

**MEETING NO: #** 01 19 Finance & Audit Committee  
**DATE:** April 11, 2019  
**TIME:** 9:30 a.m. – 11:00 a.m.  
**PLACE:** CH Admin. Office, 2596 Britannia Road West, Burlington ON  
905.336.1158 x 2236

---

## AGENDA

### PAGE #

1. **Acceptance of Agenda as distributed**
2. **Disclosure of Pecuniary Interest for Finance & Audit Committee**
3. **Consent Items**  
Roll Call & Mileage
4. **Action Items**
  - 4.1 Election of Officers for 2019
    - 4.1.1 Appointment of Election Scrutineers
    - 4.1.2 Election of the position of Chair for the Finance & Audit Committee for 2019
    - 4.1.3 Election of the position of Vice Chair for the Finance & Audit Committee for 2019
  - 4.2 2018 Audited Financial Statements  
Report #: FA 01 19 01
5. **In Camera**  
Q & A with Auditors
6. **Other Business**
7. **Adjournment**

2 - 75



April  
2019

**REPORT TO:** Finance & Audit Committee

**REPORT NO: #** FA 01 19 01

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

**DATE:** April 11, 2019

**SUBJECT:** 2018 Audited Financial Statements

### Recommendation

THAT the Finance & Audit Committee **recommend to the Conservation Halton Board of Directors the attached audited financial statements for the year ended December 31, 2018 be approved.**

### Executive Summary

The attached draft 2018 financial statements have been prepared by Conservation Halton staff. The annual audit of Conservation Halton's financial transactions for the year ended December 31, 2018 has been completed by KPMG LLP. KPMG LLP were appointed as external auditors for Conservation Halton for a five year term for the fiscal years 2017 to 2021, with the option to renew annually for up to an additional five years.

The Auditors' Report from KPMG that is included in the financial statements is considered to be the standard audit report without qualifications and the statements are presented fairly and in accordance with public sector accounting standards. KPMG has also provided the attached 2018 Audit Findings Report and KPMG staff will be at the meeting to present their report.

### Report

The 2018 Statement of Financial Position for Conservation Halton reports a net worth of almost \$71 million. This is an overall increase in net worth of 2% over 2017 of \$69.5 million.

The increase in net worth is derived by the Annual Surplus of \$1,423,258 reported on the 2018 Statement of Operations summarized as follows:

| Statement of Operations Summary | 2018<br>Budget    | 2018<br>Actual      | 2017<br>Actual      |
|---------------------------------|-------------------|---------------------|---------------------|
| Total Revenue                   | \$ 28,896,132     | \$ 31,328,085       | \$ 28,536,845       |
| Total Expenses                  | 28,154,831        | 29,904,827          | 26,286,992          |
| <b>Annual Surplus</b>           | <b>\$ 741,301</b> | <b>\$ 1,423,258</b> | <b>\$ 2,249,853</b> |

The audited financial statements are prepared from the Budget Variance Report for the year ended December 31, 2018 presented at the March 21, 2019 Board of Directors meeting. The amounts reported in the Budget Variance Report are prepared on a basis consistent with the 2018 budget. The budget ensures adequate funding is available for the planned expenditures.

The Budget Variance Report operating surplus of \$1,686,421 is adjusted to be in accordance with Public Sector Accounting Board (PSAB) standards as follows:

|  |  |                     |
|--|--|---------------------|
| <b>Total Operating Surplus - Budget Variance Report</b>  |  | <b>\$ 1,686,421</b> |
| <b>Public Sector Accounting Board (PSAB) Adjustments:</b>  |  |                     |
| Add: Acquisition of tangible capital assets in Budget & Capital Projects Variance Report expenses      |  | 2,400,114           |
| Less: Amortization of tangible capital assets expense reported for PSAB                                |  | (1,785,054)         |
| Less: Proceeds on disposal of tangible capital assets included in Budget & Capital Var. Report revenue |  | (5,828)             |
| Less: Loss on disposal of tangible capital assets reported for PSAB                                    |  | (28,583)            |
| Less: Transfers to and from reserves in Budget and Capital Projects Variance Reports                   |  | (983,145)           |
| Less: Municipal Debt Financing in Budget Variance Report as revenue                                    |  | (268,658)           |
| Add: Debt financing charges - Principal portion included in Budget Variance Report expenses            |  | 407,992             |
| <b>Total PSAB adjustments</b>  |  | <b>(263,163)</b>    |
| <b>Annual surplus per audited financial statements</b>   |  | <b>\$ 1,423,258</b> |

The budget amounts included in the Statement of Operations are based on the approved 2018 Budget with adjustments to be consistent with PSAB standards. The adjustments to the budget are outlined in financial statement note 10 and include the addition of amortization of tangible capital assets and the removal of tangible capital asset acquisitions, municipal debt financing and the principal portion of debt financing charges.

