

**2010 DRAFT CONSOLIDATED FINANCIAL STATEMENTS,  
TRUST FUND STATEMENT, AND EXTERNAL AUDITOR'S FINDINGS REPORT**

**Recommendation**

The Commissioner of Finance/City Treasurer, and the Director of Financial Services, recommends:

1. That the following 2010 Draft Consolidated Financial Statement Overview report be received; and
2. That the 2010 Draft Consolidated Financial Statements and Trust Fund Statements, (Attachment #1) be approved; and
3. That the Audit Findings Report for the year ended December 31, 2010 from KPMG (Attachment #2) be received.

**Contribution to Sustainability**

This is not applicable to this report.

**Economic Impact**

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

**Communications Plan**

As required by the Municipal Act, an advertisement will be placed in the local paper indicating that the 2010 Consolidated Financial Statements and Trust Fund Statement are available for pick up at the City. In addition, the financial statements will be published on the City's web page.

**Purpose**

To receive approval for the City's 2010 Draft Consolidated Financial Statements, Attachment #1 which includes the Vaughan Public Library Board, Kleinburg Business Improvement Area and the unconsolidated financial statements for the Vaughan Trust Funds. Also attached is the external auditors (KPMG) Audit Findings Report, Attachment #2.

**Background - Analysis and Options**

The City's Draft Consolidated Financial Statement package has been prepared under the Public Sector Accounting Board Standards 3150 and 1200. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31<sup>st</sup>, 2010 is provided below.

**Changes in Accounting Standards**

The City implemented in 2009 the new Public Sector Accounting Board (PSAB) standard 3150 tangible capital assets and standard 1200 financial statement presentation. These new accounting standards are described below:

## Accounting for Tangible Capital Assets – PSAB Standard 3150

The City of Vaughan implemented in 2009 the accounting and reporting recommendations of the Public Sector Accounting Board section 3150 regarding the accounting for municipal tangible capital assets. Tangible capital assets consist of land, parks, buildings, bridges, sidewalks, vehicles, equipment, streetlights, roads and underground water/wastewater infrastructure.

The asset historical cost, asset service life, annual amortization and disposals were determined for all City's assets. These assets are classified on the financial statements under "Non Financial Assets".

The above was the 1<sup>st</sup> step in the tangible capital asset implementation however much work is still required to develop a process to properly record, update, value, and amortize the significant volume of City assets.

## Financial Statement Presentation - PSAB Standard 1200

This standard moves municipal financial statements away from fund accounting. The statement of financial position and financial activities are no longer reported by fund, i.e. Operating Fund, Capital Fund and Reserve Funds. The statement of operations is on a consolidated basis only with consolidated budget comparisons. The municipal position which previously presented the various funds and amounts to be recovered is now replaced with a single line titled "Accumulated Surplus/Deficit".

## **2010 Draft Consolidated Statement of Financial Position Overview**

The City of Vaughan's 2010 Consolidated Statement of Financial Position demonstrates a continued strong position in many key financial areas which supports the Vaughan Vision 2020 strategic initiative for a financially sustainable future. These key financial areas include the City's cash and cash investment levels as seen in Exhibit #1, deferred revenues Exhibit #2, Hydro Vaughan Corporations investment and reserve balances in Exhibit #3.

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

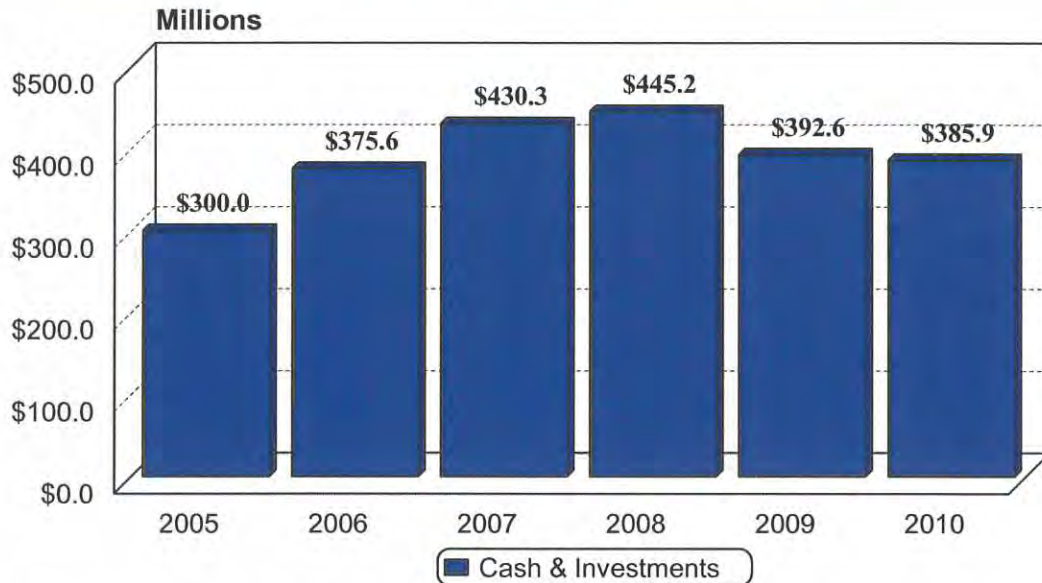
## **Financial Assets**

### Cash and Cash Investments

The cash balance totals \$259.4m (2009 \$266.3m) at the end of 2010. Investments over 90 days totals \$126.5m (2009 \$126.2m). These investments have an effective interest rate range of 1.00% to 5.35%. The following graph (Exhibit 1) illustrates the continued strength in the City's cash and investments position.

**EXHIBIT 1**

**Financial Trend - Cash & Investments**



Taxes Receivable

In 2010, taxes receivable totalled \$48.8m (2009 \$51.2m) a decrease of \$2.4 million. This decrease in receivables is attributable to greater collections during 2010. Property tax collection efforts continue to be strong. The collection process includes various approaches: regular arrears notice mailings at strategic points during the year; Business accounts not only receive collection letters but are also contacted directly by phone. Also, collection emphasis is placed on properties that enter the tax sale time frame of three years.

Water and Wastewater Receivable

In 2010, the water and wastewater receivables totalled \$14.1m (2009 \$12.8m) an increase of \$1.3m over 2009. The increase is due to a larger than normal year end billing accrual and growth.

Accounts Receivable /Local Improvement Receivable/Other Current Assets

The City's accounts receivable totalling \$16.3m (2009 \$11.4m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. Local improvement receivables at \$1.1m (2009 \$1.4m) is reducing each year as residents make annual payments over time for capital improvement works on their street.

### Investment in Hydro Vaughan Corporations and PowerStream

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

The City's investment in the Hydro Vaughan Corporations totals \$244.0m and is comprised of share capital of \$89.6m, notes receivable of \$84.1m, accrued interest receivable of \$9.9m, accumulated earnings as at December 31, 2010 of \$42.5m and dividends/interest received from PowerStream and retained by Vaughan Holdings Inc. of \$17.9m.

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

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

Following is the investment in the above established corporations:

	2010 (Million)	2009 (Million)
<b>ASSETS</b>		
Current Assets	\$ 203.1	\$ 239.1
Capital Assets	642.1	601.8
Regulatory and Other Assets	97.1	98.2
Goodwill	42.5	42.5
Total Assets	984.8	981.6
<b>LIABILITIES</b>		
Current Liabilities	179.1	179.5
Consumer Deposits	12.1	16.7
Debenture Payable	123.8	123.1
Bank Loan	50.0	50.0
Promissory Note – Town of Markham	74.2	74.3
Promissory Note – City of Barrie	20.0	20.0
Employee future benefits	14.0	12.1
Regulatory liabilities	68.3	91.1
Other Liabilities	42.5	33.5
Total Liabilities	584.0	600.3
Net Assets	400.8	381.3
Town of Markham's Proportionate Share	(98.0)	(91.7)
City of Barrie's Proportionate Share	(58.8)	(55.0)
City's Equity Interest in Net Assets	\$ 244.0	\$ 234.6



The net increase of \$9.4m in the City's equity share is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of \$11.8m, equity investment common shares class "a" \$1.1m, interest earned on the PowerStream note receivable \$4.9m and reductions of equity due to dividends received (\$3.6m) and accrued interest on the note receivable of (\$4.8m).

## **LIABILITIES**

### Accounts Payable and Accrued Liabilities

In 2010 the total current liability balance was \$113.4m (2009 \$102.4m) an increase of \$11.0m. This increase is generally due to a greater number of accruals as a result operational activity. These City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards.

### Employee Future Benefit Liability

These liabilities total \$52.7m and consist of post employment retirement benefits of \$48.4m (2009 \$43.2m), vacation pay entitlements \$3.9m (2009 \$3.3m), and Workers Safety Insurance Board \$0.4m (2009 \$0.2m).

Post retirement employee benefits are based on a 2008 actuarial study and the valuation represents the retirement benefits that have accrued over the service life of the city employees to-date but not yet paid. The cost of these benefits are recognized in the financial statements each year as the employees render their service. The portion of these liabilities that are not funded are netted against the accumulated surplus. As a financial strategy for the future a reserve was approved for post employees retirement benefits and this reserve now totals \$10.5m.

