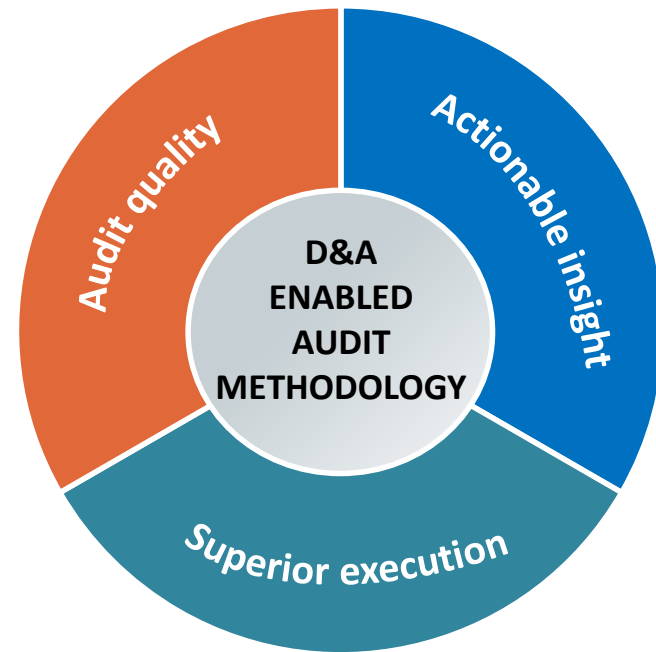
KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that businesses hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies.

Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

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



FOR THE AUDIT

AUDIT QUALITY

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

FOR YOUR BUSINESS

ACTIONABLE INSIGHT

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

Appendix 6: New Auditor Reporting

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

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What’s new?

Highlights of the new auditors’ report include:

Change	Applicability
Re-ordering of the auditors’ report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management’s, those charged with governance and auditors’ responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

U.S. developments

In June 2017, the Public Company Accounting Oversight Board (PCAOB) adopted their enhanced auditor reporting standards which includes, among other

requirements, discussion of critical audit matters (CAMs) (similar to KAMs) and tenure of the auditor. Highlights and effective dates of the new U.S. standards are:

- New auditors’ report format, tenure and other information: audits for fiscal years ending on or after December 15, 2017
- Communication of CAMs for audits of large accelerated filers: audits for fiscal years ending on or after June 30, 2019
- Communication of CAMs for audits of all other companies: audits for fiscal years ending on or after December 15, 2020.

Impact to Foreign Private Issuers in Canada

Auditors of foreign private issuers (“FPIs”) will still be able to issue a “combined” report (which many FPIs in Canada issue today) that meets both the CAS and enhanced PCAOB standards for 2017 year-end engagements.

Discussions are still underway whether a “combined report” for 2018 year-end engagements will be allowable.

The way forward in Canada

The AASB, working alongside the regulatory bodies, continue to deliberate how the disclosure of KAMs will be required to listed entities in Canada given the recent developments in the U.S.

Appendix 7: KPMG's Cyber Security Protocol

This summary is intended to provide management and Audit Committee members with some insight into KPMG's strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. "Good housekeeping" is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote "good housekeeping," and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

- KPMG Canada does not currently use Office 365 or Cloud based email.
- Cloud environments provide robust security when properly configured, with proper password management.
- The Canadian firm's email servers are hosted in Canada and controlled and managed by KPMG Canada.
- In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
- We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
- KPMG's Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
- KPMG's security requirements are set out in Global Information Security Policies and Standards (GISP).
- The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
- Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.

Appendix 8: Current developments

Please visit the Audit Committee Institute / [Current Developments](#) page for recent developments in IFRS, Canadian securities matters, Canadian auditing and other professional standards and US accounting, auditing and regulatory matters.

