

Consolidated Financial Statements of

**THE CORPORATION OF THE
CITY OF VAUGHAN**

Year ended December 31, 2012



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Corporation of the City of Vaughan (the "City"), which comprise the consolidated statement of financial position as at December 31, 2012, 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, 2012, and its consolidated results of operations and accumulated surplus, its consolidated change in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

June 25, 2013
Toronto, Canada

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Financial Position

December 31, 2012 with comparative figures for 2011

	2012	2011
		(Restated - note 4)
Financial Assets		
Cash and cash equivalents	\$ 360,570,265	\$ 270,897,304
Taxes receivable	36,006,088	43,156,462
Water and sewer billings receivable	17,026,368	15,790,192
Accounts receivable	15,714,082	17,579,355
Investments (note 3)	76,566,802	99,751,047
Local improvement charges receivable	515,983	811,061
Other assets	132,781	125,422
Investment in Hydro Vaughan Corporations (note 4)	299,574,803	275,700,834
	<u>806,107,172</u>	<u>723,811,677</u>
Financial Liabilities		
Accounts payable and accrued liabilities	67,957,429	77,427,649
Accrued interest on long-term liabilities	309,913	308,885
Employee future benefits (note 5)	75,507,126	65,281,400
Deposits and deferred revenue	22,547,214	20,550,852
Deferred revenue - obligatory reserve funds (note 6)	244,761,626	234,879,385
Debenture and other debt (note 7)	77,269,273	62,975,633
Note payable (note 8)	3,303,523	3,303,523
	<u>491,656,104</u>	<u>464,727,327</u>
Net financial assets	314,451,068	259,084,350
Non-Financial Assets		
Tangible capital assets (note 9)	6,989,498,913	6,868,427,436
Commitments (note 15)		
Contingencies (note 16)		
Accumulated surplus (note 10)	<u>\$ 7,303,949,981</u>	<u>\$ 7,127,511,786</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, 2012, with comparative figures for 2011

	Budget (Unaudited - note 13)	2012	2011 (Restated - note 4)
Revenue:			
Property taxation	\$ 155,583,883	\$ 155,063,428	\$ 147,545,293
Taxation from other governments	1,500,000	1,420,296	1,576,847
User charges	35,549,496	43,336,211	40,053,383
Water and sewer billings	94,838,580	95,266,351	84,426,652
Government transfers (note 11)	7,019,300	12,246,085	9,794,005
Investment income	3,721,000	6,257,296	7,227,442
Penalties and interest on taxes	4,800,000	5,063,458	4,945,697
Other fees and services	3,452,850	4,820,982	6,346,666
Contributions from developers	16,974,380	19,515,944	44,725,207
Contributed assets (note 9(b))	–	159,498,001	91,044,264
Hydro Vaughan Corporations (note 4):			
Share of net earnings	4,425,000	16,497,242	11,194,121
Interest on notes receivable	4,853,450	4,866,748	4,853,451
	332,717,939	523,852,042	453,733,028
Expenses:			
General government	13,676,757	27,141,899	25,355,414
Protection to persons and property	54,509,862	58,997,931	54,074,360
Transportation services	28,727,707	58,823,137	74,176,334
Environmental services	106,922,963	123,125,155	114,396,838
Health services	148,520	111,130	152,224
Social and family services	338,859	300,893	313,513
Recreational and cultural services	60,070,847	76,286,914	77,453,115
Planning and development	15,894,530	15,470,988	14,839,418
	280,290,045	360,258,047	360,761,216
	52,427,894	163,593,995	92,971,812
Adjustment for the increase of the City's equity interest in the net assets of PowerStream (note 4)	–	12,844,200	1,059,600
Annual surplus	52,427,894	176,438,195	94,031,412
Accumulated surplus, beginning of year	7,127,511,786	7,127,511,786	7,033,480,374
Accumulated surplus, end of year	\$ 7,179,939,680	\$ 7,303,949,981	\$ 7,127,511,786

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, 2012, with comparative figures for 2011

