

Consolidated Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN**

And Independent Auditors' Report thereon

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

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

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

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 12, 2019

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Financial Position

December 31, 2018, with comparative information for 2017

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

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Operations and Accumulated Surplus

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

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

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Change in Net Financial Assets

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

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

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Cash Flows

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

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

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements

Year ended December 31, 2018

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

1. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Consolidated entities:

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

The consolidated financial statements include:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(ii) Investments in government business enterprises:

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

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

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

(iv) Trust funds:

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

(v) Sinking funds:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(b) Basis of accounting:

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

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

(c) Cash and cash equivalents:

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

(d) Investments:

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

(e) Long-term debt:

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

(f) Government transfers:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(g) Deposits and deferred revenue:

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

(h) Deferred revenue - obligatory reserve funds:

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

(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.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

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

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

(j) Taxation and related revenue:

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(k) Investment income:

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

(l) Segment disclosures:

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

(m) Non-financial assets:

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

(i) Tangible capital assets:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

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

(ii) Contributions of tangible capital assets:

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

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

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

(iv) Interest capitalization:

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

(v) Leased tangible capital assets:

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

(n) Use of estimates:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(o) Presentation of budget information:

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

(p) Adoption of new accounting policies:

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

(i) Assets (PS 3210):

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

(ii) Contingent assets (PS 3320):

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

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

(iii) Contractual rights (PS 3380):

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

(iv) Related party disclosures (PS 2200):

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

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

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

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

(q) Future accounting pronouncements:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

1. Significant accounting policies (continued):

- (ii) PS 1201, Financial Statement Presentation, was issued in June, 2011. This standard requires entities to present a new statement of remeasurement gains and losses separate from the consolidated statement of operations and accumulated surplus. This new statement includes unrealized gains and losses arising from remeasurement of financial instruments and items denominated in foreign currencies and any other comprehensive income that arises when a government includes the results of government business enterprises and partnerships. This section is effective for fiscal years beginning on or after April 1, 2021 and applies when PS 3450, Financial Instruments, and PS 2601, Foreign Currency Translation, are adopted (the City's December 31, 2022 year-end).
- (iii) PS 3450, Financial Instruments, establishes the standards on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2021 (the City's December 31, 2022 year-end).
- (iv) PS 2601, Foreign Currency Translation, establishes the standards on accounting for and reporting transactions that are denominated in a foreign currency. The effective date of this standard has been deferred and is now effective for fiscal periods beginning on or after April 1, 2021 (the City's December 31, 2022 year-end). Earlier adoption is permitted. A public sector entity adopting this standard must also adopt the new financial instruments standard.

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

3. Investments:

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

4. Investment in Hydro Vaughan Corporations:

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

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

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

4. Investment in Hydro Vaughan Corporations (continued):

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

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

Results of operations and non-operations:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

4. Investment in Hydro Vaughan Corporations (continued):

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

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

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

4. Investment in Hydro Vaughan Corporations (continued):

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

5. Employee future benefits:

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

	2018	2017
Post-retirement non-pension benefits ^(d)	\$ 120,859,117	\$ 111,867,453
Vacation entitlements ^(c)	6,648,433	6,362,681
WSIB ^(b)	6,711,206	6,345,700
	<u>\$ 134,218,756</u>	<u>\$ 124,575,834</u>

(a) Pension:

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

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

(b) Workplace safety and insurance obligations:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

5. Employee future benefits (continued):

(c) Vacation entitlements:

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

(d) Post-retirement non-pension benefits:

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

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

5. Employee future benefits (continued):

Components of benefit expense:

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

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

(i) Interest (discount) rate:

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

(ii) Salary levels:

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

(iii) Medical costs:

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

(iv) Dental costs:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

6. Deferred revenue - obligatory reserve funds:

Under PSAB accounting principles, obligatory reserve funds are to be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and, under certain circumstances, these funds may possibly be refunded. The balances in the obligatory reserve funds of the City are summarized below:

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

Deferred revenue - obligatory reserve funds continuity schedule:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

7. Debenture and other debt:

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

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

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

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

7. Debenture and other debt (continued):

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

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

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

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

8. Note payable:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

9. Tangible capital assets:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

9. Tangible capital assets (continued):

(a) Assets under construction:

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

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

(b) Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is \$316,239,032 (2017 - \$440,789,763) comprising of land and land improvements of \$260,831,461 (2017 - \$349,473,194), roads infrastructure of \$21,124,899 (2017 - \$33,024,666), and water and wastewater infrastructure of \$34,282,672 (2017 - \$58,291,903).

(c) Tangible capital assets disclosed at nominal values:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

10. Accumulated surplus (deficit):

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

11. Government transfers:

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

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

12. Segmented information:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

12. Segmented information (continued):

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

12. Segmented information (continued):

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

12. Segmented information (continued):

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

(a) General government:

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

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

(e) Health, social and family services:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

12. Segmented information (continued):

(f) Recreation and cultural services:

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

(g) Planning and development:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

13. Budget data:

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

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

14. Trust funds:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

15. Contractual rights:

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

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

16. Commitments:

(a) Lease and operating commitments:

The City has entered into a number of long-term contractual agreements and operating commitments, such as waste collection and snow clearing, obtaining City Council and other approvals as required. Expenses relating to these agreements are recorded in the year in which the payments are made. For these lease and operating commitments, minimum payments have been estimated as follows:

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

(b) Loan guarantees:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

16. Commitments (continued):

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

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

(c) Joint services agreement:

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

(d) Capital commitments:

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

(e) Vaughan Hospital Precinct Development Plan:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

17. Contingencies:

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

18. Subsequent event:

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

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

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