Conservation Halton

FINANCE & AUDIT COMMITTEE

2596 Britannia Rd., W., Burlington
905.336.1158 x 2236

April 13, 2017
9:30 – 11:00
Grindstone Room

AGENDA
FA 01 17

		Page
1.0	**Consent Items**	
	Roll Call & Mileage	
	Acceptance of Agenda as distributed	
	Approval of Finance & Audit Committee Minutes dated October 13, 2016	
	Asset Management Plan Update, Report #: FA 01 17 01	1 - 3
2.0	**Action Items**	
2.1	Draft Audited Financial Statements, December 31, 2016 Report #: FA 01 17 02	3 – 43
3.0	**In Camera**	
3.1	Financial Issue	
4.0	**Other Business**	
5.0	**Adjournment**	

CONSERVATION HALTON
FA 01 17 01

REPORT TO: Finance & Audit Committee

FROM: Sheryl Ayres, Senior Director, Finance & Strategic Initiatives
(905) 336–1158 x 2250

DATE: April 13, 2017

SUBJECT: **Asset Management Plan Update**

Recommendation

THAT the Finance & Audit Committee **receive for information the staff report dated April 13, 2017 on the Asset Management Plan Update.**

Report

As reported to the Board of Directors in January, Region of Halton Council has requested Conservation Halton's Board of Directors to provide three financial plans prior to submission of the 2018 budget. One of these plans is an Asset Management Plan (AMP).

As defined in the Province of Ontario's Building Together – Guide for Municipal Asset Management Plans, "asset management planning is the process of making the best possible decisions regarding the building, operating, maintaining, renewing, replacing and disposing of infrastructure assets. The objective is to maximize benefits, manage risk, and provide satisfactory levels of service to the public in a sustainable manner. Asset management requires a thorough understanding of the characteristics and condition of infrastructure assets, as well as the service levels expected from them. It also involves setting strategic priorities to optimize decision making about when and how to proceed with investments. Finally, it requires the development of a financial plan, which is the most critical step in putting the plan into action".

Conservation Halton staff met with Region of Halton staff on two occasions in January to discuss expectations for the AMP. As requested by staff at the Region, the AMP will comply with the Province of Ontario's Building Together – Guide for Municipal Asset Management Plans. The Plan will contain information on the state of the infrastructure, desired levels of service, an asset management strategy, a financing strategy and information on how the Plan will be updated in the future. Regular updates are being provided to Halton Region staff to keep them aware of the progress of the Plan.

The total net book value of assets owned by Conservation Halton at December 31, 2016 is $64.1M. This value includes land and capital projects for the acquisition or construction of new assets. When these categories are removed, the net book value of assets being amortized on an annual basis is $28.0M as outlined in the following chart.

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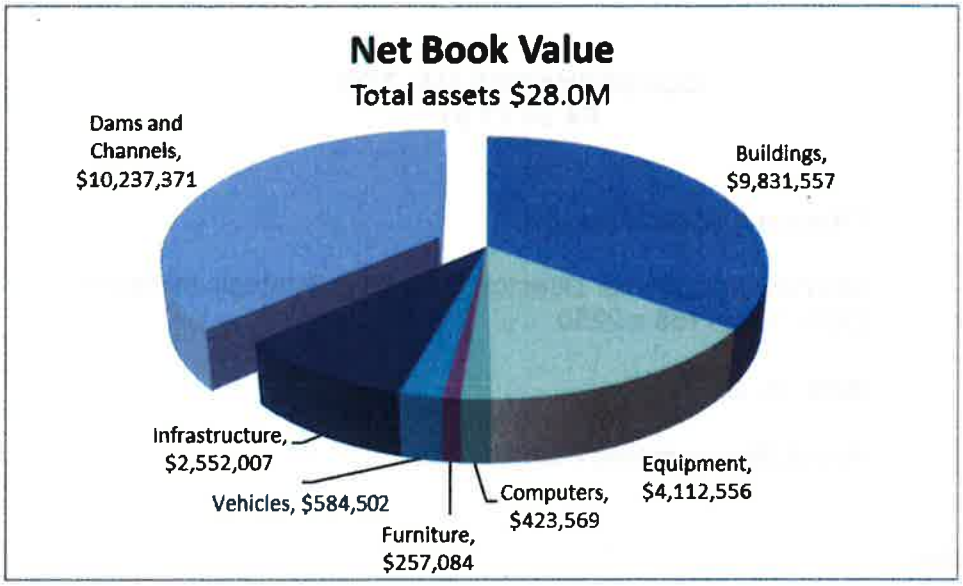

Preparation of a comprehensive AMP will be completed in phases. The first phase will focus on dams and channels as these assets represent the largest category of amortized assets at 37% of total net book value at December 31, 2016 and are also the largest area of risk. The second phase will include buildings as these are the second largest group of amortized assets at 35% of net book value. The inclusion of all other assets will be determined in the future.

An important element of the AMP is assessing the condition of the assets to inform the state of the infrastructure section of the Plan. Engineering staff at Conservation Halton maintain an extensive database that includes the characteristics of the dams and channels assets including condition information, monitoring of identified deficiencies through annual inspections as well as the tracking of maintenance costs. The database assists with the monitoring, prioritization and scheduling of identified major repairs to dams and channels. In addition to the database documentation, consulting studies and dam safety reviews are completed regularly according to Provincial guidelines to help define annual work-plans. This information will be valuable in completing the AMP within the timeframe proposed by Halton Region. Conditional information is not as readily available for other assets and therefore consultants will need to be retained to assess the condition of some assets such as buildings.

Staff in Engineering and Finance continue to meet to work through other details that will be included in the Plan such as service levels; the strategy for operating, maintaining, repairing and rehabilitating assets in the future; and a long-term financing strategy for operating and capital expenses.

Conservation Halton's Strategic Plan-Metamorphosis identified the need to prepare a consolidated asset management plan to guide investment decisions and develop the necessary tools to maintain assets in a good state of repair; and to develop a sustainable funding mechanism and plan to support capital projects related to flood control infrastructure. Preparation of the AMP for dams and channels supports these two initiatives identified in the strategic plan.

The AMP for dams and channels will be presented to Conservation Halton Board of Directors in June for approval prior to submission to the Region of Halton.

