

**MEETING NO: #** 01 18 Finance & Audit Committee  
**DATE:** April 12, 2018  
**TIME:** 9:30 – 11:00 am  
**PLACE:** CH Admin. Office, 2596 Britannia Road West, Burlington ON  
905.336.1158 x 2236

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## AGENDA

Page #

1. **Acceptance of Agenda as distributed**
2. **Disclosure of Pecuniary Interest for Finance & Audit Committee**
3. **Consent Items**
  - Roll Call & Mileage
  - Approval of Finance & Audit Committee Minutes dated November 01, 2017
4. **Action Items**
  - 4.1 **Election of Officers for 2018**
    - 4.1.1 Appointment of Election Scrutineers
    - 4.1.2 Election of the position of Chair for the Finance & Audit Committee for 2018
    - 4.1.3 Election of the position of Vice Chair for the Finance & Audit Committee for 2018
  - 4.2 Budget Variance for the year ended December 31, 2017 and Reserve Balances  
Report #: FA 01 18 01 1-10
  - 4.3 2017 Audited Financial Statements  
Report #: FA 01 18 02 11-16
    - Attachments: Financial Statements of Conservation Halton  
for the year ended December 31, 2017 17-37
    - Conservation Halton Audit Findings Report, KPMG 38-59
5. **Other Business**
6. **Adjournment**



**REPORT TO:** Finance & Audit Committee

**REPORT NO: #** 01 18 01

**FROM:** Sheryl Ayres, Senior Director Corporate & Strategic Initiatives  
[sayres@hrca.on.ca](mailto:sayres@hrca.on.ca); 905-336-1158 x 2250

**DATE:** April 12, 2018

**SUBJECT:** Budget Variance Report for the year ended December 31, 2017 and Reserve Balances

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### **Recommendation**

THAT the Finance & Audit Committee **recommend to the Conservation Halton Board of Directors approval of the allocation of the 2017 operating surplus amounts to the following Reserves:**

- **\$225,000 to the Building Reserve;**
- **\$6,700 to the Water Festival Reserve;**
- **\$100,000 to the Property Management Reserve;**
- **\$317,322 to the Watershed Management Stabilization Reserve;**
- **\$1,438,556 to the Conservation Areas Capital Reserve;**
- **\$55,000 to the Conservation Areas Revenue Stabilization Reserve**

THAT the Finance & Audit Committee recommend to the Conservation Halton Board of Directors that \$62,509 be transferred to the Capital Projects Reserve – Debt Financing Charges;

THAT the Finance & Audit Committee recommend to the Conservation Halton Board of Directors that the Land and Property Reserve be renamed the Property Management Reserve;

AND FURTHER THAT the Finance & Audit Committee recommend to the Conservation Halton Board of Directors receiving for information the Budget Variance Report for the period ended December 31, 2017.

### **Executive Summary**

Attached is the Budget Variance Report for the period ended December 31, 2017. The total operating surplus for 2017 is \$2,142,578. The details of the 2017 operating surplus are summarized below and are included in the attached Budget Variance Report. This operating surplus is comprised of a surplus in the Watershed Management and Support Services (WMSS) programs of \$649,022 and \$1,493,556 in the Conservation Areas.

The Projected 2017 operating surplus for the WMSS programs presented in the September 30, 2017 Budget Variance Report was \$21,273. Projections are prepared by Program Managers and Directors using conservative estimates. In addition, based on the 2017 Projected amounts, staff were directed in November to hold off on discretionary spending for the remainder of the year to ensure a favourable financial year end position.

The Conservation Areas 2017 operating surplus is \$1,493,556. The projected surplus presented at the November 23, 2017 Board of Directors meeting was \$931,177. This operating surplus has increased by \$562,379 over the projections primarily due to increased park revenues and higher than anticipated visitation to the parks.

## Report

The table below summarizes the 2017 year end operating surplus for WMSS and the Conservation Areas. Further details are provided in the attached Budget Variance Report and in the information provided in this report.

	2017 BUDGET	ACTUAL DEC 31/17	% ACTUAL /BUDGET	2017 YEAR END VARIANCE
<b>Watershed Management &amp; Support Services (WMSS)</b>				
Revenue	\$14,843,209	\$15,729,516	106.0%	\$ 886,307
Expenses	<u>\$14,843,209</u>	<u>\$15,080,494</u>	101.6%	<u>\$ 237,285</u>
<b>Operating Surplus</b>	<b>\$ 0</b>	<b>\$ 649,022</b>	<b>100.0%</b>	<b>\$ 649,022</b>
<b>Conservation Areas</b>				
Revenue	\$10,844,713	\$12,444,350	114.8%	\$ 1,599,637
Expenses	<u>\$10,613,322</u>	<u>\$10,950,794</u>	103.2%	<u>\$ 337,472</u>
<b>Operating Surplus</b>	<b>\$ 231,391</b>	<b>\$ 1,493,556</b>	<b>645.5%</b>	<b>\$ 1,262,165</b>
<b>Total Operating Surplus</b>	<b>\$ 231,391</b>	<b>\$ 2,142,578</b>		<b>\$ 1,911,187</b>

## Watershed Management & Support Services

### Source Protection & Watershed Strategies – Note 1.

Provincial funding for Source Protection and Land Management exceeded the Budget by \$149,966 as a result of funding carried over from the prior year for these programs. Provincial funding carried over of \$139,142 for Source Protection was related to costs incurred for numeric modelling services for two projects with the Greensville municipal water supply, a wellhead protection vulnerability analysis and Tier 3 water budget and water quantity risk assessment. Funding received through an agreement with Infrastructure Ontario for Land Management covered costs associated with property management work at Glenorchy.

Other Revenue is under Budget by (\$7,782) primarily due to the elimination in late 2016 of funding for the Provincial Groundwater Monitoring Network (PGMN) after the 2017 Budget was approved and therefore this change was not reflected in the budget.

Increased program expenses for Source Protection & Watershed Strategies related to the projects mentioned above are offset by savings in salaries and benefits as a result of a staff retirement in Watershed Strategies. .

**Internal Chargebacks - Note 2.**

Internal Chargebacks exceed the 2017 Budget amount by \$70,719 as a result of various changes in staff support provided to the respective programs.

Chargebacks to the Conservation Areas for support services staff exceed the budget amount by \$123,200 related to a program restructuring and staff severance payments.

The Chargeback from Source Protection to Watershed Management & Support Services is under the 2017 Budget amount by \$28,582. This decrease is related to reduced time spent by Source Protection staff on Conservation Halton projects and funded through increased provincial funding for Source Protection staffing.

Engineering staff time allocated to Dams and Channels capital projects was less than the budget amount by \$32,400 due to the delay in the Kelso Dam Major Repair capital project as a result of additional studies and testing for permit requirements.

**Operations - Note 3.**

Revenue exceeded the budget amount by \$238,038 primarily as a result of a large tree planting project with Union Gas, and other planting projects with the Region of Halton and Forests Ontario that were not included when the 2017 Budget was prepared. Funding for the Union Gas and Forests Ontario planting projects include funding to cover the future monitoring by staff of the tree planting sites. Based on the funding amount received, staff are recommending that \$100,000 of the WMSS operating surplus be transferred to the Property Management Reserve to assist with funding expenses related to future monitoring.

Total Operations expenses exceeded the budget amount by \$270,583 as a result of program restructuring and staff severance payments, and additional tree planting materials for the projects mentioned above, offset by staff vacancies.

**Engineering, Flood Forecasting and Operations - Note 4.**

Total revenues are under budget by (\$6,971) largely related to reduced GIS data licensing revenue as a result of decreased requests with the move to more shared data.

Total expenses are under budget by (\$192,266) as a result of GIS program staff position vacancies. These cost savings have been used to offset increased Flood Forecasting & Operations expenses from the addition of a shared staff position from April to October that was not included in the 2017 Budget, to assist with dams and channels maintenance, as well as increased costs for safety equipment for improving maintenance work by staff at the dam structures.