	Budget (Unaudited - note 13)	2012	2011 (Restated - note 4)
Annual surplus	\$ 52,427,894	\$ 176,438,195	\$ 94,031,412
Amortization of tangible capital assets	–	65,531,916	62,073,412
Proceeds on disposal of tangible capital assets	–	203,078	76,964
Loss on disposal of tangible capital assets	–	11,512,290	19,111,778
Acquisition of tangible capital assets, net of transfers from assets under construction	(70,111,871)	(198,318,761)	(156,056,521)
Increase (decrease) in net financial assets	(17,683,977)	55,366,718	19,237,045
Net financial assets, beginning of year	259,084,350	259,084,350	239,847,305
Net financial assets, end of year	\$ 241,400,373	\$ 314,451,068	\$ 259,084,350

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Consolidated Statement of Cash Flows

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011 (Restated - note 4)
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 176,438,195	\$ 94,031,412
Items not involving cash:		
Amortization	65,531,916	62,073,412
Loss on disposal of tangible capital assets	11,582,338	19,111,778
Contributed tangible capital assets	(159,498,001)	(91,044,264)
Deduct share of net earnings of Hydro Vaughan Corporations	(16,497,242)	(11,194,121)
Adjustment for the increase of the City's equity interest in the net assets of PowerStream Inc. (note 4)	(12,844,200)	(1,059,600)
Change in non-cash assets and liabilities:		
Decrease in taxes receivables	7,150,374	5,664,551
Increase in water and sewer billings receivable	(1,236,176)	(1,613,384)
Decrease (increase) in accounts receivable	1,865,273	(1,243,853)
Decrease in local improvement charges receivable	295,078	321,600
Increase in other assets	(7,359)	(51,094)
Decrease in accounts payable and accrued liabilities	(9,470,220)	(36,028,532)
Increase (decrease) in accrued interest on long-term liabilities	1,028	(5,049)
Increase in employee future benefits	10,225,726	12,483,515
Increase in deposits and deferred revenue	1,996,362	2,087,733
Increase (decrease) in deferred revenue - obligatory reserve funds	9,882,241	(14,291,054)
	<u>85,415,333</u>	<u>39,243,050</u>
Capital activities:		
Proceeds on disposal of tangible capital assets	203,078	76,964
Cash used to acquire tangible capital assets	(38,890,808)	(65,012,257)
	<u>(38,687,730)</u>	<u>(64,935,293)</u>
Financing activities:		
Debenture and other debt repaid	(8,450,144)	(7,763,135)
Debenture and other debt incurred	22,743,784	15,555,213
	<u>14,293,640</u>	<u>7,792,078</u>
Investing activities:		
Increase in investments	23,184,245	26,848,366
Decrease in investment in Hydro Vaughan Corporations (note 4)	5,467,473	2,546,497
	<u>28,651,718</u>	<u>29,394,863</u>
Increase in cash and cash equivalents	89,672,961	11,494,698
Cash and cash equivalents, beginning of year	270,897,304	259,402,606
Cash and cash equivalents, end of year	<u>\$ 360,570,265</u>	<u>\$ 270,897,304</u>
Supplemental cash flow information:		
Interest paid	\$ 2,643,901	\$ 2,320,102
Interest and dividends received	20,531,627	21,964,976
Supplemental disclosure of non-cash transactions:		
Tangible capital assets transferred from assets under construction to other asset categories	41,578,635	196,288,452

See accompanying notes to consolidated financial statements.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements

Year ended December 31, 2012

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 ("GAAP") for governments as recommended by the Public Sector Accounting Board ("PSAB") of The Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

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

The consolidated financial statements include:

- 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.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 and accumulated surplus with a corresponding increase or decrease in its investment asset account. Any dividends that the City receives from the Hydro Vaughan Corporations are reflected as reductions in the investment asset account.

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

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

(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 consolidated financial statements.

(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 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

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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

(g) Deposits and deferred revenue:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 pro rated 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 consolidated financial statements, the plans are considered, unfunded.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 obligatory 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

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

1. Significant accounting policies (continued):

(l) Segment disclosures:

Effective January 1, 2008, the City adopted PSAB Standard 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, are amortized on a straight line basis over their estimated useful lives as follows:

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

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 consolidated 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 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 provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits. In addition, the City's implementation of the PSAB Standard 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, 2012

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 2012 are included in the budget figures presented in the consolidated statement of operations and accumulated surplus.