Prepared and submitted by:

Sheryl Ayres
Senior Director, Finance & Strategic Initiatives

CONSERVATION HALTON
CHBD 01 17 02

REPORT TO: Finance & Audit Committee

FROM: Marnie Piggot
Director, Finance
905.336.1158 x 2240

DATE: April 13, 2017

SUBJECT: **Draft Audited Financial Statements, December 31, 2016**

Recommendation

THAT the Finance & Audit Committee **recommend to the Conservation Halton Board of Directors the Conservation Halton audited financial statements for the year ended December 31, 2016 included in the report dated April 13, 2017 be approved.**

Summary

The draft audited financial statements for the year ended December 31, 2016 are attached. The draft 2016 financial statements have been prepared by Conservation Halton staff and audited by KPMG LLP.

The Auditors' Report included in the draft financial statements is considered to be the standard audit report without qualifications and is similar to the audit report in the prior year. Also attached is the 2016 Audit Findings Report prepared by KPMG. Matthew Betik, Audit Partner will be present at the Finance Committee meeting to review their audit process and findings.

KPMG are the external auditors for Conservation Halton appointed for a five year term, for the fiscal years 2012 to 2016. A Request for Proposal for audit services for a new term will be issued mid-2017.

2016 Financial Statement highlights

The amounts included in the 2016 draft audited financial statements are the amounts reported on the Budget Variance Report provided at the March Board meeting with adjustments that are required to be in accordance with Public Sector Accounting Board (PSAB) accounting standards. The amounts reported in the Budget Variance Reports are prepared on a basis consistent with the 2016 Budget amounts in order to ensure adequate funding for annual expenditures.

For the audited financial statements, Tangible Capital Asset expenditures, Reserve transfers, debt financing, the principal portion of long term debt repayments and internal chargebacks are eliminated from revenue and expenses on the Statement of Operations and reported on the Statement of Financial Position.

Statement of Operations Summary	**2016 Budget**	**2016 Actual**	**2015 Actual**
Total revenue	$24,453,600	$26,165,941	$25,111,706
Total expenses	$24,644,951	$24,687,133	$24,711,337
Annual Surplus/(Deficit)	$ (191,351)	$ 1,478,808	$ 400,369

The 2016 annual surplus of $1,478,808 is above the 2016 Budget amount of ($191,351) restated for PSAB adjustment by almost $1,670,000. This increase is largely due to increased revenues of $1.7 million in Operations, Conservation Areas, Partnership Projects and Major Projects that are detailed further in the report below. Expenses are above the 2016 Budget amount by a net amount of $42,000 as a result of increased Partnership and Major project expenses and are offset by reduced costs related mainly to salary and benefit savings.

Financial statement note 17 provides a summary of Revenue and Expenses by Conservation Halton Programs. The programs reporting the most significant operating surplus or deficit amounts are the Conservation Areas surplus of $1,333,144 and Corporate Services deficit of ($1,222,515). These amounts exclude the Support Service chargebacks totaling $991,110 that are detailed in note 14 as they are eliminated in the audited financial statements. The chargebacks consist of $982,700 for the Conservation Areas and $8,410 for Source Water Protection. The actual chargeback to the Conservation Areas is lower than the 2016 Budget amount due to a vacant staff position.

Statement of Financial Position Summary	**2016 Actual**	**2015 Actual**
Total Assets	$87,712,188	$84,776,942
Accumulated Surplus	$67,296,687	$65,817,879

The Accumulated Surplus of $67,296,687 is derived largely from Tangible Capital Assets and is detailed in note 8 of the audited financial statements as follows:

Surplus – Tangible Capital Assets	$64,118,510
Deficit – Current Funds	(2,912,321)
Reserves	6,090,498
Total Accumulated Surplus, December 31, 2016	$67,296,687

Reserve transfers approved at the March Board meeting have been included in the 2016 financial statements.

The Deficit – Current Funds consists for the most part the long term debt financing of $2,709,106 at December 31, 2016 and $24,230 in 2016 municipal debt financing received after the year end that has been included as revenue in the 2016 and prior budgets.

Report

Statement of Operations

Details of significant variances of revenue and expenses by program categories from the 2016 Budget amounts follow. Variances from the 2016 Budget that are favourable are noted with an **F** and unfavourable variances are noted with a **U**. Amounts in the explanatory notes are rounded to the nearest thousand. The 2016 Budget amounts have been adjusted to exclude capital acquisitions and provide for estimated amortization.

Operations

Included in this category are Conservation Areas Administration, Forestry, Property Management, Security, Construction and Maintenance, and Vehicle and Equipment maintenance for Watershed Management and Support Services.

	2016 Budget	**2016 Actual**	**2015 Actual**	**Incr./(Decr.) over Budget**
Revenue	$ 389,450	$ 529,386	$ 476,131	$139,936 F
Expenses	$3,368,848	$3,101,278	$3,100,660	($267,570)F

Revenue
Total Operations revenue is higher than the 2016 Budget amounts in the following areas:

Forestry – increased tree planting revenue	$104,000
Property Management – increased landscaping and maintenance services for external partners and insurance settlement	36,000
Total revenue increase	**$140,000** F

Expenses

Expenses are lower than the budget by $268,000. This variance consists of the following:

Conservation Areas Administration, Forestry, Property Management Security and Construction & Maintenance staffing vacancies	($178,000)
Forestry and Property Management increased planting materials	41,000
Construction and Maintenance decreased purchased services and materials & supplies	(101,000)
Vehicle and Equipment lower fuel and repair costs	(30,000)
Total expense variance	**($ 268,000)** F

Communications

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Expenses	$844,722	$705,819	$813,987	($138,903)F

Actual expenses for 2016 are less than the budget target primarily as a result of a staff position vacancy.

Watershed Management

Services provided under this category are Engineering and Flood Forecasting & Operations, Planning and Regulations including the Regional Infrastructure Team, Watershed Services such as GIS, Stewardship and Restoration and the Hamilton Harbour Remedial Action Plan (RAP).

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Revenue	$2,885,582	$2,958,984	$2,462,989	$ 73,402 F
Expenses	$6,164,044	$6,017,597	$5,652,993	($146,447)F

Revenue

The overall Watershed Management revenue variance consists of:

Watershed Management decreased planning and permit revenue	($315,000)
Regional Infrastructure Team revenue lower than the budget	(26,000)
Watershed Services – recognition of deferred revenue	282,000
Increased other revenue – RAP, consulting, grants	132,000
Total revenue budget variance	**$ 73,000** F

Planning and permit revenues are recognized for accounting purposes based on staff estimates of the work completed on applications received. The lower revenue was anticipated in the 2016 Projection based on applications received and was offset by reduced staffing costs for position vacancies during the year.

The Regional Infrastructure Team (RIT) costs are fully funded by the Region of Halton and are based on actual costs incurred.