Financial statement note 15 provides a summary of Revenue and Expenses by Conservation Halton Programs. Most of the 2018 Annual Surplus is derived by the Conservation Areas program surplus of \$1,108,067. Strong visitation in our parks was the most significant contributor to the annual surplus with increased park revenues at all of the Conservation Areas of almost \$1.8 million.

The Conservation Areas surplus excludes the chargeback for support services provided to the Conservation Areas reflected in the Budget Variance Report of \$815,900. The removal of the chargebacks in the audited financial statements would also account for much of the deficit reported in note 15 under the Corporate & Strategic Initiatives and People, Culture & Creative programs.

| <b>Statement of Financial Position Summary</b> |  | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> |
|--|--|------------------------|------------------------|
| Financial assets                               |  | \$ 28,741,929          | \$ 25,623,867          |
| Non-financial assets                           |  | 66,539,901             | 65,862,704             |
| Total Assets                                   |  | \$ 95,281,830          | \$ 91,486,571          |
| Less: Financial liabilities                    |  | \$ (24,312,032)        | \$ (21,940,031)        |
| Accumulated surplus                            |  | \$ 70,969,798          | \$ 69,546,540          |

The Accumulated Surplus of \$70,969,798 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            | \$66,069,575        |
| Deficit – Current Funds                      | (2,892,089)         |
| Reserves                                     | <u>7,792,312</u>    |
| Total Accumulated Surplus, December 31, 2018 | <u>\$70,969,798</u> |

The reserve transfers approved at the March 21, 2019 Board of Directors meeting have been reflected in the draft audited financial statements.

The Deficit – Current Funds is attributed for the most part to long-term debt financing of \$2,444,461 at December 31, 2018 and \$268,658 in municipal debt financing for Kelso Dam capital project and Administration Office renovations costs completed in 2018. The debt financing for 2018 costs has been received in 2019 from the Region of Halton, though this amount was included as revenue in the Budgets for 2018 and prior years.

### Budget Variances

Details of significant variances reported on the Statement of Operations and Budget Variance Report for revenue and expenses by program categories from the 2018 Budget amounts follow.

### Corporate Services

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$ 97,750</u>       | <u>\$ 153,048</u>      | <u>\$ 374,777</u>      | <u>\$ 55,298 F</u>                   |
| Expenses | <u>\$3,125,895</u>     | <u>\$2,799,558</u>     | <u>\$2,337,338</u>     | <u>(\$326,337) F</u>                 |

Corporate Services consists of Office of the CAO, General Corporate Services, Finance, Foundation Administration, Information Technology (IT) and Geographical Information Systems (GIS).

Total Corporate Services revenue includes donations received through the Conservation Halton Foundation totaling \$50,000 not included in the 2018 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. Donations received in 2017 through the Foundation for the loan were \$225,000.

Actual expenses for Corporate Services are less than the 2018 Budget amount by \$326,337. Three staff positions were not filled in 2018 as a result of a staff reorganization announced in December 2017 and were included under General Corporate Services. There were also savings in salaries and benefits as a result of staff position vacancies during 2018. These savings are offset by a Workers Safety and Insurance Board (WSIB) experience rating surcharge of \$143,927 related to a lost time workplace injury.

### People, Culture & Creative

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./ (Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|---------------------------------------|
| Revenue  | <u>\$ 15,000</u>       | <u>\$ 22,233</u>       | <u>\$ 449</u>          | <u>\$7,233 F</u>                      |
| Expenses | <u>\$1,606,605</u>     | <u>\$1,611,086</u>     | <u>\$1,299,446</u>     | <u>\$4,481 U</u>                      |

This department includes the Health, Safety & Wellness and Communications programs.

Revenue reported in 2018 is related to recovery of staff time spent on Conservation Halton Foundation and other projects.

Health, Safety & Wellness increased purchased services costs of \$21,508 were the result of staff training initiatives and consulting services to perform a compensation system maintenance review. These increased costs were offset by lower staff costs of \$12,283 and savings in office supplies and meeting expenses of \$18,235.

Communication salaries and benefits expenses were higher than the budget by \$42,176 due to a severance and extending a contract position by four months. Materials and supplies are over budget by \$17,224 due to additional costs for the relaunch of the membership package and increased participation in special events. These increased costs are offset by savings in purchased services of \$45,908 due to less advertising done in 2018 and more focus placed on special events.