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

During 2012, requisitions were made by the district school boards and the Region requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized below:

	District School Boards	The Region
Property taxes	\$ 261,821,986	\$ 277,220,269
Taxation from other governments	682,654	712,914
Amounts requisitioned and remitted	\$ 262,504,640	\$ 277,933,183

3. Investments:

Investments consist of government and financial institution bonds and have effective interest rates of 2.31% to 5.03% (2011 - 2.19% to 5.03%) with maturity dates from March 14, 2013 to June 30, 2021 (2011 - May 7, 2012 to June 30, 2021). Market value of investments costing \$76,566,802 (2011 - \$99,751,047) is \$79,753,371 (2011 - \$104,840,072) at December 31, 2012.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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	
	2012	2011
Hydro Vaughan Energy Corporation	100%	100%
Hydro Vaughan Holdings Inc.	100%	100%
Vaughan Holdings Inc., including 45.315% (2011 - 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 City 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 City of Markham (through its wholly owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly owned subsidiary Barrie Hydro Holdings Inc.) agreed to amalgamate PowerStream 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

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Investment in Hydro Vaughan Corporations (continued):

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

On November 23, 2010, the City of Vaughan (through its wholly owned subsidiary Vaughan Holdings Inc.), the City of Markham (through its wholly owned subsidiary Markham Enterprises Corporation) and the City of Barrie (through its wholly owned subsidiary Barrie Hydro Holdings Inc.) (collectively, the "Shareholders") signed a subscription agreement with PowerStream for new Class A common shares for the purpose of the Shareholders providing equity for PowerStream's solar business. PowerStream's articles of incorporation and shareholders agreement were amended in order to proceed with the subscription agreement. During 2010, PowerStream issued 4,056 of the Class A common shares under the subscription agreement for an amount of \$2,434,908. This subscription agreement expired on December 31, 2011 and a revised subscription agreement was signed between PowerStream and the Shareholders on January 1, 2012 to extend the equity financing in respect of PowerStream's solar business. During 2012, the Board of Directors of PowerStream, under the revised subscription agreement noted above, authorized the issuance of a further 21,407 (2011 - 1,766) Class A common shares to the City of Vaughan for \$12,844,200 (2011 - \$1,059,600). The maximum amount of Class A common shares that are available under the revised subscription agreement is 100,000. The number of this class of shares issued to each shareholder of the amalgamated PowerStream and their share interest for 2012 and 2011 is as follows:

2012	Number of Class A common shares	Share interest
Vaughan Holdings Inc.	21,407	45.315%
Markham Enterprises Corporation	16,149	34.185%
Barrie Hydro Holdings Inc.	9,684	20.500%

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Investment in Hydro Vaughan Corporations (continued):

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

Total number of Class A common shares issued:

	2012	2011
Vaughan Holdings Inc.	25,011	3,604
Markham Enterprises Corporation	18,869	2,720
Barrie Hydro Holdings Inc.	11,315	1,631

During 2011, the Board of Directors of Vaughan Holdings Inc. authorized the issuance of a further 2,162,978 common shares to the City of Vaughan for \$2,162,978. No new common shares were issued in 2012.

PowerStream adopted International Financial Reporting Standards ("IFRS") effective January 1, 2012 as its basis of accounting. The adoption of IFRS requires retrospective application of the new accounting framework to January 1, 2011, which is considered to be the date of transition. As a result, the amounts reported by PowerStream for its December 31, 2011 year end and the opening balance sheet at the date of transition have been restated from Canadian GAAP to IFRS.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011 (Restated)
Assets		
Current assets	\$ 227,868,833	\$ 215,512,114
Capital assets	820,923,000	719,194,000
Investment in joint venture	8,243,000	–
Other assets	157,929,703	146,831,525
Goodwill	42,543,000	42,543,000
	1,257,507,536	1,124,080,639
Liabilities		
Current liabilities	333,245,057	296,059,280
Long-term debt	217,207,000	193,376,000
Employee future benefits and other liabilities	18,048,000	16,811,000
Promissory note due to the City of Markham	67,865,715	75,451,000
Promissory note due to the City of Barrie	20,000,000	20,000,000
Deferred revenue	82,759,000	56,166,000
Other	1,615,000	–
	740,739,772	657,863,280
Net assets	516,767,764	466,217,359
City of Markham's proportionate share of the net assets of PowerStream	(135,772,906)	(119,096,780)
City of Barrie's proportionate share of the net assets of PowerStream	(81,420,055)	(71,419,745)
City's equity interest in net assets	\$ 299,574,803	\$ 275,700,834