**Science & Partnerships - Note 5.**

Science & Partnerships revenues exceeded the 2017 Budget by \$175,332 as a result of increased sponsorships and in kind donations for the Water Festival and funding received through grants, donations and agreements for recovery of staffing costs for stewardship and restoration projects.

Science & Partnerships expenses are over the 2017 Budget by \$165,146 as a result of increased expenses funded by donations and reallocating contract staffing and material costs to the respective Outreach, Restoration and Stewardship program costs from Partnership Projects. The increased staffing costs are funded by the implementation in 2017 of a chargeback recovery to the project for costs directly associated with the project.

#### **Corporate Services - Note 6.**

Corporate Services revenues exceeded the 2017 Budget by \$302,110 primarily due to donations of \$225,000 received through the Conservation Halton Foundation. These 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. At December 31, 2017 this loan balance has been reduced to \$483,000 from the original loan of \$858,000.

Investment revenues exceeded the budget amount by \$63,266. Conservation Halton investments were reviewed in the 2017 Investments and Allocation of Investment Revenue Report at the March 2018 Board of Directors meeting. The 2017 Budget amount was prepared conservatively as the amount of surplus funds are difficult to predict with anticipated capital project work and the return on investments has been relatively low the last few years.

#### **Partnership Projects - Note 7.**

Partnership Projects expenses are fully funded by related program grants received from various funding partners. Grant revenue is matched to expenses incurred for the project work completed. Revenue is less than the budget amount due to a delay in the timing of completion of some projects and no shortfall in funding is anticipated.

The Transfer to Reserve of \$82,000 included in the 2017 Budget for Partnership Projects expenses will occur upon completion of the Union Gas Stewardship and Restoration projects, which are now scheduled to be completed in 2018. The expenses and reserve transfer for these multi-year projects are being funded by Union Gas, an Enbridge company. The budget amount to be transferred to the Stewardship and Restoration Reserve is to fund estimated future monitoring for five years on these sites.

#### **Transfer from Reserves - Note 8.**

Transfers from Reserves exceeded the Budget by \$52,153 as a result of strategic planning annual software and the Finance Function Effectiveness Assessment expenses, reported under the Office of the CAO, that were not included in the 2017 Budget. These expenses were approved to be funded by transfers from the Watershed Management Stabilization Reserve at the March 2017 Board meeting as part of the 2016 year-end surplus report.

#### **Debt Financing Charges & Transfer to Reserve - Note 9.**

Debt financing charges exceeded the 2017 Budget by \$215,825 as a result of the loan principal repayments of \$225,000 funded through the Conservation Halton Foundation, mentioned in Note 6 above, that are offset by a reduction in the loan interest.

Debt Financing Charges include actual debt charges paid to the Region of Halton of \$407,196 for principal and interest owing on debt financing received for capital projects. The actual amount is less than the 2017 Budget amount of \$469,705 as the debt charges in the 2017 Budget are based on all debt that has been approved, although there are no charges incurred until the debt has been issued. The under-expenditure of \$62,509 between the actual and Budget amount is being recommended for transfer to the Debt Financing Reserve for future debt financing costs.

## **Conservation Areas**

### **Revenues and Expenses - Note 10.**

Park revenues exceed the 2017 Budget by almost \$1.6 million. The Conservation Areas overall revenues are at 114.8% of the Budget target and are above the three-year average. All of the parks exceeded the revenue targets with the exception of Crawford Lake and Mountsberg. Most of the revenue increase over the budget amount occurred at Kelso/Glen Eden exceeding the 2017 revenue target by over \$924,000 as a result of higher than anticipated visitation during the winter and summer seasons and growth at the Ways of the Woods summer camp program. The revenue increase over the budget amount is also despite no revenues earned from snow tubing in 2017 with the Tube Park closed for the 2017 season to prioritize snowmaking efforts and a budget amount of \$180,000. The Kelso/Glen Eden 2017 Budget for revenues was also set conservatively taking into account the potential impact on operations during the construction originally planned for 2017 at Kelso Dam.

Increased revenue at Rattlesnake Point/Hilton Falls/Mount Nemo park group resulted in revenues exceeding the budget by over \$400,000 due to higher visitation and increased events at these parks. This park group exceeded \$1 million in revenue for the first time in 2017. Annual pass sales exceeded the 2017 Budget amount by almost \$284,000 and the prior year pass sales by \$39,667. Investment revenue allocated to the parks also exceeded the projected amount by \$58,796.

The Conservation Areas actual overall expenses are at 103.2% of the Budget target and are slightly below the three-year average.

Conservation Areas Administration expenses are above the budget amount due to increased legal fees related to staff severances and increased consulting services related to partial costs allocated to the parks for the Interim Director position that was not included in the budget. Kelso/Glen Eden expenses were higher than the budget to manage the increased visitation with increased staffing and increased visitor demands on facilities that is more than offset by the related revenue increase.

## **Reserves**

A Reserve Continuity schedule is attached that provides details of transfers to and from Reserves. After the recommended reserve transfers, total reserves as of December 31, 2017 are \$7,089,041.

The Watershed Management and Support Services operating surplus of \$649,022 is recommended to be allocated to Reserves as follows:

Building & Equipment Reserve	\$225,000
Property Management Reserve (formerly Land and Property Reserve)	100,000
Water Festival Reserve (2017 Program surplus)	6,700
Watershed Management & Support Services – Stabilization Reserve	317,322
<b>Total</b>	<b><u>\$649,022</u></b>

Water Festival Reserve (2017 Program surplus)	6,700
Watershed Management & Support Services – Stabilization Reserve	<u>317,322</u>
Total	<u><b>\$649,022</b></u>

The transfer to the WMSS Stabilization Reserve will bring this Reserve balance to 23% of 2018 Budget WMSS program revenue of \$3,199,183, more than the Conservation Halton Budget Principles target of 10% to 15%. Additional reserve funding may be used in 2018 to fund program related costs of a one-time nature, in compliance with the intended use of the reserve funds. Information will be presented to the Board for approval in the future.

The Conservation Areas operating surplus of \$1,493,556 is recommended for transfer to the following reserves:

Conservation Areas Capital Reserve	\$1,438,556
Conservation Areas Revenue Stabilization Reserve	<u>55,000</u>
	<u><b>\$1,493,556</b></u>

The transfer to the Stabilization Reserve of \$55,000 will bring the Reserve balance to 7.5% of the 2018 revenue budget of \$11,399,250, which is mid-way of the target reserve balance of 5% to 10%.

### **Impact on Strategic Goals**

This report supports the Metamorphosis strategic theme of Striving for service excellence and efficiency.

This theme is supported by the objective to provide clear financial data and analysis to support informed strategic and operational decision-making for budget development and long term planning.

### **Financial Impact**

The report summarizes the variances that have contributed to the 2017 operating surplus of \$2,142,578 and recommends distribution of the surplus to reserves. The variances that have occurred during the year will inform the management of the approved 2018 Budget and preparation of the 2019 Budget.