Vacation entitlement is earned during the course of employment and the liability represents the unused portion. The WSIB liability is based on a 2010 actuarial study and represents the liabilities of future expected claims and other costs. Both of these liabilities are fully funded.

### Deposits and Deferred Revenue

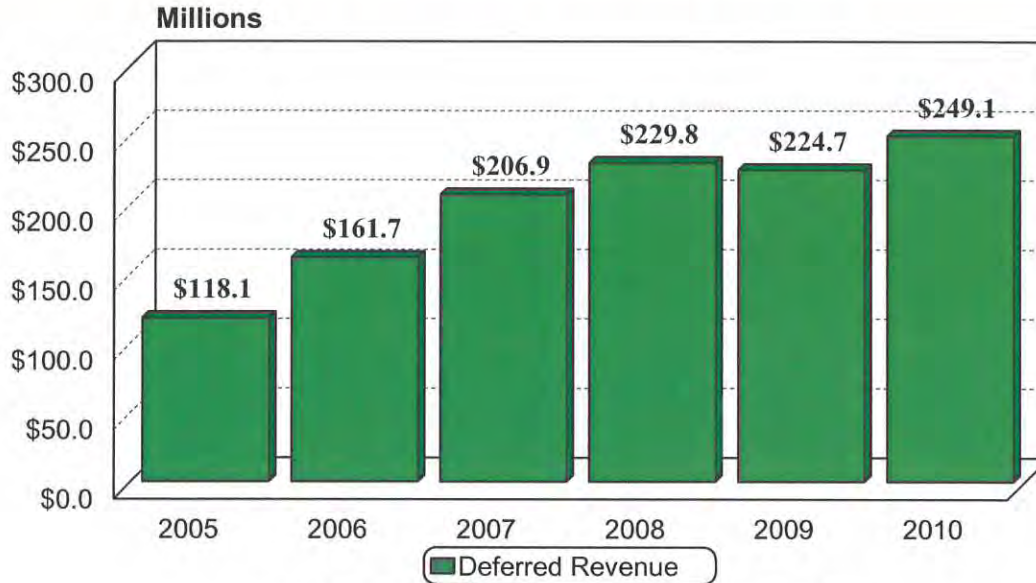
Deposits and deferred revenue total \$18.4m (2009 \$16.1m). This amount represents pre-paid funds held by the City for capital projects or various City services to be rendered in the future.

### Deferred Revenue – Obligatory Reserve Fund

Development charges and obligatory reserves in 2010, Exhibit #2, totals \$249.1m (2009 \$224.7m) an increase of \$24.4m over 2009. Deferred revenues are mainly derived from the receipt of development charges, recreational land cash in-lieu receipts and contributions due to the Building Standards Act related to building permits, federal gas tax grants and other government grants. The grants applied for and received consist of the federal gas tax, provincial roads and bridge grant and the investing in Ontario Act. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

## EXHIBIT 2

### Financial Trend - Deferred Revenue



Deferred Revenue is made up of Development Charges and Sub Divider Contributions

#### Debenture and Other Debt

Long-term liabilities consisting of sinking fund, serial debentures and other debt totals \$55.1m (2009 \$60.4m). The 2010 decrease is attributable to the retirement of serial and sinking fund debt. The annual principal and interest payments required to service these liabilities are well within the annual debt repayment limit as prescribed by the Ministry of Municipal Affairs and Housing.

#### Non-Financial Assets

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

The City's net tangible capital assets as at December 31, 2010 total \$6,793,633,069 (2009, \$6,685,066,688). The net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service. The 2010 amortization expense was \$56.7m (2009 \$54.4m). Assets under construction totalling \$177.7m (2009 \$185.8m) are not amortized until the assets are brought into service.

The City's 2010 net tangible capital assets with 2009 comparables are as follows:

	2010	2009
<b><u>Asset</u></b>		
Land	\$ 4,652,523,984	\$ 4,583,748,089
Land Improvements	95,329,483	89,537,536
Buildings and Building Improvements	115,289,105	90,790,599
Machinery and Equipment	12,849,311	13,702,587
Vehicles	12,124,402	10,795,351
Furniture and Fixtures	1,833,329	1,639,666
Information Technology	1,301,804	1,430,288
Leasehold Improvements	837,786	1,096,195
Roads Infrastructure	514,086,364	500,539,595
Water and Sewer Infrastructure	1,209,720,969	1,205,891,646
Assets under Construction	177,736,532	185,895,136
<b>Total</b>	<b><u>\$ 6,793,633,069</u></b>	<b><u>\$ 6,685,066,688</u></b>

### **Accumulated Surplus**

The accumulated surplus represents the net financial position of the City. This figure consists of the net of investment in tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances and reserves, less amounts to be recovered in the future. This figure represents a municipality's ability to meet the current and future financial needs of the community.

	2010	2009
Investment in Tangible Capital Assets	\$6,793,633,069	\$6,685,066,688
*Other (Fund Balances)	(146,102,211)	(85,568,318)
*Amounts to be Recovered in Future Years		
From future revenues	(81,333,623)	(84,469,374)
From reserves & reserve funds	(10,526,956)	(8,189,358)
Total	(91,860,579)	(92,658,732)
Investment in Hydro Vaughan Corporations	244,052,993	234,658,826
Reserves set aside by Council (Exhibit #3)	<u>211,816,485</u>	<u>193,303,265</u>
<b>Accumulated Surplus</b>	<b><u>\$7,011,539,757</u></b>	<b><u>\$6,934,801,729</u></b>

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The fund balance component of the accumulated surplus consist of the 2009 current net fund deficit of (\$7.0m) which includes the \$2.5m carry forward to next year and the capital fund unfinanced balance of (\$139.1m).

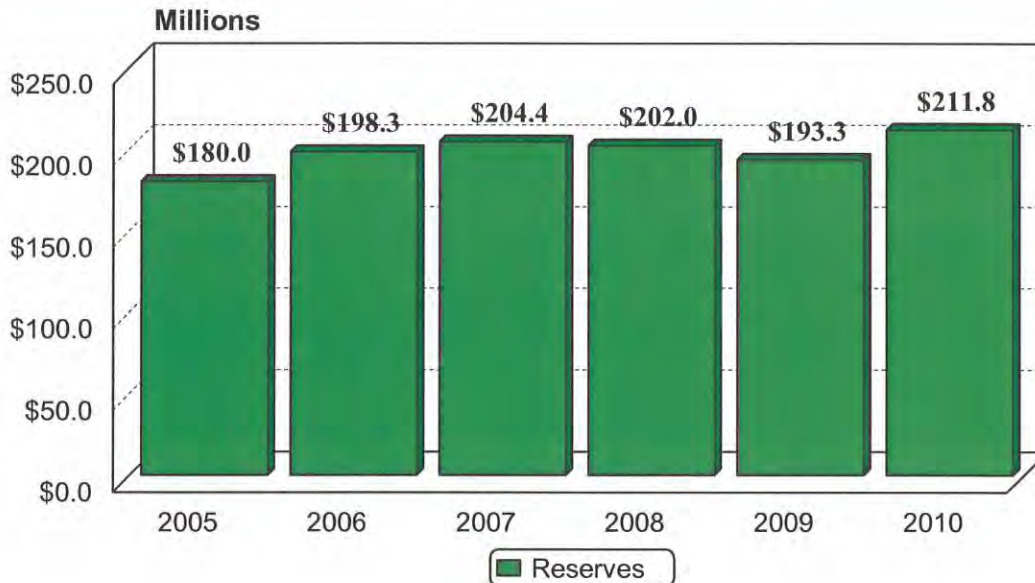
- 1) Amounts to be recovered in future years are liabilities for post retirement employee future benefits and debenture funding for capital projects.



Reserves continue to be steady as shown in Exhibit 3 below.

**EXHIBIT 3**

**Financial Trend - Reserves**



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

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

Target - Discretionary Reserve Funds

The overall increase in reserves was possible as a result of Council's adoption of financial policies, including those that were approved in the Long Range Financial Planning Working Sessions. These policies and others will continue to contribute to the financial well being of the City as shown in 2010 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus

The "Consolidated Statement of Operations and Accumulated Surplus" now required under PSAB is a significant change from the pre-2009 budget-based "Consolidated Statement of Financial Activities". The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council's approved budget on page 32. The Council approved 2010 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. In the revised budget for



financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of \$54,235,600.

The most significant differences in reviewing the 2010 revenues and expenses to the revised budget are:

- Revenues – Contributed assets for \$80,607,875. This number reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. Although the \$80M is reflected as a revenue in the financial statements, the assumed assets also represent an financial immediate impact through increased cost-based amortization expense, as well as future replacement cost to be considered in the City's Long Range Financial Plan
- Expenses – Variance between budgeted expense of \$253M and reported expense of \$332M. The most significant difference here relates to amortization expense for 2010 of \$56M, which the City does not budget for, but must be reported under the new municipal reporting regime.
- Annual Surplus – The annual surplus of \$76.7M reported in 2010 is primarily influenced by the unbudgeted Contributed Assets of \$80M.

### **Financial Information Return**

The 2010 Financial Information Return (FIR) will be submitted after the May 30<sup>th</sup> 2010 Provincial due date. It is anticipated that the FIR will be submitted in September/October. The Ministry has been notified of the delay.

### **Relationship to Vaughan Vision 2020**

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

### **Regional Implications**

There are no Regional implications.