### Engineering, Flood Forecasting & Operations

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./ (Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|---------------------------------------|
| Revenue  | <u>\$ 116,626</u>      | <u>\$ 156,035</u>      | <u>\$ 58,301</u>       | <u>\$ 39,409 F</u>                    |
| Expenses | <u>\$ 1,315,614</u>    | <u>\$1,246,474</u>     | <u>\$1,255,768</u>     | <u>(\$ 69,140) F</u>                  |

Revenue for this department includes increased recovery of staff time spent on capital projects that were within the capital project budget amounts.

Total expenses are under budget by (\$69,140) largely as a result of a vacancy for a new position that was filled during the year and lower consulting fees. These cost savings were used to offset increased Flood Forecasting & Operations expenses for sedimentation removal that was not approved by the province in the 2018/2019 Water Erosion Control Infrastructure (WECI) program as a large portion of the funds in this program were allocated to the rehabilitation of Kelso dam.

### Planning and Watershed Management

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./ (Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|---------------------------------------|
| Revenue  | <u>\$3,175,921</u>     | <u>\$2,736,077</u>     | <u>\$3,133,262</u>     | <u>(\$439,844) U</u>                  |
| Expenses | <u>\$4,237,925</u>     | <u>\$3,853,653</u>     | <u>\$3,839,078</u>     | <u>(\$384,272) F</u>                  |

Program revenue includes planning and permit fees as well as funding received for costs related to the Regional Infrastructure Team (RIT) and Source Protection provincial funding.

Planning & Watershed Management program revenue fell short of the budget amount by \$367,203. This program revenue consists largely of planning and permit fees. In 2018 the applications received slowed down due partly to the municipal election and the Regional allocation program. Increased time was also spent by staff on non-revenue generating activities for municipal studies, appeals to the Local Planning Appeal Tribunal (LPAT) and providing provincial comments. The estimated revenue shortfall is offset by decreased total expenses of \$307,606 as a result of staff salaries and benefits savings of \$250,037 for staff vacancies and decreased legal and consulting fees of \$49,225.

RIT program costs are less than the budget amount by \$50,320 and are offset by decreased program revenue of \$51,796. The Regional Infrastructure Team program is fully funded through a municipal service agreement with the Region of Halton.

Source Protection program expenses are less than the total budget amount by \$26,347 primarily as a result of a relocation of the program staff to the Administration Office in June. The Source Protection Program is provincially funded program so the reduced program expenses are offset by reduced provincial funding of \$20,845.

### Science & Partnerships

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./ (Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|---------------------------------------|
| Revenue  | <u>\$ 826,177</u>      | <u>\$ 916,208</u>      | <u>\$1,042,690</u>     | <u>\$ 90,031 F</u>                    |
| Expenses | <u>\$1,832,133</u>     | <u>\$1,785,794</u>     | <u>\$1,780,541</u>     | <u>(\$ 46,339) F</u>                  |

Science & Partnerships includes Monitoring Ecology, Stewardship, Outreach, Hamilton Harbour Remedial Action Plan (HHRAP) and Forestry Tech. Team programs.

Ecology program revenue is under budget by \$13,657 due to a decrease in grants and donations received through the Foundation as a result of the vacancy in the Foundation position. The reduced program revenue is more than offset by savings in staffing costs due to an Ecology position vacancy.

Stewardship revenue includes revenue collected in prior years of \$69,388 for future stewardship projects. This funding was transferred from deferred revenue, recognized as revenue in 2018 and approved to be transferred to the Stewardship & Restoration Reserve.

Outreach salaries and benefits are over budget by \$20,957 for a contract staff position hired to assist with festivals and events that is funded partly by increased program revenue. Program revenue is above budget by \$18,370 due to increased donations and sponsorships from corporations and other Foundations for the Forest Festival public day and special events.

HHRAP provincial funding of \$36,754 funding was not confirmed in 2018. In order to mitigate the program funding shortfall, discretionary materials and supplies and purchased services were reduced. The reduced expenses have further reduced the anticipated municipal funding by \$17,444. Staff have revised the 2019 HHRAP program budget amounts to take into account the reduced provincial funding anticipated for 2019.

Forestry Tech. Team salaries and benefits exceed the budget amount by \$32,103 for Forest Technician staff working on the Emerald Ash Borer (EAB) capital project that were not included in the budget. This budget variance is more than offset by the increased chargeback of staff time of \$44,915 for work completed on projects including the EAB capital project. Tree planting materials exceed the budget amount by \$14,817 and are offset by increased program revenue of \$16,290.