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

4. Investment in Hydro Vaughan Corporations (continued):

	2012	2011 (Restated)
Revenue	\$ 990,580,090	\$ 929,297,660
Expenses	954,109,152	904,502,312
Net earnings	36,470,938	24,795,348
City of Markham's share of the net earnings of PowerStream	(12,486,071)	(8,502,483)
City of Barrie's share of the net earnings of PowerStream	(7,487,625)	(5,098,744)
City's share of net earnings	\$ 16,497,242	\$ 11,194,121

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

	2012	2011 (Restated)
Share capital:		
Investment in common shares of the Hydro Vaughan Corporations	\$ 101,324,557	\$ 88,480,357
Investment in Vaughan Holdings Inc. Class A common shares	2,162,978	2,162,978
Vaughan Holdings Inc. investment in PowerStream Class A common shares	2,162,978	2,162,978
Notes receivable	84,133,025	84,133,025
Accrued interest on notes receivable	9,925,030	9,925,030
IFRS adjustment	21,940,617	21,940,617
Retained earnings and contributed surplus:		
Opening balance	47,418,068	42,503,247
Net earnings	16,497,242	11,194,121
Less dividends	7,289,962	6,279,300
Closing balance	56,625,348	47,418,068
Portion of dividends and interest paid from PowerStream retained in Vaughan Holdings Inc.	21,300,270	19,477,781
Equity in Hydro Vaughan Corporations	\$ 299,574,803	\$ 275,700,834

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011 (Restated)
Equity in Hydro Vaughan Corporations, beginning of year	\$ 275,700,834	\$ 244,052,993
IFRS adjustment	–	21,940,617
Equity in Hydro Vaughan Corporation, beginning of year, restated	275,700,834	265,993,610
Change in equity:		
Equity interest in the cumulative income of Hydro Vaughan Corporations for the year ended December 31	16,497,242	11,194,121
Vaughan Holdings Inc. equity purchase in Class A common shares - PowerStream Inc.	12,844,200	1,059,600
Equity purchase in Class A common shares - Vaughan Holdings Inc.	–	2,162,978
Interest earned on notes receivable	4,866,748	4,853,451
Cash received for:		
Accrued interest receivable on notes	(4,866,748)	(4,853,451)
Dividends	(5,467,473)	(4,709,475)
	23,873,969	9,707,224
Equity in Hydro Vaughan Corporations, end of year	\$ 299,574,803	\$ 275,700,834

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011
Decrease (increase) in investment:		
Interest earned on notes	\$ (4,866,748)	\$ (4,853,451)
Equity purchase in Vaughan Holdings Inc. of Class A common shares	–	(2,162,978)
Cash received for accrued interest on unpaid notes payable interest	4,866,748	4,853,451
Dividends received	5,467,473	4,709,475
Decrease in investment in Hydro Vaughan Corporations	\$ 5,467,473	\$ 2,546,497

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 \$18,933,689 in 2012 (2011 - \$15,782,603), of which \$9,447,139 (2011 - \$7,879,025) represented the City's portion.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

5. Employee future benefits (continued):

(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 \$482,025 (2011 - \$455,600) reported in these consolidated financial statements. The City established a WSIB reserve in 2004 to mitigate the future impact of these obligations. An insurance policy was secured for single claims up to \$1,000,000.

(c) Vacation entitlements:

Under the provisions of the City's management by-law and various union agreements, vacation pay is earned during the course of employment. The accumulated liability to be paid out in the future is \$4,645,101 (2011 - \$4,278,800).

(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, 2012 of \$70,380,000 (2011 - \$60,547,000) and the expense for the year ended December 31, 2012 of \$11,114,000 (2011 - \$8,782,000) were determined by actuarial valuation using a discount rate of 4.25%.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

5. Employee future benefits (continued):

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

	2012	2011
Accrued benefit obligation:		
Balance, end of prior year	\$ 60,547,000	\$ 48,409,000
Actuarial loss	24,359,000	29,591,000
Service cost for the year	5,279,000	4,226,000
Interest cost for the year	3,805,000	3,504,000
Unamortized actuarial loss	(22,329,000)	(24,359,000)
Benefits paid for the year	(1,281,000)	(824,000)
Projected accrued benefit obligation, at the end of the year, as determined by actuarial valuation	\$ 70,380,000	\$ 60,547,000

Components of benefit expense:

	2012	2011
Service costs for the year	\$ 5,279,000	\$ 4,226,000
Interest cost for the year	3,805,000	3,504,000
Amortization of actuarial loss	2,030,000	1,052,000
Benefit expense	\$ 11,114,000	\$ 8,782,000

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

(i) General:

Future general inflation levels, measured by changes in the Consumer Price Index ("CPI"), were assumed as 2.0% in 2012 and thereafter.