Expenses

Watershed Management expenses are lower overall than the budget amount for the following:

Staffing cost savings and staff position vacancies	($300,000)
Legal – increased costs	155,000
Other – decrease in purchased services and materials and supplies	(1,000)
Total expense budget variance	**($146,000) F**

Actual legal fees of $455,000 were incurred in 2016 and exceeded the budget amount of $300,000 by $155,000 as a result of several violation cases.

Conservation Areas

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Revenue	$11,034,400	$11,202,468	$11,145,546	$168,068 F
Expenses	$10,432,301	$10,061,678	$10,520,813	($370,623)F

Revenue

Conservation Area revenue varies from the 2016 Budget amounts for the following:

Annual pass sales - increase over the budget	$244,000
Rattlesnake, Hilton Falls & Mount Nemo – increased revenue	289,000
Kelso/Glen Eden – lower revenues	(376,000)
Crawford Lake & Mountsberg – revenue less than budget	(18,000)
Interest and other - increased revenue	29,000
Total revenue increase	$168,000 F

Expenses

Conservation Area total expenses are lower than the budget by $370,623. This variance consists of the following:

Support Services Chargeback decrease to the Conservation Areas due to a position vacancy	($ 69,000)
Vehicle and Equipment lower fuel and repair costs	(60,000)
Kelso/Glen Eden – lower seasonal staff and other costs	(282,000)
Other expense increases	40,000
Total expense variance	**($371,000) F**

Corporate Services

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Revenue	$117,800	$260,083	$ 79,701	$142,283 F
Expenses	$2,696,934	$2,799,730	$2,567,230	$102,796 U

Revenue

Total Corporate Services revenue includes donations received through the Conservation Halton Foundation totaling $150,000 not included in the 2016 Budget. The donations were designated for principal repayments on a loan received in 2015 for the purchase of land in the Cootes to Escarpment eco-park system. Interest and other revenues are also higher than the 2016 Budget amount by $42,000. The increased revenue is offset by a decrease in the 2016 Support Services chargeback to the Conservation Halton Foundation of $50,000 due to a Foundation Assistant position that was not replaced.

Expenses

Actual expenses for Corporate Services exceed the 2016 Budget amounts by $103,000. The budget variance is a result of overall increased full time and part time staffing costs of $20,000 and increased purchased services costs for consulting services, legal costs related to employee relations, staff training costs, and corporate memberships totaling $83,000. The over expenditure is offset by cost savings in other programs.

Partnership Projects

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Revenue	$276,300	$924,307	$945,119	$648,007 F
Expenses	$276,300	$914,114	$743,497	$637,814 U

Special project expenditures are funded by related program grants received from various funding partners. Partnership Projects for 2016 significantly exceeded the budget amount as a result of grants approved after the 2016 Budget was completed and the growth in the Stewardship program since its assumption in mid-2015.

Projects carried out in 2016 included:

Fish Telemetry & Hamilton Harbour Stewardship	$168,000
Water and Forest Festivals	183,000
Glenorchy Restoration	35,000
Mountsberg Shrike program	24,000
Conservation Areas workshop	52,000
Sixteen Mile and Limestone Creek Projects	117,000
Lower Grindstone Creek	50,000
Restoration projects	38,000
Cootes to Escarpment Eco-Park	79,000
Brookies in Bronte Creek	58,000
Kelso Quarry Rehabilitation	49,000
Various other projects	61,000
Total Partnership Project expenses	$914,000

Major Projects

	2016 Budget	2016 Actual	2015 Actual	Incr./(Decr.) over Budget
Revenue	$686,500	$1,231,705	$1,233,998	$545,205 F
Expenses	$420,000	$ 632,103	$ 772,492	$212,103 U

Revenue

Included in Major Projects revenue is the donation of three properties by property owners in 2016 with appraised values totaling $371,000. Major Projects revenue is also higher than the 2016 Budget amount because of higher Municipal capital revenue recognized with funding carried over from a prior year, donations raised through the Conservation Halton Foundation and interest on Reserves not included in the budget.

Expenses

Major Projects expenses are generally the balance of 2016 Capital Project amounts that do not meet the criteria to be recorded as a tangible capital asset addition on the balance sheet. Most of these expenses are related to major maintenance on the dams and channels and at the Conservation Areas, watershed plan implementation and flood forecasting program costs. The expenses are funded by increased Major Projects revenues.

Prepared by:

Marnie J. Piggot
Director, Finance

Respectfully submitted and
Approved for circulation:

Sheryl Ayres
Senior Director,
Finance and Strategic Initiatives

DRAFT April 4, 2017

Financial Statements of

CONSERVATION HALTON

Year ended December 31, 2016

CONSERVATION HALTON

Financial Statements

Year ended December 31, 2016

INDEPENDENT AUDITORS' REPORT

To the Directors of Conservation Halton

We have audited the accompanying financial statements of Conservation Halton ("the Entity") which comprise the statement of financial position as at December 31, 2016 and the statements of operations and change in accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Conservation Halton as at December 31, 2016, and its consolidated results of operations and the changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada

CONSERVATION HALTON

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
		(Restated, note 16)
Financial assets:		
Cash	$ 1,375,186	$ 741,061
Short-term investments (note 2)	11,883,391	10,014,160
Investment - Water Management System (note 3)	9,211,489	7,816,850
Accounts receivable (note 4)	683,010	928,165
	23,153,076	19,500,236
Financial liabilities:		
Accounts payable and accrued charges	1,994,378	1,945,753
Vacation pay and accumulated time entitlements	143,438	160,790
Deferred revenue (note 5)	5,778,759	6,020,314
Deferred revenue - capital and major projects (note 6)	578,331	503,284
Deferred revenue - Water Management System (note 3)	9,211,489	7,816,850
Long-term liabilities (note 7)	2,709,106	2,512,072
	20,415,501	18,959,063
Net financial assets	2,737,575	541,173
Non-financial assets:		
Tangible capital assets (note 8)	64,118,510	64,746,192
Prepaid expenses	310,906	379,418
Inventory	129,696	151,096
	64,559,112	65,276,706
Commitments (note 13)		
Accumulated surplus (note 9)	$ 67,296,687	$ 65,817,879

See accompanying notes to financial statements.