Signed & respectfully submitted:



Sheryl Ayres  
Senior Director, Finance & Strategic Initiatives

Approved for circulation:



Hassaan Basit  
CAO/Secretary-Treasurer

Attachments: 2017 Budget Variance Report  
Continuity of Reserves

**FOR QUESTIONS ON CONTENT:** Sue Doherty, 905.336.1158 x 2223; [sdoherty@hrca.on.ca](mailto:sdoherty@hrca.on.ca)

**CONSERVATION HALTON  
BUDGET VARIANCE REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Description	Note Reference	2017 Budget	YTD Actual December 2017	2017 Year End Variance
<b>WATERSHED MANAGEMENT &amp; SUPPORT SERVICES SUMMARY</b>				
<b>REVENUES</b>				
Municipal Funding - Operating		8,404,233	8,404,233	0.0%
Provincial Funding (MINRF Operating)		300,311	300,311	0.0%
Provincial Funding (Source Protection & Land Management)	Note 1	418,269	568,235	35.9%
Internal Chargebacks	Note 2	1,110,200	1,180,919	6.4%
Operations	Note 3	252,500	490,538	94.3%
Planning & Regulations		2,673,112	2,681,633	0.3%
Source Protection/Watershed Strategies - Other	Note 1	27,000	19,218	(7,782)
Engineering, Flood Forecasting & Operations	Note 4	25,000	18,029	(6,971)
Science & Partnerships	Note 5	595,871	771,203	175,332
Corporate Services	Note 6	32,000	334,110	302,110
Partnership Projects	Note 7	989,713	893,934	(95,779)
Transfer from Reserves	Note 8	15,000	67,153	52,153
<b>TOTAL WMSS REVENUES</b>		<b>14,843,209</b>	<b>15,729,516</b>	<b>886,307</b>
<b>EXPENSES</b>				
<b>CORPORATE SERVICES</b>				
Office of the CAO		604,354	613,538	9,184
Finance		785,499	788,989	3,490
HR, Health, Safety & Wellness		716,281	686,922	(29,359)
Administration Office Facility		419,465	399,771	(19,694)
Marketing & Communications		633,700	616,001	(17,699)
Information Technology		309,791	312,553	2,762
		3,469,090	3,417,774	(51,316)
<b>ENGINEERING, FLOOD FORECASTING &amp; OPERATIONS</b>				
Engineering		481,760	436,452	(45,308)
Flood Forecasting & Operations		381,882	450,940	69,058
Geographical Information Systems		593,770	377,754	(216,016)
	Note 4	1,457,412	1,265,146	(192,266)
				-13.2%

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**CONSERVATION HALTON**  
**BUDGET VARIANCE REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Description	2017 Budget	YTD Actual December 2017	2017 Year End Variance
<b>PLANNING &amp; REGULATIONS</b>			
Planning & Regulations	2,805,116	2,811,514	6,398 0.2%
Regional Infrastructure	424,612	401,769	(22,843) -5.4%
	3,229,728	3,213,283	(16,445) -0.5%
<b>SCIENCE &amp; PARTNERSHIPS</b>			
Ecology	558,583	550,833	(7,750) -1.4%
HHRAP	300,000	282,263	(17,737) -5.9%
Restoration	167,347	185,184	17,837 10.7%
Outreach	196,028	282,188	86,160 44.0%
Stewardship	222,910	309,546	86,636 38.9%
	1,444,868	1,610,014	165,146 11.4%
<b>SOURCE PROTECTION &amp; WATERSHED STRATEGIES</b>			
Chargeback from Source Protection Program to WMSS	98,600	70,019	(28,582) -29.0%
Watershed Strategies	261,885	102,355	(159,530) -60.9%
Source Protection	391,869	521,349	129,480 33.0%
	752,354	693,722	(58,632) -7.8%
<b>OPERATIONS</b>			
Operations - Administration	1,318,133	1,468,221	150,088 11.4%
Property Management	713,713	731,213	17,500 2.5%
Forestry	677,597	787,684	110,087 16.2%
Vehicle and Equipment Operations - Watershed & Supp Services	165,896	158,804	(7,092) -4.3%
	2,875,339	3,145,922	270,583 9.4%
<b>PARTNERSHIP PROJECTS</b>			
Stewardship, Conservation Areas, HHRAP	907,713	894,102	(13,611) -1.5%
Transfer to Reserve - Stewardship (Future Costs)	82,000		(82,000) -100.0%
	989,713	894,102	(95,611) -9.7%
<b>DEBT FINANCING CHARGES &amp; TRANSFER TO RESERVE</b>			
TRANSFER TO RESERVE - VEHICLE AND EQUIPMENT	499,705	715,530	215,825 43.2%
TRANSFER TO RESERVE - WATERSHED CAPITAL MUNICIPAL	100,000	100,000	- 0.0%
	25,000	25,000	- 0.0%
<b>TOTAL WMSS EXPENSES</b>	<b>14,843,209</b>	<b>15,080,494</b>	<b>237,285 1.6%</b>
<b>EXCESS WMSS REVENUES OVER EXPENSES</b>	<b>-</b>	<b>649,022</b>	<b>649,022 100.00%</b>

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**CONSERVATION HALTON  
BUDGET VARIANCE REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Description	Note Reference	2017 Budget	YTD Actual December 2017	2017 Year End Variance
<b>CONSERVATION AREAS SUMMARY</b>				
<b>REVENUES</b>				
Conservation Areas - Annual Passes		550,000	833,895	283,895 51.6%
Conservation Areas - Other		12,500	80,664	68,164 545.3%
Kelso / Glen Eden		7,580,250	8,504,582	924,332 12.2%
Crawford Lake / Mountsberg		1,842,300	1,765,236	(77,064) -4.2%
Rattlesnake Point / Hilton Falls / Mount Nemo		667,309	1,067,619	400,310 60.0%
		10,652,359	12,251,996	1,599,637 15.0%
Municipal Funding - Education Program		192,354	192,354	- 0.0%
<b>TOTAL OPERATING REVENUES</b>	Note 10	<b>10,844,713</b>	<b>12,444,350</b>	<b>1,599,637 14.8%</b>
<b>EXPENSES</b>				
<b>Conservation Areas</b>				
Conservation Areas Administration		328,900	390,357	61,457 18.7%
Vehicle and Equipment Operations - Conservation Areas		129,890	62,992	(66,898) -51.5%
Kelso/Glen Eden		6,572,205	6,826,511	254,306 3.9%
Crawford Lake/Mountsberg/Education		2,034,298	2,039,537	5,239 0.3%
Rattlesnake Point/Hilton Falls/Mount Nemo		644,229	604,397	(39,832) -6.2%
<b>SUBTOTAL CONSERVATION AREAS - OPERATING</b>		<b>9,709,522</b>	<b>9,923,794</b>	<b>214,272 2.2%</b>
Support Services Chargeback		903,800	1,027,000	123,200 13.6%
<b>TOTAL OPERATING EXPENSES</b>	Note 10	<b>10,613,322</b>	<b>10,950,794</b>	<b>337,472 3.2%</b>
<b>EXCESS OPERATING REVENUES OVER EXPENSES</b>		<b>231,391</b>	<b>1,493,556</b>	<b>1,262,165 545.5%</b>

**CONSERVATION HALTON**  
**Continuity of Reserves**  
**December 31, 2017**

Name of Reserve	Reserve Balances Jan.1, 2017	Previously Approved Reserve Transfers	Reserve Balances Prior to Transfers to be Approved	Reserve Transfers to be Approved Finance & Audit Committee April 2018	Reserve Balances Dec. 31, 2017 After Transfers to be Approved
<b>Watershed Management &amp; Support Services</b>					
Vehicle	828,731	122,504	951,235		951,235
Building & Equipment	35,279	600	35,879	225,000	260,879
Watershed Management Capital-Municipal	146,775	27,800	174,575		174,575
Watershed Management Capital-Self Gen.	321,509	19,100	340,609		340,609
Watershed Management & Support Services - Stabilization	470,244	(52,153)	418,091	317,322	735,413
Capital Projects - Debt Financing Charges	194,248	(15,190)	179,058	62,509	241,567
Legal	258,891		258,891		258,891
Water Festival	217,211	(15,000)	202,211	6,700	208,911
Land Securement	0	108,337	108,337		108,337
Property Management	128,900		128,900	100,000	228,900
Stewardship & Restoration	291,500		291,500		291,500
<b>Conservation Areas</b>					
Capital	2,397,634	(1,402,534)	995,100	1,438,556	2,433,656
Revenue Stabilization	799,568		799,568	55,000	854,568
<b>Total Reserves</b>	<b>\$6,090,490</b>	<b>\$ (1,206,536)</b>	<b>\$ 4,883,954</b>	<b>\$ 2,205,087</b>	<b>\$ 7,089,041</b>

**REPORT TO:** Finance & Audit Committee

**REPORT NO: #** 01 18 02

**FROM:** Sheryl Ayres, Senior Director, Corporate & Strategic Initiatives  
[syares@hrca.on.ca](mailto:syares@hrca.on.ca); 905-336-1158, ext. 2250

**DATE:** April 12, 2018

**SUBJECT:** **2017 Audited Financial Statements**

### Recommendation

THAT the Finance & Audit Committee **recommend to the Conservation Halton Board of Directors the audited financial statements for the year ended December 31, 2017, as attached, be approved.**

### Executive Summary

The annual audit of Conservation Halton's financial transactions for the year ended December 31, 2017 has been completed. The draft 2017 financial statements have been prepared by Conservation Halton staff and audited by KPMG LLP. The Auditors' Report provided by KPMG is considered to be the standard audit report without qualifications, meaning that the statements are fairly and appropriately presented and in accordance with Public Sector Accounting Board (PSAB) standards. KPMG has also provided the attached 2017 Audit Findings Report and KPMG staff will be at the meeting to present their report.