(ii) Interest (discount) rate:

The projected benefit obligation as at December 31, 2012 and the expense for the year ended December 31, 2012, were determined by using a discount rate of 4.25% (2011 - 4.25%). The discount rate for 2012 corresponds to the assumed CPI rate plus an assumed real rate of return of 3.0%.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 7.63% in 2012 graded down by 0.38% in 2013 and thereafter.

(v) Dental costs:

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

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

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

	2012	2011
Post retirement non-pension benefits	\$ 70,380,000	\$ 60,547,000
Vacation entitlements	4,645,101	4,278,800
WSIB	482,025	455,600
	<u>\$ 75,507,126</u>	<u>\$ 65,281,400</u>

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011
Recreational land (The Planning Act)	\$ 38,623,969	\$ 34,367,077
Development Charges Act	163,276,848	152,203,594
Subdivider contributions	8,663,926	8,066,068
Federal Gas Tax Revenue	14,363,918	18,734,635
Building Standards Act	17,048,643	18,408,952
Ontario Roads and Bridges Fund	764,669	874,269
Investing in Ontario Act	2,019,653	2,224,790
	<u>\$ 244,761,626</u>	<u>\$ 234,879,385</u>

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011
Debenture debt issued by the Region:		
Serial debt	\$ 40,132,372	\$ 19,791,000
Sinking fund debt	25,746,257	30,555,493
Debt payable to York Major Holdings Inc. for McNaughton Road extension, principal portion	359,529	62,718
Debt payable to Block 11 Landowners' Group for Block 11 Valley Road Crossings and Pressure District 6 East, Rutherford Road Trunk Watermain, principal portion is \$8,640,178 and \$1,177,030 respectively	9,817,208	9,817,208
Debt payable to Bellshire Woods Estate Inc., principal portion	332,490	415,379
Debt payable to Ventana Homes, principal portion	881,417	2,333,835
	<u>\$ 77,269,273</u>	<u>\$ 62,975,633</u>

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

In 2005, the City entered into an agreement with York Major Holdings Inc. for the City to pay its share of the construction of the McNaughton Road extension. The obligation is without interest and there is one payment of \$359,529 remaining in 2013. 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.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Debenture and other debt (continued):

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

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

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

Principal payments in the amount of \$77,269,273, net long-term liabilities reported above, are repayable as follows:

	York Major Region	York Major Holdings Inc.	Block 11 Landowners' Group	Bellshire Woods Estates	Ventana Homes	Total
2013	\$ 9,531,428	\$ 359,529	\$ 1,403,938	\$ 88,002	\$ -	\$ 11,382,897
2014	9,556,428	-	1,613,783	93,429	293,806	11,557,446
2015	9,585,428	-	1,788,010	99,192	293,806	11,766,436
2016	8,396,198	-	1,670,492	51,867	293,805	10,412,362
2017	5,567,395	-	1,670,492	-	-	7,237,887
2018 - 2022	18,195,882	-	1,670,493	-	-	19,866,375
Interest on sinking funds	5,045,870	-	-	-	-	5,045,870
	\$ 65,878,629	\$ 359,529	\$ 9,817,208	\$ 332,490	\$ 881,417	\$ 77,269,273

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

7. Debenture and other debt (continued):

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

	2012	2011
Principal payments, including contributions to the sinking fund	\$ 8,450,144	\$ 7,763,135
Interest	2,643,901	2,320,102
	<u>\$ 11,094,045</u>	<u>\$ 10,083,237</u>

8. Notes payable:

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Tangible capital assets:

	Cost				Accumulated amortization				Net book value, December 31, 2012
	Balance, beginning of year	Acquisitions	Disposals and adjustments	Balance, end of year	Balance, beginning of year	Amortization	Disposals and adjustments	Balance, end of year	
2012									
Land	\$ 4,729,102,109	\$ 140,639,569	\$ 131,987	\$ 4,869,609,691	\$ –	\$ –	\$ –	\$ –	\$ 4,869,609,691
Land improvement	156,574,076	3,910,148	9,741,926	150,742,298	58,901,642	608,990	65,607	59,445,025	91,297,273
Buildings and buildings improvements	288,361,809	21,778,535	8,369,842	301,770,502	70,277,156	16,115,936	5,182,773	81,210,319	220,560,183
Machinery and equipment	34,237,810	3,520,776	5,185,561	32,573,025	20,595,056	2,964,665	5,073,845	18,485,876	14,087,149
Vehicles	25,974,965	3,472,828	226,199	29,221,594	13,304,866	2,175,450	226,199	15,254,117	13,967,477
Furniture and fixtures	8,562,121	295,900	7,528	8,850,493	3,028,196	538,793	6,437	3,560,552	5,289,941
Information technology	5,049,667	493,613	370,801	5,172,479	3,562,190	727,075	370,802	3,918,463	1,254,016
Leasehold improvements	3,085,971	–	–	3,085,971	1,618,472	174,036	–	1,792,508	1,293,463
Roads infrastructure	824,587,558	23,843,004	352,784	848,077,778	315,668,863	24,033,406	207,673	339,494,596	508,583,182
Water and sewer infrastructure	1,480,026,814	14,010,661	686,754	1,493,350,721	265,104,485	18,193,565	380,990	282,917,060	1,210,433,661
Assets under construction	64,925,462	28,002,410	39,804,995	53,122,877	–	–	–	–	53,122,877
	\$ 7,620,488,362	\$ 239,967,444	\$ 64,878,377	\$ 7,795,577,429	\$ 752,060,926	\$ 65,531,916	\$ 11,514,326	\$ 806,078,516	\$ 6,989,498,913

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

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

9. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$53,122,877 (2011 - \$64,925,462) 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 \$159,498,001 (2011 - \$91,044,264) comprised of land and land improvements of \$141,738,019 (2011 - \$61,661,258), roads infrastructure of \$8,396,850 (2011 - \$9,132,134) and water and wastewater infrastructure of \$9,363,132 (2011 - \$20,250,872).

(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

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

10. Accumulated surplus:

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

	2012	2011 (Restated - note 4)
Surplus:		
Investment in tangible capital assets	\$ 6,989,498,913	\$ 6,868,427,436
Amounts to be recovered in future years:		
From future revenues	(114,784,543)	(100,003,398)
From reserves and reserve funds on hand	(21,783,999)	(11,198,981)
Investment in Hydro Vaughan Corporations (note 4)	299,574,803	275,700,834
Other	(76,838,399)	(130,533,465)
	<u>7,075,666,775</u>	<u>6,902,392,426</u>
Reserves set aside for specific purposes by City Council:		
Vehicle replacement	5,151,619	3,253,265
Fire equipment replacement	3,581,167	3,133,913
General working capital	23,100,996	28,284,259
Tax rate stabilization	23,117,827	23,120,444
Waterworks	33,525,812	30,596,504
Wastewater (sanitary sewers)	32,235,055	25,775,678
Keele Valley landfill	2,181,413	2,301,955
Heritage Fund	2,389,454	872,929
Employee benefits	21,783,999	11,198,981
Buildings	15,532,093	16,632,623
Road infrastructure	7,146,087	6,998,171
Sale of public lands	5,644,039	5,631,999
Parks infrastructure	7,816,158	962,144
Winterization	5,301,805	6,013,419
Other	8,453,260	4,584,142
Debenture payments	13,568,199	33,602,683
Engineering	13,420,062	13,205,998
Planning	961,028	949,108
City Hall Funding	9,843	4,910,997
Expenditure reserve	3,363,290	3,090,148
	<u>228,283,206</u>	<u>225,119,360</u>
	<u>\$ 7,303,949,981</u>	<u>\$ 7,127,511,786</u>

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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:

	2012	2011
Provincial grants:		
General government	\$ 12,455	\$ 21,289
Transportation services	(197,392)	1,071,803
Environmental services	216,015	–
Recreation and cultural services	129,608	1,034,808
Planning and development	112,350	–
	<u>273,036</u>	<u>2,127,900</u>
Federal grants:		
General government	6,664,005	1,275,305
Protection services	21,218	–
Transportation services	4,711,662	1,723,093
Environmental services	539,557	3,708,758
Recreation and cultural services	36,607	958,949
	<u>11,973,049</u>	<u>7,666,105</u>
	<u>\$ 12,246,085</u>	<u>\$ 9,794,005</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 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.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Segmented information (continued):