### **Conclusion**

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

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

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

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

**Attachments**

No. 1 - 2010 Draft Consolidated Financial Statements package which includes the Vaughan Public Library Financial Statements and Trust Fund Statements (Available in Clerks Department)

No. 2 - KPMG Audit Findings Report

**Report Prepared by:**

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

Respectfully submitted,

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Barbara Cribbett, CMA  
Commissioner of Finance/City Treasurer

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Barry Jackson, CGA  
Director of Financial Services

Consolidated Financial Statements of

**THE CORPORATION OF THE  
CITY OF VAUGHAN**

Year ended December 31, 2010

## 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 of the consolidated statement of financial position as at December 31, 2010, 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, 2010, and its consolidated results of operations and accumulated surplus and the changes in its consolidated net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**DRAFT**

Chartered Accountants, Licensed Public Accountants

September 19, 2011

Toronto, Canada

# THE CORPORATION OF THE CITY OF VAUGHAN

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

December 31, 2010 with comparative figures for 2009

	2010	2009
<b>Financial assets:</b>		
Cash and cash equivalents	\$ 259,402,606	\$ 266,390,596
Taxes receivable	48,821,013	51,205,785
Water and sewer billings receivable	14,176,808	12,884,771
Accounts receivable	16,335,502	11,498,033
Investments (note 3)	126,599,413	126,227,239
Local improvement charges receivable	1,132,661	1,432,219
Other assets	74,328	77,977
Investment in Hydro Vaughan Corporations (note 4)	244,052,993	234,658,826
	<u>710,595,324</u>	<u>704,375,446</u>
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	113,456,181	102,424,458
Accrued interest on long-term liabilities	313,934	731,999
Employee future benefits (note 5)	52,797,885	46,803,418
Deposits and deferred revenue	18,463,119	16,146,626
Deferred revenue - obligatory reserve funds (note 6)	249,170,439	224,760,862
Debenture and other debt (note 7)	55,183,555	60,469,519
Note payable (note 8)	3,303,523	3,303,523
	<u>492,688,636</u>	<u>454,640,405</u>
Net financial assets	217,906,688	249,735,041
<b>Non-financial assets:</b>		
Tangible capital assets (note 9)	6,793,633,069	6,685,066,688
Commitments (note 15)		
Contingencies (note 16)		
Accumulated surplus	<u>\$ 7,011,539,757</u>	<u>\$ 6,934,801,729</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, 2010, with comparative figures for 2009

	Budget (Unaudited - note 13)	2010	2009
<b>Revenues:</b>			
Property taxation	\$ 133,251,894	\$ 137,590,446	\$ 128,395,596
Taxation from other governments	2,800,000	2,720,436	2,730,234
User charges	33,856,060	40,038,507	40,057,948
Water and sewer billings	76,368,485	78,103,663	67,520,296
Government transfers (note 11)	145,240	9,787,116	4,437,906
Investment income	3,761,000	6,291,447	5,965,281
Penalties and interest on taxes	4,900,000	4,583,952	4,679,602
Other fees and services	3,340,293	5,192,978	2,169,561
Contributions from developers	41,047,078	26,678,499	48,970,960
Contributed assets (note 9)	–	80,607,875	173,132,965
Hydro Vaughan Corporations (note 4)			
Share of net earnings	3,175,000	11,870,221	9,381,391
Interest on notes receivable	4,853,450	4,853,451	4,853,451
	<u>307,498,500</u>	<u>408,318,591</u>	<u>492,295,191</u>
<b>Expenses:</b>			
General government	16,788,620	20,217,380	18,720,573
Protection to persons and property	47,065,540	50,592,171	45,876,905
Transportation services	30,638,867	67,245,183	61,032,668
Environmental services	88,092,828	106,702,636	95,378,373
Health services	116,786	116,715	90,499
Social and family services	371,322	334,942	294,275
Recreational and cultural services	55,775,878	73,185,128	68,257,907
Planning and development	14,413,059	14,289,786	15,170,747
	<u>253,262,900</u>	<u>332,683,941</u>	<u>304,821,947</u>
Adjustment for the increase (reduction) of the City's equity interest in the net assets of PowerStream (note 4)	–	1,103,378	(2,735,145)
Annual surplus	\$ 54,235,600	76,738,028	184,738,099
Accumulated surplus, beginning of year	6,934,801,729	6,934,801,729	6,750,063,630
Accumulated surplus, end of year	<u>\$ 6,989,037,329</u>	<u>\$ 7,011,539,757</u>	<u>\$ 6,934,801,729</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, 2010, with comparative figures for 2009

	Budget (Unaudited - note 13)	2010	2009
Annual surplus	\$ 54,235,600	\$ 76,738,028	\$ 184,738,099
Amortization of tangible capital assets	–	56,733,939	54,474,578
Proceeds on disposal of tangible capital assets	–	129,197	182,416
Loss on disposal of tangible capital assets	–	24,193,339	6,693,886
Acquisition of tangible capital assets, net of transfers from assets under construction	(60,891,100)	(189,622,856)	(333,319,922)
Increase (decrease) in net financial assets	(6,655,500)	(31,828,353)	(87,230,943)
Net financial assets, beginning of year	249,735,041	249,735,041	336,965,984
Net financial assets, end of year	\$ 243,079,541	\$ 217,906,688	\$ 249,735,041

See accompanying notes to consolidated financial statements.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 76,738,028	\$ 184,738,099
Items not involving cash:		
Amortization	56,733,939	54,474,578
Loss on disposal of tangible capital assets	24,193,339	6,693,886
Contributed tangible capital assets	(80,607,875)	(173,132,965)
Deduct share of net earnings of Hydro Vaughan Corporations	(11,870,221)	(9,381,391)
Adjustment for (increase) reduction of the City's equity interest in the net assets of PowerStream	(1,103,378)	2,735,145
Change in non-cash assets and liabilities:		
Taxes receivable	2,384,772	(15,524,328)
Water and sewer billings receivable	(1,292,037)	(1,982,606)
Accounts receivable	(4,837,469)	6,355,309
Local improvement charges receivable	299,558	299,558
Other assets	3,649	2,250
Accounts payable and accrued liabilities	11,031,723	26,954,064
Accrued interest on long-term liabilities	(418,065)	353,122
Employee future benefits	5,994,467	5,213,252
Deposits and deferred revenue	2,316,493	2,697,997
Deferred revenue-obligatory reserve funds	24,409,577	(5,133,150)
Net change in cash from operating activities	103,976,500	85,362,820
Capital activities:		
Proceeds on disposal of tangible capital assets	129,197	182,416
Cash used to acquire tangible capital assets	(109,014,981)	(160,186,957)
Net change in cash from capital activities	(108,885,784)	(160,004,541)
Financing activities:		
Debenture and other debt incurred	261,125	17,911,207
Debenture and other debt repaid	(5,547,089)	(9,523,794)
Net change in cash from financing activities	(5,285,964)	8,387,413
Investing activities:		
Increase in investments	(372,174)	(41,238,681)
Investment in Hydro Vaughan Corporations (note 4)	3,579,432	13,631,787
Net change in cash from investing activities	3,207,258	(27,606,894)
Net change in cash and cash equivalents	(6,987,990)	(93,861,202)
Cash and cash equivalents, beginning of year	266,390,596	360,251,798
Cash and cash equivalents, end of year	\$ 259,402,606	\$ 266,390,596
Cash paid for interest	\$ 2,399,001	\$ 2,355,934
Cash received for interest and dividends	16,031,226	16,787,575
Tangible capital assets transferred from assets under construction to other asset categories	73,249,119	-

See accompanying notes to consolidated financial statements.

# THE CORPORATION OF THE CITY OF VAUGHAN

## *DRAFT* Notes to Consolidated Financial Statements

Year ended December 31, 2010

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

### 1. Significant accounting policies:

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

#### (a) Basis of consolidation:

##### (i) Consolidated entities:

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

The consolidated financial statements include:

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

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

# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### (ii) Investments in Government Business Enterprises:

The City's investments in Hydro Vaughan Energy Corporation, Hydro Vaughan Holdings Inc., Vaughan Holdings Inc., 1446631 Ontario Inc. and PowerStream Inc. collectively referred to as "Hydro Vaughan Corporations", are accounted for on a modified equity basis, consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City, and inter-organizational transactions and balances are not eliminated. The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its consolidated statement of operations with a corresponding increase or decrease in its investment asset account. Any dividends that the City receives from the Hydro Vaughan Corporations are reflected as reductions in the investment asset account.

### (iii) Accounting for Region and School Board transactions:

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

### (iv) Trust funds:

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

### (v) Sinking funds:

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

### (b) Basis of accounting:

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

# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

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

### (c) Cash and cash equivalents:

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

### (d) Investments:

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

### (e) Long-term debt:

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

### (f) Government transfers:

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

### (g) Deposits and deferred revenue:

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



# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### (h) Deferred revenue - obligatory reserve funds:

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

### (i) Pension, vacation entitlements and employee benefits:

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

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

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### (j) Taxation and related revenues:

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

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

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

### (k) Investment income:

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

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 1. Significant accounting policies (continued):

### (l) Segment disclosures:

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

### (m) Non-financial assets:

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

#### (i) Tangible capital assets:

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

Asset	Useful life - Years
Land improvements	2 - 100
Buildings and building improvements	20 - 60
Machinery and equipment	5 - 35
Vehicles	7 - 18
Roads infrastructure	8 - 75
Water and wastewater infrastructure	20 - 95

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

# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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

(ii) Contributions of tangible capital assets:

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

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

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

(iv) Interest capitalization:

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

(v) Leased tangible capital assets:

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

(n) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of the PSAB Standard 3150 requires management to make estimates of historical cost and useful lives of tangible capital assets. Actual results could differ from these estimates.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

(o) Presentation of budget information:

City of Vaughan's Council completes a review for its operating and capital budgets each year. The approved operating and capital budgets for 2010 are included in the budget figures presented in the consolidated statement of operations.