### 2017 Financial Statement Highlights

Conservation Halton continued to maintain its strong financial position in 2017 with a net worth of \$69.5 million, an overall increase in net worth of 3% over 2016.

The draft audited financial statements are prepared based on the Budget Variance Report for the year ended December 31, 2017 and adjusted in accordance with Public Sector Accounting Board (PSAB) standards. The amounts reported in the Budget Variance Report are prepared on a basis consistent with the 2017 Budget amounts in order to ensure adequate funding for annual expenditures.

The 2017 Annual Surplus of \$2,249,853 is reported on the Statement of Operations in the draft audited financial statements. This surplus differs from the surplus reported on the Budget Variance Report of \$2,142,578 due to the following PSAB adjustments:

<b>Total Operating Surplus - Budget Variance Report</b>		<b>\$ 2,142,578</b>
<b>PSAB Adjustments:</b>		
Less: Tangible Capital Assets - Amortization expense for PSAB		(1,684,449)
Add: Tangible Capital Asset - Acquisitions in Budget & Capital Projects Variance Report expenses		3,117,908
Less: Tangible Capital Assets - Proceeds on Disposal in Budget & Capital Var. Reports revenue		(63,041)
Less: Transfers to and from Reserves in Budget and Capital Projects Variance Reports		(1,144,026)
Less: Municipal Debt Financing in Budget Variance Report as revenue		(686,664)
Add: Debt financing charges -Principal portion in Budget Variance Report expenses		567,547
<b>Total PSAB adjustments</b>		<b>107,275</b>
<b>Annual surplus per audited financial statements</b>		<b>\$ 2,249,853</b>

	<b>2017 Budget</b>	<b>2017 Actual</b>	<b>2016 Actual</b>
<b>Statement of Operations Summary</b>			
Total Revenue	\$28,935,831	\$ 28,437,682	\$ 26,165,941
Total Expenses	26,026,776	26,187,829	24,687,133
<b>Annual Surplus</b>	<b>\$ 2,909,055</b>	<b>\$ 2,249,853</b>	<b>\$ 1,478,808</b>

The 2017 Budget included in the Statement of Operations Summary is based on the Approved 2017 Budget adjusted for PSAB requirements, as outlined in Financial Statement note 11 to include amortization expense on all Tangible Capital Assets and remove Tangible Capital Asset expenditures, Municipal Debt Financing and the principal portion of debt financing charges.

Financial statement note 17 provides a summary of Revenue and Expenses by Conservation Halton Programs. Most of the 2017 Annual Surplus is derived by the Conservation Areas program surplus of \$1,714,122. Strong visitation in our parks was the most significant contributor to the annual surplus. Glen Eden celebrated a significant milestone with over 1 million annual visitors to the park for the first time in December of 2017 and increased revenue at Rattlesnake Point/Hilton Falls/Mount Nemo park group resulted in revenues exceeding the budget by over \$400,000 due to higher visitation and increased events at these parks. The Conservation Areas surplus excludes the chargeback for support services provided to the Conservation Areas reflected in the Budget Variance Report of \$1,027,000. The removal of the chargebacks in the audited financial statements would also account for much of the deficit under the Corporate Services program.

	<b>2017 Actual</b>	<b>2016 Actual</b>
<b>Statement of Financial Position Summary</b>		
Financial assets	\$ 25,623,867	\$ 23,153,076
Non-financial assets	65,862,704	64,559,112
<b>Total Assets</b>	<b>\$ 91,486,571</b>	<b>\$ 87,712,188</b>
Less: Financial liabilities	\$(21,940,031)	\$(20,415,501)
<b>Accumulated surplus</b>	<b>\$ 69,546,540</b>	<b>\$ 67,296,687</b>

The Accumulated Surplus of \$69,546,540 is made up largely by Tangible Capital Assets and is detailed in note 9 of the audited financial statements as follows:

Surplus – Tangible Capital Assets	\$65,488,926
Deficit – Current Funds	(3,031,424)
Reserves	<u>7,089,038</u>
<b>Total Accumulated Surplus, December 31, 2017</b>	<b><u>\$69,546,540</u></b>

Reserve transfers approved at the March 2018 Board of Directors and to be approved at the April Finance and Audit Committee meeting have been reflected in the draft audited financial statements.

The Deficit – Current Funds consists for the most part of long-term debt financing of \$2,165,790 at December 31, 2017 and \$686,664 in municipal debt financing for Kelso Dam capital project and Administration Office renovations costs incurred in 2017. The debt financing will be received in 2018 from the Region of Halton, though this amount was included as revenue in the Budgets for 2017 and prior years.

## Report

Details of significant variances reported on the Statement of Operations and Budget Variance Report for revenue and expenses by program categories from the 2017 Budget amounts follow.

### Corporate Services

	<b>2017 Budget</b>	<b>2017 Actual</b>	<b>2016 Actual</b>	<b>Incr./ (Decr.) over Budget</b>
Revenue	<u>\$ 47,000</u>	<u>\$ 354,110</u>	<u>\$ 266,973</u>	<u>\$307,110 F</u>
Expenses	<u>\$3,701,090</u>	<u>\$3,646,433</u>	<u>\$3,437,763</u>	<u>\$ (54,667) F</u>

Corporate Services consists of Office of the CAO, Finance, People & Wellness, Marketing & Communications, Information Technology and Administration Office facility costs.

Total Corporate Services revenue includes donations received through the Conservation Halton Foundation totaling \$225,000 not included in the 2017 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 2017 Budget amount by \$63,266.

Actual expenses for Corporate Services are less than the 2017 Budget amount by \$54,667. The budget variance is the mainly the result of savings from vacancies in staff positions throughout the year.

### Engineering, Flood Forecasting & Operations

	<b>2017 Budget</b>	<b>2017 Actual</b>	<b>2016 Actual</b>	<b>Incr./ (Decr.) over Budget</b>
Revenue	<u>\$ 25,000</u>	<u>\$ 18,029</u>	<u>\$ 41,778</u>	<u>\$ (6,971) U</u>
Expenses	<u>\$1,853,412</u>	<u>\$1,661,622</u>	<u>\$1,313,312</u>	<u>\$ (191,790) F</u>

Total revenues are under budget by (\$6,971) largely related to reduced GIS data licensing revenue as a result of decreased requests with the move to more shared data.

Total expenses are under budget by (\$191,790) as a result of GIS program staff position vacancies. These cost savings have been used to offset increased Flood Forecasting & Operations expenses from the addition of a shared staff position from April to October that was not included in the 2017 Budget, to assist with dams and channels maintenance, as well as increased costs for safety equipment for improving maintenance work by staff at the dam structures.

### Planning and Regulations

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	<u>\$2,673,112</u>	<u>\$2,681,633</u>	<u>\$2,175,613</u>	<u>\$ 8,521 F</u>
Expenses	<u>\$3,229,728</u>	<u>\$3,213,283</u>	<u>\$3,194,922</u>	<u>\$ (16,445) F</u>

Program revenue includes Planning and Permit fees as well as funding received for costs related to the Regional Infrastructure Team (RIT).