On behalf of the Board:

_____ Chair

_____ Vice-Chair

CONSERVATION HALTON

Statement of Operations and Change in Accumulated Surplus

Year ended December 31, 2016, with comparative information for 2015

	2016 Budget	2016 Actual	2015 Actual
			(Restated, Note 16)
Revenue:			
Municipal grants - operating	$ 8,406,295	$ 8,406,293	$ 7,989,189
Ministry of Natural Resources, transfer payments	300,311	300,311	300,311
Program fees and other funding:			
Operations	389,450	529,386	476,131
Communications	15,000	15,300	20,909
Watershed management	2,885,582	2,958,984	2,462,989
Conservation areas	11,034,400	11,202,468	11,146,546
Corporate services	117,800	260,083	79,701
Partnership projects	276,300	924,307	945,119
Source water protection	341,962	337,104	456,813
Major projects	686,500	1,231,705	1,233,998
Total revenue	24,453,600	26,165,941	25,111,706
Expenses:			
Operations	3,368,848	3,101,278	3,100,660
Communications	844,722	705,819	813,987
Watershed management	6,164,044	6,017,597	5,652,993
Conservation areas	10,432,301	10,061,678	10,520,813
Corporate services	2,696,934	2,799,730	2,567,230
Partnership projects	276,300	914,114	743,497
Source water protection	343,162	352,150	470,421
Major projects	420,000	632,103	772,492
Debt financing charges	98,640	102,664	69,244
Total expenses	24,644,951	24,687,133	24,711,337
Annual surplus (note 9)	(191,351)	1,478,808	400,369
Accumulated surplus, beginning of year		65,817,879	65,417,510
Accumulated surplus, end of year		$ 67,296,687	$ 65,817,879

See accompanying notes to financial statements.

CONSERVATION HALTON

Statement of Changes in Net Financial Assets

Year ended December 31, 2016, with comparative information for 2015

	2016 Budget	2016 Actual	2015 Actual (Restated, Note 16)
Annual surplus	$ (191,351)	$ 1,478,808	$ 400,369
Acquisition of tangible capital assets	(1,675,000)	(1,040,844)	(3,333,260)
Amortization of tangible capital assets	1,642,000	1,642,433	1,625,861
Proceeds on disposal of tangible capital assets	-	-	49,110
Loss on disposal of tangible capital assets	-	26,093	3,103
	(224,351)	2,106,490	(1,254,817)
Change in prepaid expenses	-	68,512	16,798
Change in inventories	-	21,400	(44,020)
Net change in net financial assets	(224,351)	2,196,402	(1,282,039)
Net financial assets, beginning of year	541,173	541,173	1,823,212
Net financial assets, end of year	$ 316,822	$ 2,737,575	$ 541,173

See accompanying notes to financial statements.

CONSERVATION HALTON

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015 (Restated note 16)
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 1,478,808	$ 400,369
Items not involving cash:		
Amortization	1,642,433	1,625,861
Loss on disposal of tangible capital assets	26,093	3,103
	3,147,334	2,029,333
Change in non-cash working capital balances:		
Accounts receivable	245,155	(97,789)
Prepaid expenses	68,512	16,796
Inventory	21,400	(44,018)
Accounts payable and accrued charges	48,625	83,273
Vacation pay and accumulated time entitlements	(17,352)	(28,845)
Deferred revenue	(241,555)	(672,662)
Deferred revenue - capital and major projects	75,047	(350,841)
	3,347,166	935,247
Capital transactions:		
Acquisition of tangible capital assets	(1,040,844)	(3,333,260)
Proceeds on disposal of tangible capital assets	-	49,110
	(1,044,844)	(3,284,150)
Investing activities:		
Investment - Water Management System	(1,104,498)	(1,104,498)
Investment revenue - Water Management System	(290,141)	(263,292)
	(1,394,639)	(1,367,790)
Financing transactions:		
Deferred revenue - Water Management System	1,394,639	1,367,789
Proceeds from long-term debt	675,133	1,555,197
Repayment of long-term debt	478,099	(260,035)
	1,591,673	2,662,951
Net change in cash and cash equivalents	2,503,356	(1,053,742)
Cash and short-term investments, beginning of year	10,755,221	11,808,963
Cash and short-term investments, end of year	$ 13,258,577	$ 10,755,221
Compromised of:		
Cash	$ 1,375,186	$ 741,061
Short-term investments	11,883,391	10,014,160
	$ 13,258,577	$ 10,755,221
Supplemental cash flow information:		
Investment revenue	$ 171,446	$ 184,741

See accompanying notes to financial statements.

Purpose of Organization:

Conservation Halton is established under the Conservation Authorities Act of Ontario to further the conservation, restoration, development and management of natural resources, exclusive of gas, oil, coal and minerals for the watersheds within its area of jurisdiction. The watersheds include areas in the Regions of Halton and Peel, the Township of Puslinch and the City of Hamilton.

Conservations Halton's mission is to protect and enhance the natural environment from lake to escarpment for present and future generations.

1. Significant accounting policies:

(a) Basis of accounting:

The financial statements of Conservation Halton are prepared by management in accordance with the Chartered Professional Accountants of Canada Public Sector Accounting Handbook for local government.

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measureable; expenses are recognized as they are incurred and measureable as a result of receipt of goods or services and the creation of a legal obligation to pay.

These financial statements do not include the activities of the Conservation Halton Foundation, a related incorporated registered charity with a mission to raise funds and profile for Conservation Halton projects and programs.

(b) Short-term investments and investments - Water Management System:

Short-term investments and investments - water management system are recorded at the lower of cost and market value based on quoted market prices. Losses are recorded when the decline in market value is other than temporary.

(c) Tangible capital assets:

Tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition or construction of the tangible capital asset including transportation costs, installation costs, design and engineering fees, legal fees and site preparation costs. Contributed tangible capital assets are recorded at fair value at the time of the donation, with a corresponding amount recorded as revenue on the same basis as the amortization expense related to the acquired tangible capital assets. Assets under construction are not amortized and are transferred into their relative asset category when available for productive use. Amortization is recorded on either a straight-line basis over the estimated life of the assets or by using the declining balance method.

1. Significant accounting policies (continued):

(c) Tangible capital assets (continued):

The following rates are used:

Asset	Basis	Useful Life - Years
Land improvements	Straight-line	30 to 50 years
Buildings and building improvements	Straight-line	25 to 50 years
Machinery and equipment	Straight-line	5 to 40 years
Furniture and fixtures	Straight-line	5 to 20 years
Infrastructure	Straight-line	20 to 75 years
Vehicles	Declining balance	30%
Computer hardware and software	Straight-line	5 to 10 years

(d) Reserves:

Reserves for future expenses and contingencies are established as required using the estimates of management. Increases or decreases in these reserves are made by appropriations to or from operations.