### **Project Management Office**

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$ 216,106</u>      | <u>\$ 97,392</u>       | <u>\$ 78,685</u>       | <u>(\$118,714) U</u>                 |
| Expenses | <u>\$1,259,581</u>     | <u>\$877,575</u>       | <u>\$2,051,605</u>     | <u>(\$382,006) F</u>                 |

The Project Management Office includes Project Management, Construction & Maintenance, Restoration and the Administration Office Facility.

Restoration program revenue and expenses are under budget in total by \$120,289 as a result of changes in the Partnership Projects carried out in 2018. The changes in projects resulted in the hiring of one contract position to assist with managing projects instead of the two positions included in the budget as well as reduced materials and purchased service costs.

Construction & Maintenance program expenses are under budget overall by almost \$193,000. This under expenditure is primarily related to a staff position included in the 2018 budget that was not filled. Construction materials and supplies and purchased services are also less than the budget amount due to expenses included in the 2018 budget for repairs to the Kelso Quarry facility that are being completed in 2019.

Administration Office purchased services are less than the budget amount by \$31,289 for lower maintenance costs as a result of infrastructure work completed through the Administration Office capital project.

### **Watershed Management & Support Services (WMSS) Operations**

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$ 326,500</u>      | <u>\$ 331,915</u>      | <u>\$ 249,154</u>      | <u>\$ 5,415 F</u>                    |
| Expenses | <u>\$1,260,995</u>     | <u>\$1,245,986</u>     | <u>\$1,367,118</u>     | <u>(\$15,009) F</u>                  |

WMSS Operations includes Forestry, Security, Property Management and Vehicle and Equipment programs.

Total Forestry expenses exceed the 2018 budget amount by \$17,352. Materials and supplies and purchased services are over budget by almost \$45,000 due to the purchase of chainsaws and other supplies along with the hiring of contractors with specialized equipment to clear the hydro lines of hazard trees at Mountsberg. The increased costs are offset by savings in salaries and benefits for staff vacancies throughout the year.

Security expenses are over the budget amount by \$29,943 as a result of a staffing changes resulting in a contract extension of a staff position not included in the budget that is offset by savings in other programs.

Property management total expenses are under the budget amount by \$88,417. Salaries and benefits are under the budget amount as a result of staffing changes, materials and purchased services for managed properties maintenance is less than the budget amount in total based on the work required to be completed during the year.

Vehicle and equipment operation expenses exceed the total budget amount \$26,113 due to increased maintenance costs and a vehicle lease that was not included in the 2018 Budget that are partially offset by lower fuel and supplies costs for the WMSS vehicle fleet.

### **Conservation Areas**

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$11,421,550</u>    | <u>\$14,041,889</u>    | <u>\$12,251,996</u>    | <u>\$2,620,339 F</u>                 |
| Expenses | <u>\$11,293,724</u>    | <u>\$13,126,176</u>    | <u>\$10,730,229</u>    | <u>\$1,832,452 U</u>                 |

Kelso/Glen Eden revenue is over budget by \$2,121,100 accounting for most of the revenue increase. The Kelso increase includes an estimated insurance recovery of \$810,000 related to a furnace fuel leak. Hilton Falls/Mount Nemo/Rattlesnake Point revenue is above the budget by \$335,659 as these parks continue to receive increased visitation.



Overall, expenditures for all Conservation Areas exceed the budget by \$1,832,452 as a result of estimated fuel spill remediation costs of \$820,000 and increased seasonal staffing costs of \$1,071,000 that are offset by savings in other expense categories. Seasonal staff salaries and benefits exceed the budget with increased visitation to the parks and other program enhancements and the minimum wage increase that took effect at the beginning of 2018. The increase in expenses is more than offset by the increase in revenues.

Crawford Lake/Mountsberg part time staff costs are also higher with some increased part time staffing costs associated with the longhouses refurbishments that were not covered by the Canada 150 federal funding received for this project. This over-expenditure is partly offset by reduced purchased services for facility maintenance and utilities during the refurbishment and lower animal expenses, special event costs and cash handling fees.

Kelso/Glen Eden expenses include additional expenses for the repair and maintenance of aging infrastructure, extending snowmaking for the ski seasons, increased advertising, renovations to provide a more robust retail presence for the 2018/2019 ski season, increased visitor events, and cost increases for expanding the Ways of the Woods program.

Hilton Falls/Mount Nemo/Rattlesnake was not affected as significantly as the other park groups by the minimum wage increase because of fewer seasonal staff required for the lesser programming offered at these parks relative to the other parks.