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

During 2010, requisitions were made by the District School Boards and the Region requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	District School Boards	The Region
Property taxes	\$ 256,749,428	\$ 256,506,459
Taxation from other governments	844,337	855,525
<b>Amounts requisitioned and remitted</b>	<b>\$ 257,593,765</b>	<b>\$ 257,361,984</b>

**3. Investments:**

Investments consist of government and financial institution bonds and have effective interest rates of 1.46% to 5.35% (2009 - 0.85% to 5.35%) with maturity dates from January 25, 2011 to June 2, 2023 (2009 - June 8, 2010 to June 2, 2023). Market value of investments costing \$126,599,413 (2009 - \$126,227,239) is \$132,252,511 (2009 - \$129,985,357) at December 31, 2010.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

## 4. Investment in Hydro Vaughan Corporations:

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

	Interest held	
	2010	2009
Hydro Vaughan Energy Corporation	100%	100%
Hydro Vaughan Holdings Inc.	100%	100%
Vaughan Holdings Inc. (including 45.315% (2009 - 45.315%) share interest in PowerStream Inc.)	100%	100%
1446631 Ontario Inc.	100%	100%

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

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

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

# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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

The closing adjustment relating to the formation of the newly amalgamated PowerStream on the contribution of net assets at their carrying value of the predecessor corporations resulted in a reduction of the City's equity interest of \$2,735,145 in 2009. This reduction was recorded as an adjustment of the City's proportionate share of PowerStream's retained earnings and contributed surplus in 2009.

On November 23, 2010, the City of Vaughan through its wholly owned subsidiary, Vaughan Holdings Inc.; the Town of Markham through its wholly owned subsidiary, Markham Enterprises Corporation; and the City of Barrie, through its wholly owned subsidiary Barrie Hydro Holdings Inc.; (collectively, the "Shareholders") signed a Subscription Agreement with PowerStream for new class A common shares for the purpose of the Shareholders providing equity for PowerStream's solar business. PowerStream's articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest is as follows:

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

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# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

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

	2010	2009
<b>Assets:</b>		
Current assets	\$ 203,157,846	\$ 239,066,531
Capital assets	642,059,040	601,764,167
Regulatory and other assets	97,066,094	98,252,511
Goodwill	42,542,561	42,542,561
	<u>984,825,541</u>	<u>981,625,770</u>
<b>Liabilities:</b>		
Current liabilities	179,114,057	179,506,782
Consumer deposits	12,071,466	16,725,834
Debenture payable	123,765,022	123,090,574
Bank loan	50,000,000	50,000,000
Promissory note due to the Town of Markham	74,268,544	74,268,544
Promissory note due to the City of Barrie	20,000,000	20,000,000
Employee future benefits and other liabilities	14,007,126	12,036,282
Regulatory liabilities	68,314,607	91,139,537
Other	42,495,600	33,508,790
	<u>584,036,422</u>	<u>600,276,343</u>
Net assets	400,789,119	381,349,427
Town of Markham's proportionate share of the net assets of PowerStream	(97,979,784)	(91,700,068)
City of Barrie's proportionate share of the net assets of PowerStream	(58,756,342)	(54,990,533)
<b>City's equity interest in net assets</b>	<u>\$ 244,052,993</u>	<u>\$ 234,658,826</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

	2010	2009
Revenues	\$ 856,520,971	\$ 777,758,204
Expenses	830,177,330	756,858,164
Net earnings	26,343,641	20,900,040
Town of Markham's share of the net earnings of PowerStream	(9,047,707)	(7,200,604)
City of Barrie's share of the net earnings of PowerStream	(5,425,713)	(4,318,045)
<b>City's share of net earnings</b>	<b>\$ 11,870,221</b>	<b>\$ 9,381,391</b>

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

	2010	2009
Investment in common shares	\$ 88,480,357	\$ 88,480,357
Investment in Class A common shares	1,103,378	-
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	9,925,030	9,925,030
Retained earnings and contributed surplus:		
Opening balance	35,405,602	38,475,105
Net earnings	11,870,221	9,381,391
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream arising on the amalgamation with Barrie Hydro Distribution Inc.	-	(2,735,145)
Less dividends	(4,772,576)	(9,715,749)
Closing balance	42,503,247	35,405,602
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	17,907,956	16,714,812
<b>Equity in Hydro Vaughan Corporations</b>	<b>\$ 244,052,993</b>	<b>\$ 234,658,826</b>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

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

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

	2010	2009
Equity in Hydro Vaughan Corporations, beginning of year	\$ 234,658,826	\$ 241,644,367
Change in equity:		
Equity interest in the cumulative income of Hydro Vaughan Corporations for the year ended December 31	11,870,221	9,381,391
Investment in equity interest in Class A common shares	1,103,378	—
Interest earned on notes receivable	4,853,451	4,853,451
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream arising on the amalgamation with Barrie Hydro Distribution Inc.	—	(2,735,145)
Cash received for:		
Accrued interest receivable on notes	(4,853,451)	(4,853,451)
Partial repayment of notes receivable	—	(9,800,000)
Dividends	(3,579,432)	(3,831,787)
	9,394,167	(6,985,541)
Equity in Hydro Vaughan Corporations, end of year	\$ 244,052,993	\$ 234,658,826

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

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

	2010	2009
Decrease (increase) in investment:		
Interest earned on notes	\$ (4,853,451)	\$ (4,853,451)
Cash received for accrued interest on notes receivable	4,853,451	4,853,451
Partial repayment of notes receivable	—	9,800,000
Dividends received	3,579,432	3,831,787
Decrease in investment in Hydro Vaughan Corporations	\$ 3,579,432	\$ 13,631,787

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

## 5. Employee future benefits:

### (a) Pension:

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

Total OMERS contributions amounted to \$13,837,557 in 2010 (2009 - \$11,875,688), of which \$6,907,929 (2009 - \$5,959,551) represented the City's portion.



# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

(b) Workplace safety and insurance obligations:

Under the provision of the Workplace Safety and Insurance Board Act ("WSIB"), the City is a self-insured Schedule 2 employer.

An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability of \$421,200 (2009 - \$237,800) reported in these financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to \$1,000,000.

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is \$3,967,685 (2009 - \$3,323,618).

(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, 2010 of \$48,409,000 (2009 - \$43,242,000) and the expense for the year ended December 31, 2010 of \$6,014,000 (2009 - \$5,642,000) were determined by actuarial valuation using a discount rate of 5.0%.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

## 5. Employee future benefits (continued):

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

	2010	2009
Accrued benefit obligation:		
Balance, end of prior year	\$ 43,242,000	\$ 38,327,000
Actuarial loss	5,203,000	5,637,000
Service cost for the year	3,028,000	2,884,000
Interest cost for the year	2,553,000	2,324,000
Unamortized actuarial loss	(4,770,000)	(5,203,000)
Benefits paid for the year	(847,000)	(727,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	\$ 48,409,000	\$ 43,242,000

Components of benefit expense:

	2010	2009
Service costs for the year	\$ 3,028,000	\$ 2,884,000
Interest cost for the year	2,553,000	2,324,000
Amortization of actuarial loss	433,000	434,000
Benefit expense	\$ 6,014,000	\$ 5,642,000

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

(i) General:

Future general inflation levels, measured by changes in the Consumer Price Index ("CPI"), were assumed as 2.3% in 2010 and thereafter.

(ii) Interest (discount) rate:

The projected benefit obligation as at December 31, 2010 and the expense for the year ended December 31, 2010, were determined by using a discount rate of 5.0% (2009 - 5.0%). The discount rate for 2010 corresponds to the assumed CPI rate plus an assumed real rate of return of 2.7%.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 5. Employee future benefits (continued):

### (iii) Salary levels:

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

### (iv) Medical costs:

Medical costs were assumed to increase at the CPI rate plus a further increase of 5.7% in 2010 graded down by 1.0% in 2011 and thereafter.

### (v) Dental costs:

Dental costs were assumed to increase at the CPI rate plus a further increase of 2.7% thereafter.

(vi) Expected average remaining service life (EARSL) of the current active group is assumed to be 12 years.