(b) Protection to persons and property:

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

(c) Transportation services:

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

(d) Environmental services:

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

(e) Health services, social and family services:

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

(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.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Segmented information (continued):

(g) Planning and development:

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

Certain allocation methodologies are employed in the preparation of the segmented financial information. Taxation and payments-in-lieu of taxes are allocated to the segments based on the segment's budgeted net of 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, 2012

12. Segmented Information (continued):

2012	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	\$ 22,273,342	\$ 23,769,892	\$ 23,699,468	\$ 49,606,343	\$ 166,002	\$ 30,735,513	\$ 6,233,164	\$ –	\$ 156,483,724
User charges	4,161,209	7,918,301	2,285,791	1,289,828	67,920	17,942,001	9,671,161	–	43,336,211
Water and sewer billings	–	–	–	95,266,351	–	–	–	–	95,266,351
Investment income	890,641	950,484	947,668	1,983,603	6,638	1,229,017	249,245	–	6,257,296
Other fees and services	8,155	258,658	896	–	–	2,773,316	1,779,957	–	4,820,982
Government transfers	6,676,460	21,218	4,514,270	755,572	–	166,215	112,350	–	12,246,085
Penalties and interest on taxes	720,715	769,140	766,861	1,605,149	5,371	994,531	201,691	–	5,063,458
Contributions from developers	–	1,256,599	9,573,518	1,904,497	–	6,363,755	417,575	–	19,515,944
Hydro Vaughan Corporations	–	–	–	–	–	–	–	21,363,990	21,363,990
Contributed assets	–	–	–	–	–	–	–	159,498,001	159,498,001
	34,730,522	34,944,292	41,788,472	152,411,343	245,931	60,204,348	18,665,143	180,861,991	523,852,042
Expenses (income):									
Salaries and benefits	29,151,240	48,099,367	7,589,212	4,881,694	25,909	41,143,398	12,943,851	–	143,834,671
Goods and services	14,184,291	3,177,700	14,875,726	86,486,670	198,878	14,869,897	924,428	–	134,717,590
Long-term debt interest	–	–	2,498,517	122,716	–	–	–	–	2,621,233
Other	146,363	92,286	(2,262)	274,769	143,378	912,405	4,803	–	1,571,742
Corporate support allocation	1,552,051	5,587,434	2,550,062	10,611,576	42,581	6,288,487	1,509,338	(28,141,529)	–
Loss on disposal of tangible capital assets	2,543,964	69,687	214,380	303,080	–	564,180	–	–	3,695,291
Amortization	5,128,807	1,544,754	25,035,223	18,581,771	–	15,237,579	3,783	–	65,531,917
Other capital related	2,576,712	426,703	6,062,279	1,862,879	1,277	(2,729,032)	84,785	–	8,285,603
	55,283,428	58,997,931	58,823,137	123,125,155	412,023	76,286,914	15,470,988	(28,141,529)	360,258,047
Annual surplus (deficit) before the undernoted	(20,552,906)	(24,053,639)	(17,034,665)	29,286,188	(166,092)	(16,082,566)	3,194,155	209,003,520	163,593,995
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)	–	–	–	–	–	–	–	12,844,200	12,844,200
Annual surplus (deficit)	\$ (20,552,906)	\$ (24,053,639)	\$ (17,034,665)	\$ 29,286,188	\$ (166,092)	\$ (16,082,566)	\$ 3,194,155	\$ 221,847,720	\$ 176,438,195