(e) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined using specific identification of the cost of the individual items.

(f) Deferred revenue - Capital and Major Projects:

Conservation Halton receives certain amounts for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed. Funds received for the purchase of tangible capital assets are recognized when the related asset is purchased.

(g) Deferred revenue - Water Management System:

Conservation Halton is receiving funds for expenses to be incurred for the future operation of a water management system and management of certain lands. These funds are externally restricted and cannot be drawn until Conservation Halton commences management of the lands. These amounts will be recognized as revenues when the relating expenses are incurred or management services performed.

1. Significant accounting policies (continued):

(h) Revenue recognition:

Municipal levies, government transfers and funding for projects are recognized as revenue when the transfer is authorized, any eligible criteria has been met and the amount can be reasonably estimated.

User charges and fees are recognized as revenue in the period in which the related services are performed.

(i) Use of estimates:

The presentation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Short-term investments:

	2016	2015
Business investment account	$ 3,525,139	$ 1,239,656
Guaranteed investment certificates	4,000,000	4,500,000
Pooled funds	4,358,252	4,274,504
Total	$ 11,883,391	$ 10,014,160

The guaranteed investment certificates have effective rates of 1.29% to 1.55% (2015 - 1.15% to 1.55%). Interest is receivable on the date of maturity. Maturity dates range from April 4, 2017 to February 26, 2018. The business investment account and pooled funds (which include money market, bond and equity funds) earn interest at variable rates which is paid monthly.

Market value of short-term investments are $ 12,221,603.

3. Investment/Deferred revenue - Water Management System:

Conservation Halton entered into an agreement for the transfer of a Water Management System and its long-term operation with an estimated time line of 2063. The agreement is based on the principle that the net costs associated with ongoing operation, maintenance and performance of the Water Management System will not be a financial liability to Conservation Halton.

To ensure that Conservation Halton should not have a net financial liability for the management of the water system, Conservation Halton will be receiving amounts from 2008 to 2017, as part of the agreement. The amounts received are to be invested in accordance with Municipal Act Regulations and will be managed by an Investment Committee as required by the agreement. At the time of transfer, Conservation Halton will be able to draw on the funds, only to facilitate the management of the water system.

The funds are invested as follows:

	2016	2015
Cash	$ 7,186	$ 125
Provincial and provincially regulated agency bonds	6,951,553	5,577,393
Guaranteed investment certificates	2,252,750	2,239,332
Total	$ 9,211,489	$ 7,816,850

The Provincial and provincially regulated agency bonds have effective yields of 3.88% to 5.00% (2015 - 4.07% to 5.00%). Interest is receivable on the date of maturity. Maturity dates range from January 13, 2020 to April 17, 2033.

The guaranteed investment certificate has an effective interest rate of 1.29% and 1.45% (2015 – 1.45% and 1.55%). Interest is receivable on the date of maturity. Maturity dates range from January 16, 2017 to February 26, 2018.

4. Accounts receivable:

Included in accounts receivable is $187,749 (2015 - $139,983) due from Conservation Halton Foundation.

5. Deferred revenue:

	Balance at December 31, 2016	Additions	Revenue recognized	Balance at December 31, 2015
Watershed Environmental Services	$ 1,947,515	$ 1,630,604	$ 1,722,364	$ 2,039,275
Special Programs and Projects	671,138	1,207,180	1,291,429	755,387
Source Water Protection	72,847	259,121	344,665	158,391
Conservation Areas	3,087,259	11,222,466	11,202,468	3,067,261
	$ 5,778,759	$ 14,319,371	$ 14,560,926	$ 6,020,314

Additions to deferred revenue includes contributions from external parties and payments for annual passes and lesson programs received during the year pertaining to the following year.

6. Deferred revenue - capital and major projects:

	Balance at December 31, 2016	Contributions received	Revenue recognized	Balance at December 31, 2015
Capital - Ministry of Natural Resources	$ 307,816	$ 543,735	$ 235,919	$ -
Capital - Municipal	270,515	291,499	524,268	503,284
	$ 578,331	$ 835,234	$ 760,187	$ 503,284

7. Long-term liabilities:

	2016	2015
5 year term loan at 3.5%, interest only payable during the first 36 months with a registered collateral mortgage covering 54.36 acres of land, due December 2020	$ 708,000	$ 858,000
Municipal debt financing and interest payments due annually at variable current interest rates 3.2% (2015 - 3.98%) and annual principal repayments due December 2026	2,001,106	1,654,072
	$ 2,709,106	$ 2,512,072

Principal repayments over the next five fiscal years and thereafter are as follows:

2016	$ 490,628
2017	331,072
2018	478,039
2019	610,962
2020	200,350
Thereafter	598,055
	$ 2,709,106

8. Tangible capital assets:

2016	Land	Land Improvements	Buildings and building improvements	Machinery and equipment	Furniture and fixtures	Infrastructure	Vehicles	Computer hardware and software	Assets under construction	Total
Cost, beginning of year	$ 35,152,205	$ 564,806	$ 13,814,921	$ 7,985,917	$ 468,070	$ 24,523,872	$ 2,439,759	$ 1,240,639	$ 467,110	$ 86,657,299
Additions	371,000	-	145,392	84,786	-	158,593	-	106,363	174,710	1,040,844
Disposals	-	-	(10,000)	(75,761)	(21,894)	(22,657)	-	(147,865)	-	(278,177)
Transfers	-	-	239,404	-	-	48,125	-	-	(287,529)	-
Cost, end of year	35,523,205	564,806	14,189,717	7,994,942	446,176	24,707,933	2,439,759	1,199,137	354,291	87,419,966
Accumulated amortization, beginning of year	-	284,503	4,012,865	3,585,844	189,944	11,397,421	1,652,440	788,090	-	21,911,107
Amortization	-	12,091	355,044	372,310	21,042	543,791	202,816	135,339	-	1,642,433
Disposals	-	-	(9,400)	(68,301)	(16,276)	(22,657)	-	(135,450)	-	(252,084)
Accumulated amortization, end of year	-	296,594	4,358,509	3,889,853	194,710	11,918,555	1,855,256	787,979	-	23,301,456
Net carrying amount, end of year	$ 35,523,205	$ 268,212	$ 9,831,208	$ 4,105,089	$ 251,466	$ 12,789,378	$ 584,503	$ 411,158	$ 354,291	$ 64,118,510