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

	2010	2009
Post retirement non-pension benefits	\$ 48,409,000	\$ 43,242,000
Vacation pay	3,967,685	3,323,618
WSIB	421,200	237,800
	<u>\$ 52,797,885</u>	<u>\$ 46,803,418</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

## 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:

	2010	2009
Recreational land (The Planning Act)	\$ 44,334,125	\$ 45,446,405
Development Charges Act	155,701,103	134,881,301
Subdivider contributions	7,608,789	7,236,907
Federal Gas Tax Revenues	16,392,753	10,871,248
Building Standards Act	18,519,398	17,303,458
Ontario Roads and Bridges Fund	1,769,174	1,835,108
Investing in Ontario Act	4,845,097	7,186,435
	<b>\$ 249,170,439</b>	<b>\$ 224,760,862</b>

## 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:

	2010	2009
Debenture debt issued by the Region:		
Serial debt	\$ 8,867,000	\$ 11,805,000
Sinking fund debt	34,270,645	36,879,733
Debt payable to York Major Holdings Inc. for McNaughton Road extension	62,718	62,718
Debt payable to Ivanhoe Cambridge Inc. for off ramp from Highway #400 to Bass Pro Drive	2,165,984	1,904,861
Debt payable to Block 11 Landowners' Group for Block 11 Valley Road Crossing and Pressure District 6 for East Rutherford Road Trunk Watermain	9,817,208	9,817,207
	<b>\$ 55,183,555</b>	<b>\$ 60,469,519</b>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

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

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

In 2005, the City entered into an agreement with York Major Holdings Inc. for the City to pay its share of the construction of the McNaughton Road extension. The obligation is without interest and there is one payment of \$62,718 remaining in 2011. The agreement included \$1,500,000 in development charge credits to be applied against future building permits. Development charge credits of \$1,109,962 have been reallocated to accounts payable and accrued liabilities.

In 2004, the City entered into an agreement with Ivanhoe Cambridge Inc. for the City to pay its share of the design and construction costs of the off ramp from Highway #400 to Bass Pro Drive. The obligation is without interest and is payable in the one remaining annual installment in 2011 noted below.

Principal repayments in the amount of \$55,183,555 debenture and other debt reported above are repayable as follows:

	Block 11				
	Region	Landowners' Group	York Major Holdings Inc.	Ivanhoe Cambridge Inc.	Total
2011	\$ 5,597,151	\$ 606,893	\$ 62,718	\$ 2,165,984	\$ 8,432,746
2012	5,634,237	2,576,885	—	—	8,211,122
2013	5,652,237	2,395,903	—	—	8,048,140
2014	5,677,227	925,974	—	—	6,603,201
2015	5,706,223	925,974	—	—	6,632,197
2016-20	8,373,212	2,385,579	—	—	10,758,791
Interest on sinking funds	6,497,358	—	—	—	6,497,358
	<b>\$43,137,645</b>	<b>\$9,817,208</b>	<b>\$ 62,718</b>	<b>\$ 2,165,984</b>	<b>\$ 55,183,555</b>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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

Principal payments, including contributions to the sinking fund and interest paid for net debenture and other debt liabilities are as follows:

	2010	2009
Principal payments, including contributions to the sinking fund	\$ 5,547,089	\$ 9,523,794
Interest	2,399,001	2,355,934

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**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

Year ended December 31, 2010

### 9. Tangible capital assets:

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

Asset	Cost				Accumulated amortization				Net book value December 31, 2009
	Balance December 31, 2008	2009 Acquisitions	2009 Disposals and adjustments	Balance December 31, 2009	Balance December 31, 2008	2009 Amortization	2009 Disposals and adjustments	Balance, December 31, 2009	
Land	\$ 4,416,588,823	\$ 167,908,974	\$ 729,708	\$ 4,583,748,089	\$ -	\$ -	\$ -	\$ -	\$ 4,583,748,089
Land improvements	136,493,464	6,378,974	445,923	142,426,515	48,310,959	4,836,636	258,616	52,888,979	89,537,536
Buildings and building improvements	149,139,220	269,658	133,716	149,275,162	53,842,103	4,721,533	79,073	58,484,563	90,790,599
Machinery and equipment	34,988,752	2,167,742	1,870,823	35,285,671	20,303,391	3,135,469	1,855,776	21,583,084	13,702,587
Vehicles	19,252,045	3,741,554	126,596	22,867,003	10,799,826	1,395,124	123,298	12,071,652	10,795,351
Furniture and fixtures	3,588,026	337,508	-	3,925,534	2,062,041	223,827	-	2,285,868	1,639,666
Information technology	3,771,725	653,876	172,030	4,253,571	2,296,065	696,434	169,216	2,823,283	1,430,288
Leasehold improvements	2,181,191	-	-	2,181,191	826,587	258,409	-	1,084,996	1,098,195
Roads infrastructure	744,850,178	40,541,503	12,089,780	773,301,901	257,406,055	21,915,662	6,559,411	272,762,306	500,539,595
Water and sewer infrastructure	1,385,392,416	41,165,997	565,209	1,435,993,204	213,022,167	17,291,484	212,093	230,101,558	1,205,891,646
Assets under construction	115,741,000	70,154,136	-	185,895,136	-	-	-	-	185,895,136
<b>Total</b>	<b>\$ 7,021,966,840</b>	<b>\$ 333,319,922</b>	<b>\$ 16,133,785</b>	<b>\$ 7,339,152,977</b>	<b>\$ 608,869,194</b>	<b>\$ 54,474,578</b>	<b>\$ 9,257,483</b>	<b>\$ 654,086,289</b>	<b>\$ 6,685,066,688</b>



# THE CORPORATION OF THE CITY OF VAUGHAN

## *DRAFT* Notes to Consolidated Financial Statements

Year ended December 31, 2010

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

#### (a) Assets under construction:

Assets under construction having a value of \$177,736,532 (2009 - \$185,895,136) have not been amortized. Amortization of these assets will commence when the asset is put into service.

#### (b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$80,607,875 (2009 - \$173,132,965) comprised of land and land improvements of \$48,271,441 (2009 - \$107,987,226), roads infrastructure of \$12,249,900 (2009 - \$25,815,098) and water and wastewater infrastructure of \$20,086,534 (2009 - \$39,330,641).

#### (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, 2010

## 10. Accumulated surplus:

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

	2010	2009
Surplus:		
Investment in tangible capital assets (note 9)	\$ 6,793,633,069	\$ 6,685,066,688
Amounts to be recovered in future years:		
From future revenues	(81,333,623)	(84,469,374)
From reserves and reserve funds on hand	(10,526,956)	(8,189,358)
Investment in Hydro Vaughan Corporations (note 4)	244,052,993	234,658,826
Other	(146,102,211)	(85,568,318)
	<u>6,799,723,272</u>	<u>6,741,498,464</u>
Reserves set aside for specific purposes by Council:		
Vehicle replacement	3,397,041	4,433,488
Fire equipment replacement	3,016,223	3,423,154
General working capital	26,856,909	24,149,248
Tax rate stabilization	21,757,165	19,091,818
Waterworks	26,367,425	23,989,926
Wastewater (sanitary sewers)	21,538,041	18,062,926
Keele Valley landfill	2,238,294	2,221,043
Heritage fund	802,775	766,257
Employee benefits	10,526,956	8,189,358
Buildings	16,747,622	15,879,722
Road infrastructure	8,120,326	8,551,988
Sale of public lands	5,535,232	3,199,125
Parks infrastructure	1,532,785	2,039,433
Winterization	5,799,184	3,780,752
Other	3,875,776	4,457,278
Debenture payments	29,954,185	26,620,157
Engineering	15,321,817	17,858,827
Planning	937,332	929,555
Civic centre	4,696,902	3,785,353
Expenditure reserve	2,794,495	1,873,857
	<u>211,816,485</u>	<u>193,303,265</u>
Accumulated surplus	<u>\$ 7,011,539,757</u>	<u>\$ 6,934,801,729</u>

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

## 11. Government transfers:

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

	2010	2009
Revenue:		
Provincial grants:		
General government	\$ -	\$ 30,193
Protection services	-	41,252
Transportation services	2,768,139	466,157
Recreation and cultural services:	1,276,817	450,109
Subtotal provincial grants	4,044,956	987,711
Federal grants:		
General government	\$ 13,784	\$ 30,193
Transportation services	3,857,145	1,441,496
Environmental services	835,792	1,309,376
Recreation and cultural services:	1,035,439	669,130
Subtotal federal grants	5,742,160	3,450,195
Total revenues	\$ 9,787,116	\$ 4,437,906

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 12. Segmented information:

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

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

(a) General government:

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

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

# THE CORPORATION OF THE CITY OF VAUGHAN

*DRAFT* Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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## 12. Segmented information (continued):