Expenses are slightly less than the budget amount as a result of staff turnover during the year.

### Science & Partnerships

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	<u>\$ 595,871</u>	<u>\$ 771,203</u>	<u>\$ 911,414</u>	<u>\$ 175,332 F</u>
Expenses	<u>\$1,444,868</u>	<u>\$1,610,014</u>	<u>\$1,455,570</u>	<u>\$(165,146) U</u>

Science & Partnerships revenues exceeded the 2017 Budget by \$175,332 as a result of increased sponsorships and in kind donations for the Water Festival and funding received through grants, donations and agreements for recovery of staffing costs for stewardship and restoration projects.

Science & Partnerships expenses are over the 2017 Budget by \$165,146 as a result of increased expenses funded by donations and reallocating contract staffing and material costs to the respective Outreach, Restoration and Stewardship program costs from Partnership Projects.

### Source Protection & Watershed Strategies

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	<u>\$328,069</u>	<u>\$451,629</u>	<u>\$406,984</u>	<u>\$123,560 F</u>
Expenses	<u>\$659,754</u>	<u>\$588,908</u>	<u>\$694,825</u>	<u>\$ (70 846) F</u>

Revenue for the Source Protection program exceeds the budget amount for Provincial funding carried over from a prior year for costs incurred for numeric modelling services for two projects with the Greensville municipal water supply, a wellhead protection vulnerability analysis and Tier 3 water budget and water quantity risk assessment.

Program expenses for Source Protection & Watershed Strategies are offset by a staff retirement in Watershed Strategies that resulted in savings in salaries and benefits.

## Operations

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	\$ 377,500	\$ 626,362	\$ 529,387	\$248,862 F
Expenses	\$2,977,339	\$3,228,884	\$3,129,417	\$251,545 U

Revenue exceeded the budget amount as a result of a large tree planting project with Union Gas, and other planting projects with the Region of Halton and Forests Ontario that were not included when the 2017 Budget was prepared. Funding for the Union Gas and Forests Ontario planting projects include funding to cover the future monitoring by staff of the tree planting sites.

Total Operations expenses exceeded the budget amount as a result of program restructuring and staff severance payments, and additional tree planting materials for the projects mentioned above, offset by staff vacancies throughout the year.

## Conservation Areas

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	\$10,652,359	\$12,251,996	\$11,226,523	\$1,599,637 F
Expenses	\$10,657,522	\$10,730,229	\$10,085,726	\$ 72,707 U

Most of the revenue increase over the budget amount occurred at Kelso/Glen Eden exceeding the 2017 revenue target by over \$924,000. Increased visitation at the Hilton Falls, Rattlesnake Point and Mount Nemo parks resulted in an increase of just over \$400,000 of revenue over the projected amount. This park group exceeded \$1 million in revenue for the first time in 2017. Annual pass sales exceeded the budget amount by almost \$284,000.

## Major Projects

	2017 Budget	2017 Actual	2016 Actual	Incr./((Decr.) over Budget
Revenue	\$4,355,000	\$1,491,887	\$1,231,705	\$2,863,113 U
Expenses	\$ 505,000	\$ 528,880	\$ 632,103	\$ 23,880 U

Major Projects revenue includes funding for 2017 Budget capital projects with Municipal debt financing of \$2,632,500 and Reserve funding for Conservation Area capital projects removed. Revenue is less than the budget amount mainly due to Federal and Provincial grant funding not requested for the Kelso Dam capital project with the delay in construction for additional studies and testing completed for permit requirements. There is no shortfall in funding for Major Project or capital project expenses.

### Impact on Strategic Goals

This report supports the Metamorphosis strategic theme of Striving for service excellence and efficiency.

This theme is supported by the objective to provide clear financial data and analysis to support informed strategic and operational decision-making for budget development and long term planning.

### Financial Impact

The report provides details on the annual financial results for the year ended December 31, 2017 for Conservation Halton. The audited financial statements to be approved will be provided to various funding partners and stakeholders of Conservation Halton to meet funding agreements and are a source of information on the programs carried out by Conservation Halton.

Signed & respectfully submitted:



Sheryl Ayres  
Senior Director, Corporate & Strategic Initiatives

Approved for circulation:



Hassaan Basit  
CAO/Secretary-Treasurer

Attachments: Financial Statements of Conservation Halton for the year ended December 31, 2017  
Conservation Halton Audit Findings Report

**FOR QUESTIONS ON CONTENT:**

Marnie Piggot, Director, Finance  
[mpiggot@hrca.on.ca](mailto:mpiggot@hrca.on.ca); 905-336-1158 x 2240

Financial Statements of

**CONSERVATION HALTON**

Year ended December 31, 2017

DRAFT

# CONSERVATION HALTON

## Financial Statements

Year ended December 31, 2017

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### Independent Auditors' Report

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## 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, 2017 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, 2017, 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  
DATE

# CONSERVATION HALTON

## Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Financial assets:</b>		
Cash	\$ 1,432,504	\$ 1,375,186
Investments (note 2)	11,934,983	11,883,391
Investment - Water Management System (note 3)	10,684,542	9,211,489
Accounts receivable (note 4)	1,571,838	683,010
	<u>25,623,867</u>	<u>23,153,076</u>
<b>Financial liabilities:</b>		
Accounts payable and accrued charges	2,323,344	1,994,378
Vacation pay and accumulated time entitlements	166,890	143,438
Deferred revenue (note 5)	5,624,765	5,778,759
Deferred revenue - capital and major projects (note 6)	974,700	578,331
Deferred revenue - Water Management System (note 3)	10,684,542	9,211,489
Long-term liabilities (note 7)	2,165,790	2,709,106
	<u>21,940,031</u>	<u>20,415,501</u>
<b>Net financial assets</b>	<u>3,683,836</u>	<u>2,737,575</u>
<b>Non-financial assets:</b>		
Tangible capital assets (note 8)	65,488,926	64,118,510
Prepaid expenses	268,992	310,906
Inventory	104,786	129,696
	<u>65,862,704</u>	<u>64,559,112</u>
<b>Commitments (note 13)</b>		
<b>Accumulated surplus (note 9)</b>	<u>\$ 69,546,540</u>	<u>\$ 67,296,687</u>

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, 2017, with comparative information for 2016

	2017 Budget	2017 Actual	2016 Actual
Revenue:			
Municipal grants	\$ 8,596,587	\$ 8,596,587	\$ 8,406,293
Ministry of Natural Resources, transfer payments	300,311	300,311	300,311
Corporate services	47,000	354,110	266,973
Engineering flood forecasting and operations	25,000	18,029	41,778
Planning and regulations	2,673,112	2,681,633	2,175,613
Science and partnerships	595,871	771,203	911,414
Source protection and watershed strategies	328,069	451,629	406,984
Operations	377,500	626,362	529,387
Conservation areas	10,652,359	12,251,996	11,226,523
Partnership projects	985,022	893,935	668,960
Major projects	4,355,000	1,491,887	1,231,705
Total revenue	28,935,831	28,437,682	26,165,941
Expenses:			
Corporate services	3,701,090	3,646,433	3,437,763
Engineering, flood forecasting and operations	1,853,412	1,661,622	1,313,312
Planning and regulations	3,229,728	3,213,283	3,194,922
Science and partnerships	1,444,868	1,610,014	1,455,570
Source protection and watershed strategies	659,754	588,908	694,825
Operations	2,977,339	3,228,884	3,129,417
Conservation areas	10,657,522	10,730,229	10,085,727
Partnership projects	903,022	894,102	668,960
Major projects	505,000	528,880	632,103
Debt financing charges	95,041	85,474	74,534
Total expenses	26,026,776	26,187,829	24,687,133
Annual surplus (note 9)	2,909,055	2,249,853	1,478,808
Accumulated surplus, beginning of year		67,296,687	65,817,879
Accumulated surplus, end of year		\$ 69,546,540	\$ 67,296,687

See accompanying notes to financial statements.