8. Tangible capital assets:

2016	Land	Land Improvements	Buildings and building improvements	Machinery and equipment	Furniture and fixtures	Infrastructure	Vehicles	Computer hardware and software	Assets under construction	Total
Cost, beginning of year	$ 35,152,205	$ 564,806	$ 13,814,921	$ 7,985,917	$ 468,070	$ 24,523,872	$ 2,439,759	$ 1,240,639	$ 467,110	$ 86,657,299
Additions	371,000	-	145,392	84,786	-	158,593	-	106,363	174,710	1,040,844
Disposals	-	-	(10,000)	(75,761)	(21,894)	(22,657)	-	(147,865)	-	(278,177)
Transfers	-	-	239,404	-	-	48,125	-	-	(287,529)	-
Cost, end of year	35,523,205	564,806	14,189,717	7,994,942	446,176	24,707,933	2,439,759	1,199,137	354,291	87,419,966
Accumulated amortization, beginning of year	-	284,503	4,012,865	3,585,844	189,944	11,397,421	1,652,440	788,090	-	21,911,107
Amortization	-	12,091	355,044	372,310	21,042	543,791	202,816	135,339	-	1,642,433
Disposals	-	-	(9,400)	(68,301)	(16,276)	(22,657)	-	(135,450)	-	(252,084)
Accumulated amortization, end of year	-	296,594	4,358,509	3,889,853	194,710	11,918,555	1,855,256	787,979	-	23,301,456
Net carrying amount, end of year	$ 35,523,205	$ 268,212	$ 9,831,208	$ 4,105,089	$ 251,466	$ 12,789,378	$ 584,503	$ 411,158	$ 354,291	$ 64,118,510

9. Accumulated surplus:

Accumulated surplus consists of operating surplus and reserves as follows:

	Balance at December 31, 2016	Excess of Revenue over expenses	Transfers (to) from reserves	Balance at December 31, 2015
Surplus - investment in tangible capital assets	$ 64,118,510	$ (1,668,529)	$ 1,040,844	$ 64,746,192
Surplus (deficit) - current funds	(2,912,321)	3,147,337	(2,298,208)	(3,761,445)
Total surplus	61,206,189	1,478,808	(1,257,366)	60,984,747
Reserves				
Conservation areas capital projects	2,397,630	-	319,183	2,078,447
Conservation areas stabilization	799,568	-	159,400	640,168
Vehicle, equipment and building	864,012	-	148,112	715,900
Watershed management capital projects - municipal funds	146,780	-	26,900	119,880
Watershed management capital projects - self generated funds	321,511	-	40,700	280,811
Watershed management stabilization	470,249	-	207,214	263,035
Capital Projects - debt financing charges	194,248	-	10,257	183,991
Legal	258,8891	-	49,100	209,789
Water Festival	217,211	-	3,100	214,111
Land and property	128,900		1,900	127,000
Stewardship and restoration	291,500	-	291,500	-
Total reserves	6,090,498	-	1,257,366	4,833,132
Accumulated surplus	$ 67,296,687	$ 1,478,808	$ -	$ 65,817,879

10. Pension agreements:

Conservation Halton belongs to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of the members of its staff. This plan specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The cost of the plan is the employer's contribution to the plan.

The 2016 employer portion of OMERS pension contributions was $1,062,894 (2015 - $980,996).

11. Budget amounts:

The 2016 budget amounts approved by Conservation Halton on October 29, 2015 were not prepared on a basis consistent with that used to report actual results under Public Sector Accounting Standards. The budget was prepared on a modified accrual basis while Public Sector Accounting Standards require a full accrual basis. The budget figures anticipated use of surpluses accumulated in previous years to reduce current year expenses in excess of current year revenues to $nil. In addition, the budget expensed all tangible capital expenses rather than including amortization expenses. As a result, the budget figure presented in the statements of operations and changes in net financial assets represent the budget adopted by Conservation Halton on October 25, 2015, with adjustments as follows:

	2016 Actual	2015 Actual
Budget deficit for the year	$ (184,247)	$ (1,494,189)
Less: Amortization of tangible capital assets	(1,642,000)	(1,627,000)
Add: Acquisition of tangible capital assets	1,675,000	3,823,000
Add: Debt financing charges - principal portion	359,896	292,430
Less: Municipal debt financing	(400,000)	(687,500)
Budget surplus per Statement of Operations	$ (191,351)	$ 306,741

12. Contingencies:

Conservation Halton has been named as defendant or co-defendant in several lawsuits that have claims outstanding. Conservation Halton anticipates any individual settlement amount will not exceed the limits of insurance coverage provided to Conservation Halton on the majority of the claims. For claims in which the claim amount exceeds the limit of insurance coverage provided to Conservation Halton the outcome is not determinable.

Conservation Halton has entered into an agreement to ensure implementation of a monitoring and mitigation plan for the future rehabilitation of lands adjacent to a Provincially Significant Wetland. The agreement requires a Trust account to be established by the funder to ensure there are funds available for the rehabilitation plan implementation. Conservation Halton will be a member of the Investment Committee that will oversee management of the Trust account. A deposit to the Trust account by the funder is required to be made by March 31, 2017 for $354,869 which was completed. Conservation Halton will release their interest in the Trust account when the implementation plan is completed.

13. Commitments:

Conservation Halton has entered into contracts related to projects at Glen Eden, various dam studies and repairs, and leases for office equipment and vehicles. Commitments outstanding on these contracts to be paid beyond December 31, 2016 are as follows:

2017	$ 869,434
2018	298,317
2019	15,236
2020	3,809
2021	-
	$ 1,186,796

14. Internal financial reporting:

For internal financial budget reporting purposes, administration chargebacks and contributions between internal programs are reported.

The chargebacks and contributions are not separately disclosed in the Schedules of the audited financial statements.

The internal chargebacks and contributions for 2016 are as follows:

	2016 Budget	2016 Actual	2015 Actual
Administration chargebacks to:			
Watershed Experience:			
Conservation Areas	$ 1,052,000	$ 982,700	$ 979,095
Source Water Protection	9,800	8,410	8,175
Total operating grants	$ 1,061,800	$ 991,110	$ 987,270

15. Comparative figures:

Certain comparative figures on the statement of operations under revenue and expenses have been reclassified to conform with the financial statement presentation adopted in the current year.

16. Adjustment of prior period figures:

During 2016, Conservation Halton identified that it was not deferring the portion of conservation area annual passes sold during the year that relates to the subsequent year. As a result, this adjustment has been applied retroactively with a revision of the 2015 financial statements. Specifically, the amounts recorded at December 31, 2015 for deferred revenue and accumulated surplus have increased and decreased by $395,255 respectively and the annual surplus for the year ended December 31, 2015 has increased by $38,961.