### (e) Health services, social and family services:

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

### (f) Recreation and cultural services:

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

### (g) Planning and development:

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

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

## THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

### 12. Segmented Information (continued)

2010	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	2010 Consolidated Total
<b>Revenue:</b>									
Property taxation	\$ 12,333,867	\$ 32,127,556	\$ 27,791,224	\$ 7,599,501	\$ 350,653	\$ 33,896,071	\$ 7,214,211	\$ 10,197,799	\$ 140,310,882
User charges	-	11,234,291	2,211,486	973,381	77,836	15,802,779	6,318,206	4,420,536	40,038,507
Water and sewer billings	-	-	-	78,103,883	-	-	-	-	78,103,883
Government transfers	13,784	-	6,625,284	835,792	-	2,312,258	-	-	9,787,116
Investment income	15,518	1,440,579	1,246,140	340,756	15,723	1,510,000	323,481	1,399,341	6,291,447
Penalties and interest on taxes	286,388	1,023,880	1,027,248	769,212	10,923	1,105,276	119,839	242,386	4,583,952
Other fees and services	129,409	1,398,324	2,059,608	(3,764)	-	1,619,501	-	-	5,192,978
Contributions from developers	1,011,450	494,077	80,908	(2,136,423)	-	27,229,487	-	-	26,678,499
Contributed assets	-	-	54,872,690	24,972,116	-	1,883,067	-	-	60,607,875
Income (net of expenses)	-	-	-	-	-	-	-	-	-
Hydro Vaughan Corporations	-	-	-	-	-	-	-	16,723,672	16,723,672
	13,790,416	47,708,497	95,914,488	110,553,236	455,135	84,938,346	12,975,737	41,982,736	408,318,591
<b>Expenses:</b>									
Salaries and benefits	9,704,042	40,340,705	6,093,950	4,201,081	19,841	34,915,982	11,015,777	14,897,125	121,108,593
Goods and services	2,843,067	3,465,692	16,338,242	74,542,286	243,703	13,976,874	926,448	9,774,873	122,114,388
Long term debt interest	-	-	2,269,754	129,247	-	-	-	-	2,399,001
Other	140,385	16,358	(455,263)	326,498	142,526	677,269	12,701	186,430	1,026,934
Corporate support allocation	1,381,332	4,736,509	2,485,032	8,876,719	45,587	5,409,046	1,292,069	(24,226,894)	0
Loss on disposal of tangible capital assets	49,880	(16,715)	2,370,424	318,966	-	2,335,293	-	-	5,058,838
Amortization	1,297,221	1,321,232	24,245,787	18,024,056	-	11,841,880	3,783	-	56,733,039
Other capital related	4,184,919	727,100	13,899,277	263,790	-	4,028,154	1,039,008	-	24,162,249
	19,805,846	50,592,171	67,245,183	106,702,636	451,657	73,185,128	14,289,786	811,534	332,683,941
Annual surplus (deficit) before the undemoted	(5,815,430)	(2,883,674)	28,669,305	3,850,800	3,478	11,753,218	(1,314,049)	41,371,202	76,634,850
Adjustment for the increase in the City's equity interest in the net assets of PowerStream (note 4)	-	-	-	-	-	-	-	1,103,378	1,103,378
Annual surplus (deficit)	\$ (5,815,430)	\$ (2,883,674)	\$ 28,669,305	\$ 3,850,600	\$ 3,478	\$ 11,753,218	\$ (1,314,049)	\$ 42,474,580	\$ 76,738,028

## THE CORPORATION OF THE CITY OF VAUGHAN

Note to Consolidated Financial Statements (continued)

Year ended December 31, 2010

### 12. Segmented Information (continued)

2009	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	2009 Consolidated Total
<b>Revenue:</b>									
Property taxation	\$ 14,598,431	\$ 29,274,187	\$ 29,664,512	\$ 13,644,151	\$ 312,182	\$ 31,596,798	\$ 5,340,655	\$ 6,704,914	\$ 131,125,830
User charges	-	10,359,068	2,475,054	2,025,802	51,588	14,975,296	7,256,048	2,915,094	40,057,948
Water and sewer billings	-	-	-	67,520,296	-	-	-	-	67,520,296
Government transfers	60,366	41,252	1,907,853	1,309,376	-	1,119,239	-	-	4,437,906
Investment income	137,354	1,109,893	1,234,392	669,976	12,464	1,175,896	164,193	1,561,093	5,965,281
Penalties and interest on taxes	107,751	870,881	888,347	447,131	9,784	922,458	128,805	1,224,635	4,679,602
Other fees and services	79,825	1,321,131	(185,915)	(12,681)	-	955,158	-	11,925	2,169,661
Contributions from developers	121,201	1,299,358	22,713,239	3,680,453	-	21,113,447	33,262	-	48,970,960
Contributed assets	-	-	110,062,418	48,736,233	-	14,110,051	224,263	-	173,132,965
Income (net of expenses)	-	-	-	-	-	-	-	-	-
Hydro Vaughan Corporations	-	-	-	-	-	-	-	14,234,842	14,234,842
	16,095,048	44,275,570	168,839,700	137,930,757	366,046	85,968,341	13,147,226	26,652,503	492,295,191
<b>Expenses:</b>									
Salaries and benefits	8,531,094	38,845,873	6,191,363	3,719,289	26,123	32,259,083	10,687,602	13,975,945	112,036,352
Goods and services	6,491,376	3,512,556	16,736,599	85,180,270	177,254	13,087,631	1,320,448	8,827,050	116,333,184
Long term debt interest	-	-	2,167,480	132,560	-	-	-	35,894	2,356,934
Other	253,412	8,905	187,376	215,551	140,623	694,047	50,660	87,903	1,618,637
Corporate support allocation	1,518,898	4,213,056	2,690,345	7,532,693	37,774	4,875,496	1,266,312	(22,134,574)	-
Loss on disposal of tangible capital assets	8,151	1,658	6,117,543	352,101	-	214,173	-	-	6,693,886
Amortization	1,324,811	1,259,806	22,806,956	17,649,973	-	11,429,240	3,783	-	54,474,578
Other capital related	820,813	234,691	2,115,198	505,876	-	5,701,248	1,841,842	-	11,309,476
	17,948,355	45,876,905	61,032,688	95,378,373	384,774	89,257,807	15,170,747	772,218	304,821,947
Annual surplus (deficit) before the undernoted	(2,853,307)	(1,601,335)	107,807,032	42,562,384	1,272	17,710,434	(2,023,521)	25,880,285	187,473,244
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)	-	-	-	-	-	-	-	(2,735,145)	(2,735,145)
Annual surplus (deficit)	\$ (2,853,307)	\$ (1,601,335)	\$ 107,807,032	\$ 42,562,384	\$ 1,272	\$ 17,710,434	\$ (2,023,521)	\$ 23,145,140	\$ 184,738,099



# THE CORPORATION OF THE CITY OF VAUGHAN

## DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

### 13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2010 operating and capital budgets approved by Council in 2010. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget amount
Revenues:	
Operating budget	\$ 285,198,700
Capital budget	62,957,700
Less:	
Transfers from other funds	(32,942,200)
Proceeds on debt issue	(4,579,000)
Hospital levy	(3,211,000)
Federal and provincial capital funding	-
Other capital funding and financing	(1,378,900)
Total revenue	306,045,300
Expenses:	
Operating budget	285,198,700
Capital budget	62,957,700
Less:	
Transfers to other funds	(26,242,400)
Capital expenses	(60,891,100)
Debt principal payments	(9,213,200)
Total expenses	251,809,700
Annual surplus	\$ 54,235,600

### 14. Trust funds:

Trust funds administered by the City amounting to \$368,433 (2009 - \$489,483) are presented in separate financial statements of trust balances and operations. As such balances are held in trust by the City for the benefit of others, they are not presented as part of the City's consolidated financial position and consolidated operations.

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 15. Commitments:

### (a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments such as waste collection, snow clearing, etc., obtaining Council and other approvals as required. For these lease and operating commitments, minimum payments have been estimated to aggregate \$66.9 million over the next five years and thereafter. Expenses relating to these agreements are recorded in the year in which the payments are made.

### (b) Loan guarantees:

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

- (i) For the accumulated sum, not exceeding \$2.74 million with the Ontario Soccer Association.
- (ii) For the accumulated sum, not exceeding \$7.44 million with the Mentena Development Group.

### (c) Joint services agreement:

Pursuant to a joint service agreement between PowerStream and the City, PowerStream charged the City, at agreed rates, for various administrative functions. In addition, the City performs certain shared services which are charged to PowerStream. The net charge for services under these agreements were \$1,627,134 (2009 - \$1,131,508).

# THE CORPORATION OF THE CITY OF VAUGHAN

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

Year ended December 31, 2010

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## 15. Commitments (continued):

### (d) Capital commitments:

The City has entered into a number of contractual agreements for capital works obtaining Council and other approvals as required. The total value of approved and outstanding capital works at December 31, 2010 is approximately \$139 million. Expenditures relating to capital works are recorded in the year in which expenditures are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation.

### (e) Vaughan Hospital:

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

## 16. Contingencies:

### (a) Unsettled legal claims and potential other claims:

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

# THE CORPORATION OF THE CITY OF VAUGHAN

## DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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### 16. Contingencies (continued):

#### (b) Insurance claims:

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

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

PowerStream has been jointly named as a defendant in several actions. No provisions have been made for these potential liabilities in the financial statements of PowerStream for the year ended December 31, 2010 as PowerStream expects that these claims are adequately covered by its insurance.

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

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

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

# THE CORPORATION OF THE CITY OF VAUGHAN

## DRAFT Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2010

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### 16. Contingencies (continued):

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

After the release by the Supreme Court of Canada of its 2004 decision in the Consumers Gas case, the plaintiffs in the LDC late payment penalties class action indicated their intention to proceed with their litigation against the LDCs. The parties are in settlement discussions but no settlement has been reached. At this time, it is not possible to quantify the effect, if any, on the financial statements of PowerStream, Vaughan Holdings Inc. and the City.



**CONFIDENTIAL**

**The Corporation of the City of Vaughan**

**Audit Findings Report to the Audit Committee**

For the year ended December 31, 2010

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## Executive Summary

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### Overview and Status

The purpose<sup>1</sup> of this Audit Findings Report is to assist the Finance & Audit Committee in your review of the consolidated financial statements of the Corporation of the City of Vaughan for the year December 31, 2010.