## CONSERVATION HALTON

### Statement of Changes in Net Financial Assets

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

	2017 Budget	2017 Actual	2016 Actual
Annual surplus	\$ 2,909,055	\$ 2,249,853	\$ 1,478,808
Acquisition of tangible capital assets	(6,998,000)	(3,117,908)	(1,040,844)
Amortization of tangible capital assets	1,684,000	1,684,449	1,642,433
Proceeds on disposal of tangible capital assets	-	64,813	-
Loss on disposal of tangible capital assets	-	(1,770)	26,093
	(2,404,945)	879,437	2,106,490
Change in prepaid expenses	-	41,914	68,512
Change in inventories	-	24,910	21,400
Net change in net financial assets	(2,404,945)	946,261	2,196,402
Net financial assets, beginning of year	2,737,575	2,737,575	541,173
Net financial assets, end of year	\$ 332,630	\$ 3,683,836	\$ 2,737,575

See accompanying notes to financial statements.

# CONSERVATION HALTON

## Statement of Cash Flows

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

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 2,249,853	\$ 1,478,808
Items not involving cash:		
Amortization	1,684,449	1,642,433
Loss on disposal of tangible capital assets	(1,770)	26,093
	3,932,532	3,147,334
Change in non-cash working capital balances:		
Accounts receivable	(888,828)	245,155
Prepaid expenses	41,914	68,512
Inventory	24,910	21,400
Accounts payable and accrued charges	328,966	48,625
Vacation pay and accumulated time entitlements	23,452	(17,352)
Deferred revenue	(153,994)	(241,555)
Deferred revenue - capital and major projects	396,369	75,047
	3,705,321	3,347,166
Capital transactions:		
Acquisition of tangible capital assets	(3,117,908)	(1,040,844)
Proceeds on disposal of tangible capital assets	64,813	-
	(3,053,095)	(1,040,844)
Investing activities:		
Investments	(51,592)	(1,869,231)
Investment - Water Management System	(1,104,498)	(1,104,498)
Investment revenue - Water Management System	(368,555)	(290,141)
	(1,524,645)	(3,263,870)
Financing transactions:		
Deferred revenue - Water Management System	1,473,053	1,394,639
Proceeds from long-term debt	24,231	675,133
Repayment of long-term debt	(567,547)	(478,099)
	929,737	1,591,673
Net change in cash	57,318	634,125
Cash, beginning of year	1,375,186	741,061
Cash, end of year	\$ 1,432,504	\$ 1,375,186
Supplemental cash flow information:		
Investment revenue	\$ 235,463	\$ 171,446

See accompanying notes to financial statements.

# CONSERVATION HALTON

## Notes to Financial Statements

Year ended December 31, 2017

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### **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.

Conservation 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) Investments:**

Investments 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.

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2017

## 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.

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2017

## 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. Investments:

	2017	2016
Business investment account	\$ 432,426	\$ 3,525,139
Guaranteed investment certificates	4,000,000	4,000,000
Pooled funds	7,502,557	4,358,252
Total	\$ 11,934,983	\$ 11,883,391

The guaranteed investment certificates have effective rates of 1.20% to 2.00% (2016 - 1.29% to 1.55%). Interest is receivable on the date of maturity. Maturity dates range from February 26, 2018 to September 28, 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 investments are \$12,278,498.

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2017

### 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:

	2017	2016
Cash	\$ 13	\$ 7,186
Provincial and provincially regulated agency bonds	8,447,844	6,951,553
Guaranteed investment certificates	2,236,685	2,252,750
Total	\$ 10,684,542	\$ 9,211,489

The Provincial and provincially regulated agency bonds have effective yields of 3.62% to 5.00% (2016 - 3.88% 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 certificates have been an effective interest rates of 1.29% to 1.75% (2016 - 1.29% and 1.45%). Interest is receivable on the date of maturity. Maturity dates range from February 26, 2018 to July 30, 2018.

### 4. Accounts receivable:

Included in accounts receivable is \$649,896 (2016 - \$187,749) due from Conservation Halton Foundation.

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2017

## 5. Deferred revenue:

	Balance at December 31, 2017	Additions	Revenue recognized	Balance at December 31, 2016
Watershed Management	\$ 1,749,337	\$ 2,886,170	\$ 3,084,348	\$ 1,947,515
Partnership Projects	683,307	804,057	791,888	671,138
Source Water Protection	20,038	379,602	432,411	72,847
Conservation Areas	3,172,083	15,638,534	15,553,710	3,087,259
	<u>\$ 5,624,765</u>	<u>\$ 19,708,363</u>	<u>\$ 19,862,357</u>	<u>\$ 5,778,759</u>

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, 2017	Contributions received	Revenue recognized	Balance at December 31, 2016
Capital - Ministry of Natural Resources	\$ 407,573	\$ 448,662	\$ 348,905	\$ 307,816
Capital - Municipal	567,127	562,497	265,885	270,515
	<u>\$ 974,700</u>	<u>\$ 1,011,159</u>	<u>\$ 614,790</u>	<u>\$ 578,331</u>

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2017

## 7. Long-term liabilities:

	2017	2016
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	\$ 483,000	\$ 708,000
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	1,682,790	2,001,106
	\$ 2,165,790	\$ 2,709,106

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

2018	\$ 333,495
2019	538,203
2020	480,645
2021	202,773
2022	194,720
Thereafter	415,954
	\$ 2,165,790



# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

## 8. Tangible capital assets (continued):

2017	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	\$ 35,523,205	\$ 564,806	\$ 14,189,717	\$ 7,994,942	\$ 446,176	\$ 24,707,933	\$ 2,439,759	\$ 1,199,137	\$ 354,291	\$ 87,419,966
Additions	-	-	375,243	213,946	33,270	980,220	358,345	230,007	926,877	3,117,908
Disposals	-	-	-	(155,512)	(28,887)	(9,620)	(390,896)	(83,871)	-	(668,786)
Transfers	-	-	13,497	-	-	171,081	-	-	(184,578)	-
Cost, end of year	35,523,205	564,806	14,578,457	8,053,376	450,559	25,849,614	2,407,208	1,345,273	1,096,590	89,869,088
Accumulated amortization, beginning of year	-	296,594	4,358,509	3,889,853	194,710	11,918,555	1,855,256	787,979	-	23,301,456
Amortization	-	11,467	369,762	368,805	20,832	574,505	193,121	145,957	-	1,684,449
Disposals	-	-	-	(146,789)	(18,776)	(9,620)	(351,278)	(79,280)	-	(605,743)
Accumulated amortization, end of year	-	308,061	4,728,271	4,111,869	196,766	12,483,440	1,697,099	854,656	-	24,380,162
Net carrying amount, end of year	\$ 35,523,205	\$ 256,745	\$ 9,850,186	\$ 3,941,507	\$ 253,793	\$ 13,366,174	\$ 710,109	\$ 490,617	\$ 1,096,590	\$ 65,488,926

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 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

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

## 9. Accumulated surplus:

Accumulated surplus consists of operating surplus and reserves as follows:

	Balance at December 31, 2017	Excess of Revenue over expenses	Transfers (to) from reserves	Balance at December 31, 2016
Surplus - investment in tangible capital assets	\$ 65,488,926	\$ (1,747,490)	\$ 3,117,906	\$ 64,118,510
Surplus (deficit) - current funds	(3,031,424)	3,997,343	(4,116,446)	(2,912,321)
Total surplus	62,457,502	2,249,853	(998,540)	61,206,189
Reserves				
Conservation areas capital projects	2,433,656	-	36,026	2,397,630
Conservation areas stabilization	854,568	-	55,000	799,568
Vehicle, equipment and building	1,212,114	-	348,102	864,012
Watershed management capital projects				
- municipal funds	174,575	-	27,795	146,780
Watershed management capital projects				
- self generated funds	340,609	-	19,098	321,511
Watershed management stabilization	735,413	-	265,164	470,249
Capital Projects				
- debt financing charges	241,567	-	47,319	194,248
Legal	258,889	-	-	258,889
Water Festival	208,911	-	(8,300)	217,211
Property management	228,900	-	100,000	128,900
Land securement	108,336	-	108,336	-
Stewardship and restoration	291,500	-	-	291,500
Total reserves	7,089,038	-	998,540	6,090,498
Accumulated surplus	\$ 69,546,540	\$ 2,249,853	\$ -	\$ 67,296,687

## 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 2017 employer portion of OMERS pension contributions was \$1,072,634 (2016 - \$1,062,894).