17. Revenue and expenses by program:

2016	Operations	Communications	Watershed management	Conservation Areas	Corporate Services	Partnership projects	Source water protection	Major projects	Debt financing	Reserve funding	Total
Revenue:											
Municipal levies	$ 2,847,398	$ 829,722	$ 2,586,151	$ 192,354	$ 1,317,132	$ -	$ -	$ 524,268	$ 458,536	$ 175,000	$ 8,930,561
Provincial transfer payments	-	-	300,311	-	8,410	-	336,256	235,919	-	-	880,896
Program fees and other	529,386	15,300	2,958,984	11,202,468	251,673	924,307	848	471,518	-	-	16,354,484
	3,376,784	845,022	5,845,446	11,394,822	1,577,215	924,307	337,104	1,231,705	458,536	175,000	26,165,941
Expenses:											
Salaries, wages and benefits	2,274,065	564,557	4,884,912	6,089,946	1,977,755	241,013	287,287	199,239	-	-	16,518,774
Members per diems and expenses	-	-	-	-	24,053	-	-		-	-	24,053
Utilities, materials, supplies- and maintenance	605,886	141,262	196,485	2,690,395	345,778	252,962	49,817	21,874	-	-	4,304,459
Property taxes	31,793	-	-	-	-	-	-	-	-	-	31,791
Purchased services	-	-	89,335	330,212	207,583	420,139	-	410,990	-	-	1,458,259
Legal	56,212	-	455,189	38,748	28,458	-	-	-	-	-	578,607
Debt financing charges	-	-	-	-	-	-	-	-	102,664	-	102,664
Amortization of tangible capital assets	132,732	-	391,676	896,980	210,337	-	10,708	-	-	-	1,642,433
Loss on disposal of tangible capital assets	592	-	-	15,397	5,766	-	4,338	-	-	-	26,093
	3,101,278	705,819	6,017,597	10,061,678	2,799,730	914,114	352,150	632,103	102,664	-	24,687,133
Excess (deficiency) of revenues over expenses, for the year	$ 275,506	$ 139,203	$ (172,151)	$ 1,333,144	$ (1,222,515)	$ 10,193	$ (15,046)	$ 599,602	$ 355,872	$ 175,000	$ 1,478,808

17. Revenue and expenses by program (continued):

2015	Operations	Communications	Watershed management	Conservation Areas	Corporate Services	Partnership projects	Source water protection	Major projects	Debt financing	Reserve funding	Total
Revenue:											
Municipal levies	$ 2,666,628	$ 802,729	$ 2,457,062	$ 192,354	$ 1,262,176	$ -	$ -	$ 328,944	$ 381,239	$ 227,000	$ 8,318,132
Provincial transfer payments	-	-	300,311	-	8,175	-	454,890	514,214	-	-	1,277,590
User fees, sales and other	476,132	20,909	2,462,989	11,146,546	71,526	945,119	1,923	390,840	-	-	15,515,984
	3,142,760	823,638	5,220,362	11,338,900	1,341,877	945,119	456,813	1,233,998	381,239	227,000	25,111,706
Expenses:											
Salaries, wages and benefits	2,278,412	644,367	4,535,125	6,461,904	1,837,883	173,895	336,908	302,976	-	-	16,571,470
Members per diems and expenses	-	-	-	-	26,903	-	-	-	-	-	26,903
Utilities, materials, supplies and maintenance	625,338	168,072	129,760	1,848,192	315,141	291,232	119,906	36,196	-	-	3,533,837
Property taxes	34,166	-	-	-	-	-	-	-	-	-	34,166
Purchased services	-	-	82,067	1,278,959	160,714	278,370	-	433,320	-	-	2,233,430
Legal	25,265	-	522,236	24,073	41,749	-	-	-	-	-	613,323
Debt financing charges	-	-	-	-	-	-	-	-	69,244	-	69,244
Amortization of tangible capital assets	147,671	1,548	383,805	901,440	177,790	-	13,607	-	-	-	1,625,861
Loss (gain) on disposal of tangible capital assets	(10,192)	-	-	6,245	7,050	-	-	-	-	-	3,103
	3,100,660	813,987	5,652,993	10,520,813	2,567,230	743,497	470,421	772,492	69,244	-	24,711,337
Excess (deficiency) of revenues over expenses, for the year	$ 42,099	$ 9,651	$ (432,631)	$ 818,088	$ (1,225,353)	$ 201,622	$ (13,608)	$ 461,506	$ 311,995	$ 227,000	$ 400,369

KPMG

Conservation Halton

Audit Findings Report
For the year ended December 31, 2016

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Prepared April 3, 2017 for the audit committee meeting on April 13, 2017

kpmg.ca/audit

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The contacts at KPMG in connection with this report are:

Matthew Betik

Lead Audit Engagement Partner

Tel: 519 747 8245
mbetik@kpmg.ca

Courtney Cheal

Audit Manager

Tel: 519 747 8884
ccheal@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the financial statements of Conservation Halton as at and for the year ended December 31, 2016.

Finalizing the audit

As of April 3, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of confirmation from Hamilton Community Foundation for loan payable of $708,000.
- Receipt of legal letter confirmations
- completing our discussions with the audit committee;
- obtaining evidence of the Board's approval of the financial statements.
- Receipt of signed representation letter

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

Audit and business risk

- Our audit is risk-focused and predominately substantive.
- Confirmed cash, debt, and investments with custodians.
- Substantive testing over the completeness of significant accounts payable and accrued liabilities through a search for unrecorded liabilities.
- Performed a substantive analytical trend analysis over all income statement and financial position accounts
- We are satisfied that our audit work has appropriately dealt with the risks.

Materiality

Materiality has been determined based on total assets. We have determined materiality to be $755,000. *Refer to page 4 for further information.*

Adjustments and differences

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

Control and other observations

During the audit, we reviewed processes for cash receipts, cash disbursements, and the process and controls in the cash function in general. *See page 8 for our results.*

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Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total revenues, total expenses, and net assets.	
Benchmark	Based on an estimate of total revenues for the year.	$ 25,150,667
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. Prior year materiality was $775,000.	$755,000
% of Benchmark	The corresponding percentage for the 2015 audit was 3%	3%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures.	$565,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit.	$37,750

Audit risks and results

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

Other areas of focus	Our response and significant findings
Government transfers	- We examined contracts, letters and other supporting documentation to support the year-end balances and revenue recognition or deferral of revenue. - No issues were noted.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	The form, arrangement and content of the financial statements are appropriate for the size, scope and industry segment of the organization. It is consistent with its peer group in Ontario and in accordance with PSAB standards.
Application of accounting pronouncements issued but not yet effective	– No concerns at this time regarding future implementation

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Adjustments and differences

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

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

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

Uncorrected differences

We did not identify differences that remain uncorrected.