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

12. Segmented information (continued):

2011	General government	Protection to persons and property	Transportation services	Environmental services	Health, social and family services	Recreation and cultural services	Planning and development	Corporate transfers	Consolidated total
									(Restated - note 4)
Revenue:									
Property and other taxation	\$ 9,578,543	\$ 34,383,539	\$ 31,405,268	\$ 7,593,916	\$ 370,618	\$ 39,259,919	\$ 6,881,788	\$ 19,648,549	\$ 149,122,140
User charges	–	10,259,824	2,361,800	1,449,847	70,579	16,770,476	6,210,142	2,933,027	40,055,695
Water and sewer billings	–	–	–	84,426,652	–	–	–	–	84,426,652
Investment income	390,511	1,018,868	1,021,060	851,357	10,720	1,154,230	103,713	2,676,983	7,227,442
Other fees and services	189,021	3,233,841	1,741,375	67,486	–	1,007,179	348,447	2,518	6,589,867
Government transfers	1,296,594	–	2,794,896	3,708,758	–	1,748,244	–	–	9,548,492
Penalties and interest on taxes	419,844	1,095,399	1,097,756	915,306	11,525	1,240,929	111,504	53,434	4,945,697
Contributions from developers	–	3,079,077	13,857,537	1,882,570	–	25,457,494	448,529	–	44,725,207
Hydro Vaughan Corporations (restated - note 4)	–	–	–	–	–	–	–	16,047,572	16,047,572
Contributed assets	–	–	–	–	–	–	–	91,044,264	91,044,264
	11,874,513	53,070,548	54,279,692	100,895,892	463,442	86,638,471	14,104,123	132,406,347	453,733,028
Expenses:									
Salaries and benefits	9,540,772	43,990,172	7,164,698	4,732,381	25,340	39,960,694	12,355,659	17,351,574	135,121,290
Goods and services	1,874,817	3,268,931	18,885,755	78,397,342	246,406	15,517,779	880,733	12,617,001	131,688,764
Long-term debt interest	–	–	2,161,974	125,670	–	32,458	–	–	2,320,102
Other	173,742	90,031	(70,755)	245,209	142,485	728,902	10,865	30,945	1,351,424
Corporate support allocation	1,338,083	5,423,910	3,167,125	10,367,269	51,487	6,576,280	1,516,952	(28,441,106)	–
Loss (gain) on disposal of tangible capital assets	9,112	(5,016)	675,477	258,094	–	1,160,349	–	–	2,098,016
Amortization	4,779,775	1,394,155	25,330,256	18,325,539	–	12,239,904	3,783	–	62,073,412
Other capital related	6,080,698	(87,823)	16,861,804	1,945,334	19	1,236,749	71,426	1	26,108,208
	23,796,999	54,074,360	74,176,334	114,396,838	465,737	77,453,115	14,839,418	1,558,415	360,761,216
Annual surplus (deficit) before the undernoted	(11,922,486)	(1,003,812)	(19,896,642)	(13,500,946)	(2,295)	9,185,356	(735,295)	130,847,932	92,971,812
Adjustment for the reduction of the City's equity interest in the net assets of PowerStream (note 4)	–	–	–	–	–	–	–	1,059,600	1,059,600
Annual surplus (deficit)	\$ (11,922,486)	\$ (1,003,812)	\$ (19,896,642)	\$ (13,500,946)	\$ (2,295)	\$ 9,185,356	\$ (735,295)	\$ 131,907,532	\$ 94,031,412

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

13. Budget data:

The unaudited budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets approved by City Council in 2012. 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	\$ 327,336,038
Capital budget	50,015,280
Less:	
Transfers from other funds	16,303,150
Proceeds on debt issue	8,413,900
Hospital levy	5,728,049
Other capital funding and financing	14,188,280
	<u>332,717,939</u>
Expenses:	
Operating budget	327,336,038
Capital budget	50,015,280
Less:	
Transfers to other funds	15,453,625
Capital expenses	70,111,871
Debt principal payments	11,495,777
	<u>280,290,045</u>
Annual surplus	<u>\$ 52,427,894</u>

14. Trust funds:

Trust funds administered by the City amounting to \$427,908 (2011 - \$390,688) 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 financial activities.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

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 City Council and other approvals as required. For these lease and operating commitments, minimum payments have been estimated to aggregate \$73.4 million over the next five years. 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 \$2.0 million with the Ontario Soccer Association.
- (ii) For the accumulated sum, not exceeding \$6.5 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 \$1,599,271 (2011 - \$1,558,191).

(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, 2012 is approximately \$137.5 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 and/or the creation of a legal obligation.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

15. Commitments (continued):

(e) Vaughan Hospital:

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

16. Contingencies:

(a) Unsettled legal claims and potential other claims:

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

(b) Insurance claims:

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

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

PowerStream has been jointly named as a defendant in several actions. No provisions has been made for these potential liabilities in the financial statements of PowerStream for the year ended December 31, 2012 as PowerStream expects that these claims are adequately covered by its insurance.

THE CORPORATION OF THE CITY OF VAUGHAN

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2012

16. Contingencies (continued):

(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) ("Enbridge").

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.

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

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

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.