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

## 11. Budget amounts:

The 2017 budget amounts approved by Conservation Halton on October 20, 2016 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 20, 2016, with adjustments as follows:

	2017 Actual	2016 Actual
Budget deficit for the year	\$ (177,109)	\$ (184,247)
Less: Amortization of tangible capital assets	(1,684,000)	(1,642,000)
Add: Acquisition of tangible capital assets	6,998,000	1,675,000
Add: Debt financing charges - principal portion	404,664	359,896
Less: Municipal debt financing	(2,632,500)	(400,000)
Budget surplus per Statement of Operations	\$ 2,909,055	\$ (191,351)

## 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, 2018 for \$737,776 which was completed. Conservation Halton will release their interest in the Trust account when the implementation plan is completed.

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2016

## 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, 2017 are as follows:

2018	\$ 1,078,459
2019	200,088
2020	52,709
2021	41,748
2022	3,180
	<hr/>
	\$ 1,376,184

## 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 2017 are as follows:

	2017 Budget	2017 Actual	2016 Actual
Administration chargebacks to:			
Watershed Experience:			
Conservation Areas	\$ 903,800	\$ 1,027,000	\$ 982,700
Source Water Protection	7,800	8,788	8,410
Contributions between internal programs:			
Capital Program	85,000	52,600	14,602
Partnership Projects	50,409	130,785	-
Total operating grants	\$ 1,047,009	\$ 1,219,173	\$ 1,005,712

## 15. Comparative figures:

During 2017, Conservation Halton moved to program-based reporting and reorganized the organization. Therefore, although net surplus remains consistent with amounts previously reported, departmental comparative numbers have adjusted to reflect the new reorganization.

# CONSERVATION HALTON

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 16. Revenue and expenses by program:

2017	Corporate Services	Engineering Forecasting & Operations	Planning & Regulations	Science & Partnerships	Source Protection & Watershed Strategies	Operations	Conservation Areas	Partnership Projects	Major Projects	Debt Financing	Reserve Funding	Total
Revenue:												
Municipal levies	\$ 2,426,090	\$ 478,331	\$ 556,616	\$ 856,497	\$ 894,755	\$ 2,597,239	\$ 192,354	\$ -	\$ 265,885	\$ 469,705	\$ 125,000	\$ 8,862,472
Provincial transfer payments	-	300,311	-	-	433,254	-	-	-	348,905	-	-	1,082,470
User fees, sales and other	354,110	18,029	2,681,633	771,203	18,375	626,362	12,251,996	893,935	877,097	-	-	18,492,740
	2,780,200	796,671	3,238,249	1,627,700	1,346,384	3,223,601	12,444,350	893,935	1,491,887	469,705	125,000	28,437,682
Expenses:												
Salaries, wages and benefits	2,539,318	1,092,101	2,639,754	1,229,809	433,323	2,350,898	6,579,092	201,707	-	-	-	17,266,002
Members per diems and expenses	25,498	-	-	-	-	-	-	-	-	-	-	25,498
Utilities, materials, supplies and maintenance	200,019	20,126	2,164	140,955	23,529	321,347	1,502,168	234,492	132,268	-	-	2,577,068
Property taxes	-	7,169	-	-	-	30,899	-	-	-	-	-	38,068
Purchased services	577,182	145,751	154,859	239,250	152,731	433,097	1,523,884	457,903	396,612	-	-	4,081,269
Legal	16,491	-	216,506	-	-	10,180	68,849	-	-	-	-	312,026
Finance and rent	43,421	-	-	-	(26,828)	(13,577)	117,227	-	-	-	-	120,243
Debt financing charges	-	-	-	-	-	-	-	-	-	85,474	-	85,474
Amortization of tangible capital assets	231,715	396,475	-	-	6,153	101,686	948,421	-	-	-	-	1,684,450
Loss (gain) on disposal of tangible capital assets	12,789	-	-	-	-	(5,646)	(9,412)	-	-	-	-	(2,269)
	3,646,433	1,661,622	3,213,283	1,610,014	588,908	3,228,884	10,730,229	894,102	528,880	85,474	-	26,187,829
Excess (deficiency) of revenues over expenses, for the year	\$ (866,233)	\$ (864,951)	\$ 24,966	\$ 17,686	\$ 757,476	\$ (5,283)	\$ 1,714,121	\$ (167)	\$ 963,007	\$ 384,231	\$ 125,000	\$ 2,249,853

# CONSERVATION HALTON

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 16. Revenue and expenses by program:

2016	Corporate Services	Engineering Flood Forecasting & Operations	Planning & Regulations	Science & Partnerships	Source Protection & Watershed Strategies	Conservation Operations	Partnership Projects	Major Projects	Debt Financing	Reserve Funding	Total
Revenue:											
Municipal levies	\$ 2,071,781	\$ 1,153,859	\$ 1,309,370	\$ 952,642	\$ -	\$ 2,092,751	\$ 192,354	\$ 524,268	\$ 458,536	\$ 175,000	\$ 8,930,561
Provincial transfer payments	-	300,311	-	-	344,665	-	-	235,919	-	-	880,896
User fees, sales and other	266,973	41,778	2,175,613	911,414	62,318	529,387	11,226,523	668,960	-	-	16,354,484
	2,338,754	1,495,948	3,484,983	1,864,056	406,984	2,622,138	11,418,877	1,231,705	458,536	175,000	26,165,941
Expenses:											
Salaries, wages and benefits	2,343,742	760,567	2,701,997	1,113,500	603,383	2,263,751	6,106,843	199,239	-	-	16,295,444
Members per diems and expenses	24,498	-	-	-	-	-	-	-	-	-	24,498
Utilities, materials, supplies and maintenance	176,439	42,967	3,489	143,066	19,926	294,337	1,334,429	21,872	-	-	2,186,397
Property taxes	-	5,384	-	-	-	31,793	-	-	-	-	37,177
Purchased services	589,031	112,718	34,247	206,596	54,451	321,870	1,484,691	410,992	-	-	3,527,433
Legal	28,458	-	455,189	-	-	56,212	38,748	-	-	-	578,607
Finance and rent	59,492	-	-	(7,592)	2,019	28,130	208,638	-	74,534	-	266,386
Debt financing charges	-	-	-	-	-	-	-	-	-	-	102,664
Amortization of tangible capital assets	210,337	391,676	-	-	10,708	132,732	896,980	-	-	-	1,642,433
Loss (gain) on disposal of tangible capital assets	5,766	-	-	-	4,338	592	15,398	-	-	-	26,094
	3,437,763	1,313,312	3,194,922	1,455,570	694,825	3,129,417	10,085,727	632,103	74,534	-	24,687,133
Excess (deficiency) of revenues over expenses, for the year	\$ (1,099,009)	\$ 182,636	\$ 290,061	\$ 408,486	\$ (287,841)	\$ (507,279)	\$ 1,333,150	\$ -	\$ 384,002	\$ 175,000	\$ 1,478,808



# Conservation Halton

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

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

Prepared March 29, 2018 for the finance and audit committee meeting on April 12

[kpmg.ca/audit](http://kpmg.ca/audit)



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The contacts at KPMG in connection with this report are:

Matthew Betik  
Lead Audit Engagement  
Partner  
mbetik@kpmg.ca

Courtney Cheal  
Audit Senior Manager  
ccheal@kpmg.ca

# Executive summary

## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as a member of the finance and 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, 2017.