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Control observations

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

No significant deficiencies were identified in ICFR in the current year.

Management requested that we perform an analysis on the segregation of duties controls and determine if they were sufficient for the operations of the organization.

Segregation of duties observations

Process	Expectation	Observations
Cash Disbursements/purchasing		
Inquiry regarding possession of blank cheques and preparation of cheques	Blank cheques only accessible by designated staff Cheques are prepared by appropriate staff and signed by management	Pauline Wazniakowski is the only one who prepares cheques Designated signature authorities for cheques and EFT payments include the following team members: Hassan Bassit (CAO), Gene Matthews (Director, Operations), Sheryl Ayres (Senior Director, Finance & Strategic Initiatives), Marnie Piggot (Director, Finance) and Gerry Smallegange (Chair) and Cathy Duddeck (Vice Chair). Two signatures are required for any cheque, regardless of dollar amount. Signature stamps can be used for payments to the Government, but they are locked in a safe. When stamps are used, it must be authorized by the individual whom the signature belongs to.
Payment of invoices	Independent comparison of cheques to approved invoices. Batch control totals comparing invoices approved to cheques issued. Accounts payable should input payments based on invoices and print cheques, management should review input of payments to cheques created and third party invoices before signing cheque.	Purchases smaller than $10,000 are approved by authorized staff responsible for the purchase/project before being processed. Purchases between $10,000-$49,999 quotes from suppliers and approval by appropriate authorized personnel are required. All purchases over $50,000 require a formal bid process. Once Pauline Wazniakowski (AP and Capital Assets Coordinator) enters invoices into the system, an edit list will be run and sent to Sue Doherty (Manager, Finance) for review.
No significant findings noted.		

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KPMG's Procedures	Expectation	Observations
Cash Functions		
Bank reconciliation process.	A staff member prepares the bank reconciliation and a supervisor/manager reviews for accuracy.	Janet Tolton (AR Coordinator) matches cash receipts to the bank statement. Sue Doherty (Manager, Finance) prepares the bank reconciliation. However, going forward The Accounting analyst will prepare them. If Janet identifies any issues, she will investigate and discuss with Sue. Janet noted that issues do not arise often, and when they are identified, the amounts are generally insignificant. Bank reconciliations are reviewed by the Director, Finance.
No significant findings noted.		

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KPMG's Procedures	Expectation	Observations
Cash Receipts		
Cash collection and tracking.	Cash is collected by designated staff at the gates of each location. Cash should be counted at the end of each shift. A reconciliation to a sales log should occur by a supervisor.	There is designated staff at the gates that handle cash. At the end of the shift, the person does a blind count and fills out a deposit slip. The supervisors generate a Daily Summary Report and agree the amounts on the summary report to the deposit slip. If there are differences identified, the Visitor Services Supervisor will investigate.
Refund policy	Refunds are initiated by a designated staff member or supervisor and should be documented. Any cash given back to customers should be approved via a supervisor's signature. Refunds should follow a refund policy, if there is one in place.	Refunds are processed through the POS system. Janet explained that refunds are not done often. However, if there is a scenario where a refund must be issued, the refund is initiated by the supervisor. All refunds are displayed on activity log. Activity logs are reviewed if there was suspected issues in issuing refunds.
Depositing cash into the bank accounts	Cash is counted by a supervisor and deposited in a safe on site. The amount of cash should be reconciled to the activity log with any differences investigated. Any movement of money between safes should be tracked in a summary sheet. Once a week, the cash should be deposited into the bank. The manager will send the deposit information to Finance in the Burlington office.	There are log books that the designated managers sign that keeps track of the transfer of money. There is a separate room for cash counting that is secluded from public. Access to the room is given only to the cash counter and supervisor for the park. Only a few staff members have access to the safe that deposits are made into. Supervisors are the only staff member that have access to the safe where they can get additional cash from. The supervisor tracks every time cash is moved (if money is transferred from one safe to another). There is a POS/Deposit Collection Log Sheet. The administrative assistant will deposit the money and indicate the amount of money that was deposited. Any staff member in finance can sign off on the amount of money received. Finance receives a copy of the deposit log book. Janet Tolton keeps track of all activity.
No significant findings noted.		

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KPMG's Procedures	Expectation	Observations
Financial reporting		
Manual general ledger entries	Independent review and approval of all manual general ledger entries	Marnie and Sue review all manual entries and sign off on support for the entry.
Employee Master file maintenance	Only payroll staff member should have access to employee Masterfile. Changes to the employee Masterfile should be reviewed on a regular basis.	Trish Marchment (Payroll & Benefits Coordinator) and Anthony Molignano (Human Resources Generalist) maintain and update employee files. Employee files are locked in the HR office which is also locked at the end of each day.
No significant findings noted.		

Appendices

Appendix 1: Required communications

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

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.

Appendix 2: Draft management representation letter

KPMG LLP

115 King Street South, 2nd floor

Waterloo, Ontario N2J 5A3

Canada

[Audit report date]

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Conservation Halton ("the Entity") as at and for the period ended December 31, 2016.

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

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

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated January 8, 2014, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information

c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others

d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

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

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

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

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

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

Yours very truly,

CONSERVATION HALTON

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By: Marnie Piggot, Director, Finance

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By: Hassaan Basit, Chief Administrative Officer

Attachment I – Definitions

MATERIALITY

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

FRAUD & ERROR

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

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

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

RELATED PARTIES

In accordance with Canadian accounting standards for the public sector (PSAB) *related party* is defined as:

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

In accordance with Canadian accounting standards for the public sector (PSAB) a *related party transaction* is defined as:

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

Appendix 2: Audit Quality and Risk Management

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

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

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

- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every four years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

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Appendix 3: Background and professional standards

Internal control over financial reporting

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

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

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

Documents containing or referring to the audited financial statements

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

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

Appendix 4: Current developments

The following is a summary of the current developments that are relevant to the Conservation Halton.

PS 2200, Related Party Disclosures	This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons. This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Conservation's December 31, 2018 yearend). **Implications:** Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.
Financial Instruments	A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2019 (the Conservation's December 31, 2020 year-end). **Implications:** This standard will require the Conservation to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Conservation. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.

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