The following is a summary of the current developments that are relevant to the Company:

Standard	Summary and implications	Reference
<p>PS 3210 Assets</p>	<p>This standard provides a definition of assets and further expands that definition as it relates to control.</p> <p>Assets are defined as follows:</p> <ul style="list-style-type: none"> • They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. • The public sector entity can control the economic resource and access to the future economic benefits. • The transaction or event giving rise to the public sector entity's control has already occurred. <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (City's December 31, 2018 year-end).</p>	
<p>PS 3320 Contingent Assets</p>	<p>This standard defines contingent assets. They have two basis characteristics:</p> <ul style="list-style-type: none"> • An existing condition or situation that is unresolved at the financial statement date. • An expected future event that will resolve the uncertainty as to whether an asset exists. <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (City's December 31, 2018 year-end).</p>	

Standard	Summary and implications	Reference
PS 3380 Contractual Rights	<p>This standard defines contractual rights to future assets and revenue.</p> <p>Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to:</p> <p>(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations;</p> <p>(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (City's December 31, 2018 year end.)</p>	
PS 2200 Related Party Disclosures	<p>This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties.</p> <p>Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons.</p> <p>This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (City's December 31, 2018 year-end).</p>	
PS 3420 Inter-entity Transactions	<p>This standard relates to the measurement of related party transactions and includes a decision tree to support the standard.</p> <p>Transactions are recorded a carrying amounts with the exception of the following:</p> <ul style="list-style-type: none"> • In the normal course of business – use exchange amount • Fair value consideration – use exchange amount • No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair. • Cost allocation – use exchange amount <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (City's December 31, 2018 year-end).</p>	

Standard	Summary and implications	Reference
PS 3430 Restructuring Transactions	<p>A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility.</p> <p>The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (City's December 31, 2019 year-end).</p>	
PS 3450 Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deferred and it is now effective for fiscal periods beginning on or after April 1, 2019 (City's December 31, 2020 year-end).</p> <p>This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>	
Revised Standard PS 2601 Foreign Currency Translation	<p>A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.</p> <p>The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019 (City's December 31, 2020 year-end). Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard.</p> <p>This standard will require exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.</p>	
PS3280 Asset retirement obligation	<p>In April 2017, PSAB issued an Exposure Draft that proposes a new standard PS 3280 on asset retirement obligations (AROs). The proposed new accounting standard addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. Whether you are a university, health institution or government entity (federal, provincial, municipal or Indigenous) this new accounting standard may have implications for your finance and accounting teams if you report under the Public Sector Accounting Standards.</p> <p>A webinar by Bailey Church – Leader of KPMG's National Public Sector Accounting Advisory service was carried out on September 19, 2017 for an in-depth discussion regarding the PSAB exposure draft.</p> <p>You can view the webinar recording here.</p>	

Appendix 9: Audit trends

KPMG understands the wide range of challenges and evolving trends that you face as an audit committee of the City. We also understand that sometimes keeping up with critical issues as they emerge can be difficult.

As your auditors, it is incumbent upon us to provide you with any information that will help you further strengthen corporate governance, enhance your oversight and add greater value within your organization.

As such, KPMG's Audit Committee Institute ([ACI](#)) provides information, resources and opportunities for you to share knowledge with your peers. First, you are welcome to attend our Audit Committee Roundtable sessions, which are held in major cities across the country. In addition, you will also benefit from our monthly article series ([Audit Point of View](#)) and quarterly videos ([FrontPage Video Series](#)) that focus on the most pressing audit committee agenda items.

More information on all of these can easily be found at www.kpmg.ca/audit.

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 the City. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Benchmarking city services	The city benchmarking report examines the performance of city services around the world to uncover insights and help cities identify new ideas and innovations.	www.kpmg.com/citybenchmarking
Cyber Watch Report - Trends affecting Canadian organizations	The cyber threat landscape is highly irregular and ever-changing. Canadian businesses and public organizations realize their crown jewels essential assets are targets for threat actors ranging from individual hackers to criminal groups and state-sponsored players. Be in a defensible position.	KPMG: Cyber Watch Report
Cyber Security Risks	With the constant changing cyber threat landscape, companies are changing their risks-protection strategies, identifying core assets and qualifying threats.	KPMG: Cyber security FrontPage Video
Preparing for new data breach reporting laws	Data breach disclosure legislation is changing. Are you prepared? Highlights <ul style="list-style-type: none"> • What does the impending new legislation mean? • Questions ACs should ask around data breach response preparation • It is important to address the breach legislation now 	KPMG: Preparing for new data breach reporting law

kpmg.ca/audit



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