This Audit Findings Report builds on the Audit Plan we prepared for the Audit Committee.

## Audit and business risk

We discussed with you at the start of the audit a number of **significant financial reporting risks**. These risks have been addressed in our audit.

We also discussed with you some **other areas of audit focus**. We have no significant matters to report to the audit committee in respect of them.

See pages 5-6

## Adjustments and differences

We did not identify differences that remain uncorrected.

## Finalizing the audit

As of March 28, 2018, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- 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.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

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

# How we deliver audit quality



# Audit risks and results

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

Significant financial reporting risks	Why	Our response and significant findings
<p>Fraud risk from revenue recognition</p>	<p>This is a presumed fraud risk.</p> <p>There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition.</p> <p>We have not identified any specific additional risks of revenue recognition relating to this audit.</p>	<p>Not applicable as we have rebutted this fraud risk.</p>
<p>Fraud risk from management override of controls</p>	<p>This is a presumed fraud risk.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.</p> <p>As a result of our audit procedures, no audit misstatements were identified nor was any fraud identified.</p>

# Audit risks and results

We identified other areas of focus for our audit in our Audit Plan.

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

Other areas of focus	Why	Our response and significant findings
Government transfers	This area is identified as higher risk of error in revenue recognition on deferred revenue.	<ul style="list-style-type: none"> <li>- We examined contracts, letters and other supporting documentation to support the year-end balances and revenue recognition or deferral of revenue.</li> <li>- No issues were noted.</li> </ul>

# 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:

<b>Form, arrangement, and content of the financial statements</b>	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.
---	--

<b>Application of accounting pronouncements issued but not yet effective</b>	No concerns at this time regarding future implementation
--	--

# Adjustments and differences

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

## Corrected adjustments

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Appendices

Appendix 1: Required communications

Appendix 2: Draft management representation letter

Appendix 3: Audit quality and risk management

Appendix 4: Background and professional standards

Appendix 5: Current developments

# 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).

# Appendix 2: Draft management representation letter

KPMG LLP  
115 King Street South, 2nd floor  
Waterloo, Ontario N2J 5A3  
Canada

April 12, 2018

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, 2017.

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.

**MISSTATEMENTS:**

- 7) We approve the corrected misstatements identified by you during the audit described in Attachment II.

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

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

Yours very truly,

CONSERVATION HALTON

By: Marnie Piggot, Director, Finance

By: Sheryl Ayres, Senior Director Corporate and Strategic Initiatives

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 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.

**Attachment II – Misstatements**

Conservation Halton  
Activity 4.5.7: Summary of Corrected Audit Misstatements  
December 31, 2017

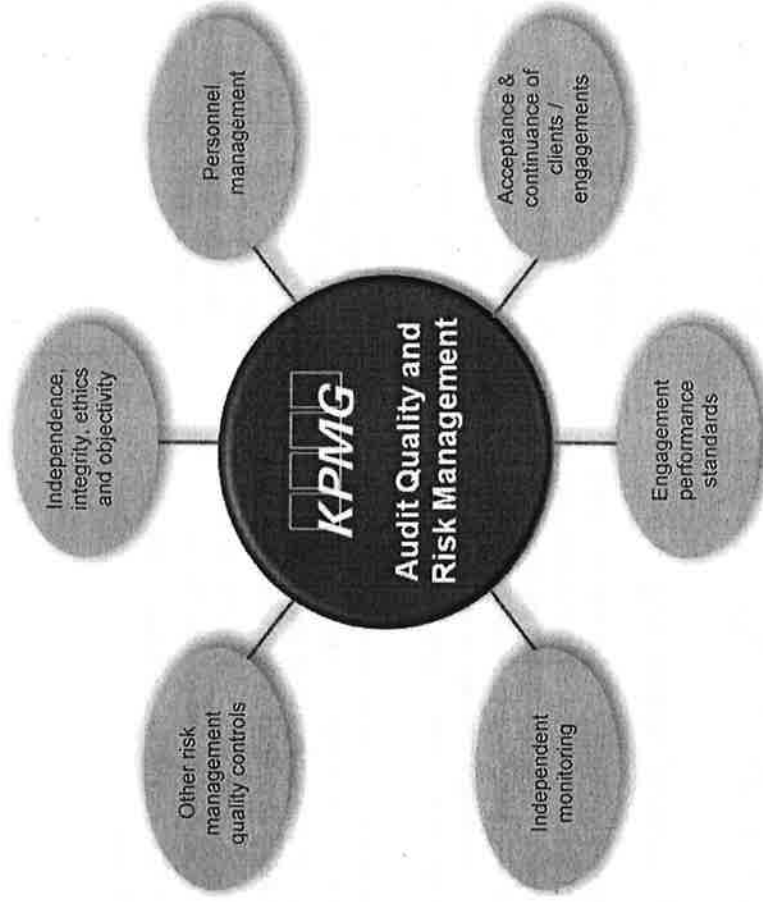
Amounts in

ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income Statement Effect - Debit (Credit)				Balance Sheet Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease)				Statement of Comprehensive Income - Debit (Credit)
						Income Statement Debit (Credit)	Equity	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities	Comprehensive Income			
Corrected misstatements - Interim																		
SAMI	To adjust accrued payroll to actual	Factual	Conservation areas	188,299		188,299	188,299								(188,299)			
	(Insert rows above this row as necessary)		Accounts payable and accrued charges		(188,299)										188,299			
Total effect of corrected audit misstatements - Final						188,299	188,299	-	-	-					-	-	-	

## Appendix 3: Audit Quality and Risk Management

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

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



- Other controls include:
  - Before the firm issues its audit report, the Engagement Quality Control Review 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.

# Appendix 4: Background and professional standards

## Internal control over financial reporting

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

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

## Documents containing or referring to the audited financial statements

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

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

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# Appendix 5: Current developments

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

Standard	Summary and implications
<b>PS 3380, Contractual Rights</b>	<p>This standard is a disclosure standard which defines contractual rights to future assets and revenue and sets out the required disclosures. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed.</p> <p>Factors to consider include, but are not limited to:</p> <ul style="list-style-type: none"> <li>(a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and</li> <li>(b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future.</li> </ul> <p>Examples of a contractual right include contractual rights to receive payments under a shared cost agreement or contractual rights to receive lease payments.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Authority's December 31, 2018 year end).</p> <p><b>Implications:</b> Additional disclosures may be required if contractual rights to assets or revenue exist</p>
<b>PS 3210, Assets</b>	<p>This Standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows:</p> <ul style="list-style-type: none"> <li>(a) They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows</li> <li>(b) The public sector entity can control the economic resources and access to the future economic benefits.</li> <li>(c) The transaction or event giving rise to the public sector entity's control has already occurred.</li> </ul> <p>The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public sector entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Authority's December 31, 2018 year end).</p> <p><b>Implications:</b> Assets such as accrued receivables will have to be reviewed to determine if they meet this definition.</p>

**PS 3320, Contingent Assets**

This standard defines contingent assets.

They have two basic characteristics:

- (a) An existing condition or situation that is unresolved at the financial statement date
- (b) An expected future event that will resolve the uncertainty as to whether an asset exists

The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.

Contingent assets include grants receivable where the conditions are met but funding is conditional upon approval of an application for funding.

This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Authority's December 31, 2018 year end).

**Implications:** Additional disclosures may be required if contingent assets exist.

**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 have 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.

**PS 3420, Inter-entity Transactions**

This standard relates to the measurement of transactions between public sector entities that comprise the government's reporting entity. Transactions are recorded at carrying amounts with the exception of the following:

- (a) In the normal course of business – use exchange amount
- (b) Fair value consideration – use exchange amount
- (c) No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair.
- (d) Cost allocation – use exchange amount

This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Authority's December 31, 2019 year end).

**Implications:** The Authority will have to identify these transactions and determine if they have been measured at the carrying amount if required.

**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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