We have completed the audit of the financial statements with the exception of the following remaining procedures:

- receipt of one long term debt confirmation
- receipt of signed management representation letter
- completing our discussions with the Finance & Audit Committee
- obtaining evidence of the Finance & Audit Committee's acceptance and approval of the consolidated financial statements.

We will update the Finance & Audit Committee on any significant matters arising from the completion of the above procedures, as additional procedures or adjustments to the financial statements may be necessary.

Our audit report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that:

- all the statements that comprise the financial statements, including the related notes, have been prepared; and
- the Finance & Audit Committee has accepted the financial statements.

### Topics to Discuss

Below are topics identified from the audit that we have highlighted for discussion at the upcoming Finance & Audit Committee meeting. We believe these topics need to be brought to your attention, and we look forward to discussing our findings with you:

- Significant Audit, Accounting and Reporting Matters
- Significant Qualitative Aspects of Accounting Practices
- Misstatements
- Control Deficiencies
- Designated Public Documents

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<sup>1</sup> This Audit Findings Report should not be used for any other purpose. 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 any other purpose.



## Significant Audit, Accounting and Reporting Matters

The following are the significant audit, accounting and reporting matters arising from the audit:

Significant Risks Related to Management's Judgment and Action	Results / Effect on the Audit	Misstatements and Control Deficiencies
<p><b>Investment in PowerStream Inc.</b></p> <ul style="list-style-type: none"> <li>The shareholders of PowerStream Inc. ("PowerStream") are the City (through its wholly-owned subsidiary Vaughan Holdings Inc.), the Town of Markham (through its wholly-owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly-owned subsidiary Barrie Hydro Holdings Inc.) (collectively, "the Shareholders") with share interests of 45.315%, 34.185% and 20.5% respectively.</li> </ul>	<ul style="list-style-type: none"> <li>On November 23, 2010, the Shareholders signed a Subscription Agreement with PowerStream for new Class A common shares for the purpose of providing equity for PowerStream's solar business. The maximum amount of Class A common shares that are available under the subscription agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest is described in Note 4 of the financial statements. The City, through Vaughan Holdings Inc. holds 1,838 of this class of shares, representing its 45.315% share of PowerStream.</li> <li>The adjustment relating to the Subscription Agreement resulted in an addition to the City's equity interest by \$1,103,378 to a total equity interest of \$98,103,378. This additional contribution is recorded as an adjustment to the City's proportionate share of PowerStream's retained earnings and share capital.</li> <li>The Shareholders continue to hold the same number of existing common shares that were held prior to the Subscription Agreement.</li> </ul> <p><b>Actions taken by management</b></p> <ul style="list-style-type: none"> <li>PowerStream is accounted for on a modified equity basis. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with those of the City and inter-organizational transactions and balances are not eliminated.</li> <li>The City's share of the net earnings of PowerStream for the year ended December 31, 2010 is approximately \$11.8 million and has been recorded in the consolidated</li> </ul>	<ul style="list-style-type: none"> <li>There were no misstatements.</li> <li>We concur with the disclosures made in the financial statements.</li> </ul>

	<p>statement of operations and accumulated surplus.</p> <p><b>Effects on the audit</b></p> <ul style="list-style-type: none"> <li>• We are in agreement with the accounting treatment adopted by the City as at and for the year ended December 31, 2010.</li> </ul> <p><b>International Financial Reporting Standards</b></p> <ul style="list-style-type: none"> <li>• Commencing with their 2011 financial statements, PowerStream will be adopting International Financial Reporting Standards. This may cause more volatility in their reported results as IFRS as it currently stands does not support rate regulated accounting practices currently allowed under Canadian GAAP which permits certain costs and revenues to be deferred on the balance sheet when specifically approved by the Ontario Electricity Board.</li> </ul>	
<p><b>Contingent liabilities</b></p> <ul style="list-style-type: none"> <li>• <i>PS3300 Contingent Liabilities</i>, of the CICA Handbook, requires that the City recognize a liability when "...it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and the amount can be reasonably estimated."</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed the City's assessments of contingent liabilities and the process employed to develop and record the related estimated liabilities. Where applicable, we met with the individuals responsible for the process and are satisfied that the methodology used is rational, consistent with the approach taken in prior years and has been appropriately reviewed.</li> <li>• As these items are resolved, it is possible that the final amounts recorded for these liabilities may change, however the amounts currently recorded represent management's best estimates based on the information presently available.</li> </ul>	<ul style="list-style-type: none"> <li>• There were no misstatements.</li> <li>• We concur with the disclosures made in the financial statements.</li> </ul>

## Significant Qualitative Aspects of Accounting Practices

The following are the significant qualitative aspects of accounting practices that we will discuss:

<b>Significant Accounting Policies</b>	<ul style="list-style-type: none"><li>• The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board (“PSAB”)</li><li>• The City’s significant accounting policies are set out in Note 1 to the financial statements. There were no changes in significant accounting policies adopted in the current year</li><li>• There were no new accounting pronouncements applicable in the current year</li></ul>
<b>Significant Accounting Estimates</b>	<ul style="list-style-type: none"><li>• The following are the significant areas where management was required to make estimates in the preparation of the financial statements:<ul style="list-style-type: none"><li>○ Assumptions that affect certain accrued liabilities and contingent liabilities</li><li>○ Assumptions used in actuarial valuations of employee future benefits provisions</li><li>○ Estimated useful lives of tangible capital assets and depreciation thereon</li></ul></li></ul>
<b>Significant Disclosures</b>	<ul style="list-style-type: none"><li>• There were no changes in significant disclosures</li></ul>

## Misstatements

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### Audit Misstatements – Identification

- Misstatements identified during the audit have been categorized as follows:
  - uncorrected audit misstatements, including disclosures.
  - corrected audit misstatements, including disclosures.

### Uncorrected Audit Misstatements

- There was one uncorrected audit misstatement as a result of the City correcting an entry in the 2010 financial statements that originated from a 2009 proposed entry that was uncorrected in the previous year. In 2009, the City capitalized an amount of \$494K as assets under construction, however, this amount represented a 2% budgeted cost to the cost of tangible capital assets rather than an actual cost incurred by the City to construct or acquire an asset. The amount was written off in 2010, however, the adjustment is out-of-period and therefore, we have proposed an entry to reflect the out-of-period impact on the 2010 financial statements.
- Refer to the Summary of Corrected Audit Misstatements in Appendix 2.

### Corrected Audit Misstatements

- There were no corrected audit misstatements found over the course of the audit.

## Control Deficiencies

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### Background

- In planning and performing our audit of the financial statements, we considered internal control 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 consideration of internal control was for the limited purpose described in the preceding paragraph 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.

### Identification

- We did not identify any control deficiencies that we consider to be significant deficiencies in internal control.

## Other matters

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### Matters pertaining to the financial statement audit

<u>Matters communicated</u>	<u>Comments</u>
<i>Significant unusual transactions</i>	Other than as discussed previously in this document, we did not identify, in the course of our financial statement audit, any significant unusual transactions.
<i>Accounting policies, judgments and estimates</i>	<p>Management describes their critical accounting policies and key estimates that are subject to uncertainty in the notes to the financial statements.</p> <p>We did not identify, in the course of our financial statement audit, any material changes in selection or application of accounting policies.</p>
<i>Related party transactions</i>	We did not identify, in the course of our financial statement audit, any related party transactions outside the normal course of business that involve significant judgments made by management concerning measurement and disclosure.
<i>Control deficiencies in internal control over financial reporting</i>	<p>We did not identify, in the course of our financial statement audit, any material weaknesses in the design, implementation or operating effectiveness of internal control over financial reporting, including anti-fraud controls.</p> <p>Our audit has not been designed to determine the adequacy of internal control over financial reporting for management purposes.</p>
<i>Illegal and fraudulent activities</i>	<p>We did not identify, during our financial statement audit, any illegal acts or possibly illegal acts or any:</p> <ul style="list-style-type: none"><li>• matters that pose questions regarding the honesty and integrity of management</li><li>• fraud or suspected fraud involving management</li><li>• fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting</li><li>• fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements</li><li>• matters that may cause future financial statements to be materially misstated.</li></ul>
<i>Auditors' independence</i>	Our independence letter dated September 19, 2011, in Appendix 1, indicates that we have not performed any professional services for the entity or identified any relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

**Matters communicated**    **Comments**

We have, since the date of this letter, provided no additional professional services nor identified other relationships that, in our professional judgment, may reasonably be thought to bear on our independence. Accordingly, we confirm that, since the date of this letter, we remain independent.

***Dealings with Management***

We received the full cooperation of management and employees of the City and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit.

We had no disagreements with management, and we have resolved all auditing, accounting and presentation issues to our satisfaction.

***Consultation with other Accountants***

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

***Major issues discussed with Management that influence our audit appointment***

We did not engage in discussion with management about any major issues in connection with our appointment as auditors.

## Designated Public Documents

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

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

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

## Appendices

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### Appendix 1 – Independence Letter



KPMG LLP

Chartered Accountants  
Yonge Corporate Centre  
4100 Yonge Street, Suite 200  
North York, ON M2P 2H3

Telephone (416) 228-7000  
Telefax (416) 228-7123  
www.kpmg.ca

September 19, 2011

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

Dear Members of the Finance & Audit Committee:

We have been engaged to audit the consolidated financial statements of the Corporation of the City of Vaughan, and the financial statements of its Public Library Board, Board of Management for the Kleinburg Business Improvement Area and Trust Funds (the “City”) for the year ended December 31, 2010.

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

A related entity is defined as:

- (a) in the case of a client that is a reporting issuer, an entity that has control over a client, or over which the client has control, or that is under common control with a client, including the client's parent company and any subsidiaries.
- (b) in the case of a client that is not a reporting issuer, an entity over which the client has control, or that has control over the client provided the client is material to such entity, and an entity that is under common control with the client provided such entity and the client are both material to the controlling entity.
- (c) an entity over which a client has significant influence, unless the entity is not material to the client.
- (d) an entity that has significant influence over a client, unless the client is not material to the entity.

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

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
  - holding a financial interest, either directly or indirectly, in a client
  - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client





## Appendix 2 – Management Representation Letter

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

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

September 19, 2011

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The Corporation of the City of Vaughan ("the Entity") as at and for the period ended December 31, 2010.

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

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

### **GENERAL:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 29, 2010, for:
  - a) the preparation and fair presentation of the financial statements.
  - b) providing you with all relevant information and access.
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

**INTERNAL CONTROL OVER FINANCIAL REPORTING:**

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

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

- 3) We have disclosed to you:
- a) the results of our assessment of the risks that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**COMMITMENTS & CONTINGENCIES:**

- 4) There are no:
- a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation.
  - b) other environmental matters that may have an impact on the financial statements.

**SUBSEQUENT EVENTS:**

- 5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

- 6) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and

transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

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

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

- 8) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

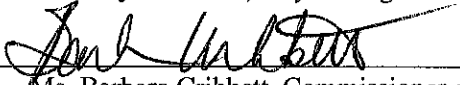
**MISSTATEMENTS:**

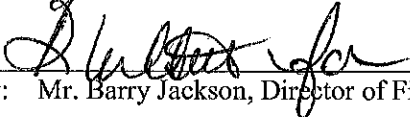
- 9) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Yours very truly,

THE CORPORATION OF THE CITY OF VAUGHAN

  
By: Mr. Clayton Harris, City Manager

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

  
By: Mr. Barry Jackson, Director of Finance

cc: Finance & Audit Committee

## Attachment I – Definitions

### MATERIALITY

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

### FRAUD & ERROR

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

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

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

### RELATED PARTIES

In accordance with CICA Section 3840, *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members (see paragraph 3840.04).

In accordance with CICA Section 3840, a *related party transaction* is defined as:

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

## Attachment II – Summary of uncorrected audit misstatement

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

Description	Statement of Financial Position			Statement of Operations
	Financial Assets	Financial Liabilities	Accumulated Surplus	
To record the 2010 impact of the WIP write off to loss on disposal (entry proposed by KPMG in 2009).	-	-	\$494,000	(\$494,000)
<b>Total impact</b>	-	-	<b>\$494,000</b>	<b>(\$494,000)</b>

### Appendix 3 – Definitions

Terminology	Definition
<b>Deficiency in Internal Control</b>	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing; or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
<b>Significant Deficiency in Internal Control</b>	A significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

## Appendix 4 – Current Developments

### Tax Revenue

- *Public Sector (“PS”) 3510 – Tax Revenue* was approved by Public Sector Accounting Board (“PSAB”) in November 2009.
- This standard sets out revenue recognition principles for tax revenue.
- Provides principles for recognition of taxes collected on behalf of others.
- This standard is effective for fiscal years beginning on or after April 1, 2012.

### Liability for Remediation and Mitigation of Contaminated Sites

- *PS 3260 – Liability for Contaminated Sites* was approved by PSAB in March 2010.
- A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the environmental standard, the government is directly responsible or accepts responsibility, it is expected future economic benefits will be given up and a reasonable estimate of the amount can be made.
- This standard is effective for fiscal years beginning on or after April 1, 2012.

### Government Transfers

- PSAB approved a 3<sup>rd</sup> Re-Exposure Draft for Government Transfers
- Sets out recognition principles for government transfers for transferring and recipient governments.
- Transferring governments recognize an expense when the transfer has been authorized and all eligibility criteria have been met by the recipient.
- Recipient governments recognize revenue when the transfer is authorized and all eligibility criteria have been met, except when a transfer gives rise to a liability.
- This standard is not yet effective.

### Financial Instruments Re-Exposure Draft

- Sets out principles to be used in establishing an accounting standard with respect to financial instruments and derivative instruments.
- Fair value measurement proposed for derivatives and portfolio investments that are equity instruments quoted in an active market. Fair value can be applied to non-equity instruments through an accounting policy choice.
- PSAB is developing a re-exposure draft expected to be issued in September 2010 with an approved standard in March 2011.
- This proposed standard is not yet effective.

## Appendix 5 – Engagement Letter and Other Written Communications

- Provided under separate cover.



## Appendix 6 – KPMG's Audit Committee Resources

### General

- *Financial Times partnership – Managing in a downturn* four-part series (Jan/Feb 2009)  
<http://www.kpmg.ca/managingdownturn/>
- *Audit Committee Update*, Issue 2010-01, Audit Committee Institute  
<http://www.kpmg.ca/auditcommittee/update.html>
- *Shaping the Canadian Audit Committee Agenda* (2006 edition), Audit Committee Institute  
<http://www.kpmg.ca/auditcommittee/shaping.html>
- *Canadian Survey of Audit Committee Members – 2007*, Audit Committee Institute (12/2007)  
<http://www.kpmg.ca/auditcommittee/survey.html>
- *Accountability e-Lert* – periodic electronic newsletter. Subscribe at  
[www.kpmg.ca/accountability](http://www.kpmg.ca/accountability)
- *Certification of Internal Control: Final Certification Rules*, KPMG (09/2008)  
[http://www.kpmg.com/Ca/en/WhatWeDo/Audit/InternalControl/Documents/4022\\_CIC\\_Final\\_Rules\\_WEB\\_3v2.pdf](http://www.kpmg.com/Ca/en/WhatWeDo/Audit/InternalControl/Documents/4022_CIC_Final_Rules_WEB_3v2.pdf)
- *Governance of Tax* – Discussion paper, KPMG (2007)  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/TheGovernanceofTaxAdiscussionpaper.aspx>
- *Focus on Financial Reporting*, KPMG (2010)  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/FOCUS-ON-FINANCIAL-REPORTING-2010-ANNUAL-UPDATE.aspx>
- *Audit Committee Institute* – Audit Committee Roundtables held each spring and fall  
<http://www.kpmg.ca/auditcommittee/roundtables.html>
- *Audit Committee Institute Web site* – [www.kpmg.ca/auditcommittee](http://www.kpmg.ca/auditcommittee)

### IFRS Related

- *IFRS Illustrative Financial Statements: Canadian First-time Adopters*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Illustrative-Financial-Statements/Pages/IFRSIllustrativeFinancialStatementsCanadianFirst-timeAdopters.aspx>
- *IFRS compared to Canadian GAAP: An overview - Third Edition 2010*  
[http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/IFRScomparedtoCanadianGAAPAnoverview\(ThirdEdition200910\).aspx](http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/IFRScomparedtoCanadianGAAPAnoverview(ThirdEdition200910).aspx)
- *Preparing your stakeholders for IFRS*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/PreparingyourstakeholdersforIFRS.aspx>
- *Managing the Transition to IFRS - Positioning for success*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/ManagingtheTransitiontoIFRS-Positioningforsuccess.aspx>
- *The Effect of IFRS on Information Systems*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/TheEffectsofIFRSonInformationSystems.aspx>

- *IFRS Briefings Newsletter*  
<http://www.kpmg.com/Ca/en/IssuesAndInsights/Articlespublications/ifrs-briefings/Pages/default.aspx>
- *Disclosing the Impact of Adopting IFRS – When and How*, Published by: Audit Committee Institute June 2010 Canada  
[http://www.kpmg.ca/en/ms/auditcommittee/documents/3174\\_Disclosing\\_reprint\\_Web.pdf](http://www.kpmg.ca/en/ms/auditcommittee/documents/3174_Disclosing_reprint_Web.pdf)
- *Sharpening your focus: Overseeing IFRS conversion through 2010*, Published by: Audit Committee Institute November 2009 Canada  
[http://www.kpmg.ca/en/ms/auditcommittee/documents/2519\\_SharpenFocus\\_Reprint\\_Web.pdf](http://www.kpmg.ca/en/ms/auditcommittee/documents/2519_SharpenFocus_Reprint_Web.pdf)
- *Overseeing IFRS Transition: Implications for CEO/CFO control certification*, Published by: Audit Committee Institute April 2009 Canada  
[http://www.kpmg.ca/en/ms/auditcommittee/publications/ifrs\\_overseeing.html](http://www.kpmg.ca/en/ms/auditcommittee/publications/ifrs_overseeing.html)
- KPMG IFRS Web site  
<http://www.kpmg.com/Ca/en/WhatWeDo/SpecialInterests/IFRS/Pages/Default.aspx>