#### Partnership Projects

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$899,404</u>       | <u>\$791,450</u>       | <u>\$893,935</u>       | <u>(\$107,954) U</u>                 |
| Expenses | <u>\$899,404</u>       | <u>\$791,450</u>       | <u>\$894,102</u>       | <u>\$ 107,954 U</u>                  |

Partnership Projects total expenses are less than the 2018 budget amount by \$107,954 and are offset by decreased revenues for the same amount. Partnership project costs are fully funded by related project grants and other funding. The decrease in Partnership Projects is partly a result of work that will be carried over to 2019 where the funding was not confirmed or there is delay in the project work to be carried out.

#### Major Projects

|          | <b>2018<br/>Budget</b> | <b>2018<br/>Actual</b> | <b>2017<br/>Actual</b> | <b>Incr./(Decr.)<br/>over Budget</b> |
|----------|------------------------|------------------------|------------------------|--------------------------------------|
| Revenue  | <u>\$2,609,276</u>     | <u>\$2,890,017</u>     | <u>\$1,556,698</u>     | <u>\$ 280,741 F</u>                  |
| Expenses | <u>\$1,154,000</u>     | <u>\$2,483,307</u>     | <u>\$ 646,290</u>      | <u>(\$1,329,307) U</u>               |



April  
2019

Major Projects revenue includes funding for capital projects included in the 2018 budget with reserve funding for Conservation Area capital projects removed in accordance with public sector accounting standards.

Major Projects expenses are the capital projects expenses reported on at the March 21, 2019 Board of Directors meeting, with the capital asset portion removed from expenses and transferred to tangible capital assets. 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, 2018 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:

Approved for circulation:

Marnie Piggot  
Director, Finance

Hassaan Basit  
CAO/Secretary-Treasurer

**FOR QUESTIONS ON CONTENT:**

Marnie Piggot; Director, Finance

[mpiggot@hrca.on.ca](mailto:mpiggot@hrca.on.ca); 905-336-1158, ext. 2240

Financial Statements of

**CONSERVATION HALTON**

Year ended December 31, 2018

DRAFT

# CONSERVATION HALTON

## Financial Statements

Year ended December 31, 2018

---

### Independent Auditors' Report

|   |      |
|---|------|
| Statement of Financial Position .....                           | 1    |
| Statement of Operations and Change in Accumulated Surplus ..... | 2    |
| Statement of Changes in Net Financial Assets .....              | 3    |
| Statement of Cash Flows.....                                    | 4    |
| Notes to Financial Statements.....                              | 5-17 |

DRAFT



KPMG LLP  
115 King Street South  
2nd Floor  
Waterloo ON N2J 5A3  
Canada  
Tel 519-747-8800  
Fax 519-747-8830

## INDEPENDENT AUDITORS' REPORT

To the Directors of Conservation Halton

### *Opinion*

We have audited the financial statements of Conservation Halton (the "Entity"), which comprise:

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

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

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

### *Basis for Opinion*

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



### ***Responsibilities of Management and Those Charged With Governance 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.

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Page 3

***Auditors' Responsibilities for the Audit of the Financial Statements (continued)***

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Canada  
April 25, 2019

# CONSERVATION HALTON

## Statement of Financial Position

December 31, 2018, with comparative information for 2017

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>Financial assets:</b>                               |                      |                      |
| Cash   | \$ 1,039,118         | \$ 1,432,504         |
| Investments (note 2)                                   | 14,021,969           | 11,934,983           |
| Investment - Water Management System (note 3)          | 11,092,270           | 10,684,542           |
| Accounts receivable (note 4)                           | 2,588,572            | 1,571,838            |
|  | <u>28,741,929</u>    | <u>25,623,867</u>    |
| <b>Financial liabilities:</b>                          |                      |                      |
| Accounts payable and accrued charges                   | 3,417,306            | 2,323,344            |
| Vacation pay and accumulated time entitlements         | 184,593              | 166,890              |
| Deferred revenue (note 5)                              | 6,020,228            | 5,624,765            |
| Deferred revenue - capital and major projects (note 6) | 1,153,174            | 974,700              |
| Deferred revenue - Water Management System (note 3)    | 11,092,270           | 10,684,542           |
| Long-term liabilities (note 7)                         | 2,444,461            | 2,165,790            |
|  | <u>24,312,032</u>    | <u>21,940,031</u>    |
| <b>Net financial assets</b>                            | <b>4,429,897</b>     | <b>3,683,836</b>     |
| <b>Non-financial assets:</b>                           |                      |                      |
| Tangible capital assets (note 8)                       | 66,069,575           | 65,488,926           |
| Prepaid expenses                                       | 287,045              | 268,992              |
| Inventory  | 183,281              | 104,786              |
|  | <u>66,539,901</u>    | <u>65,862,704</u>    |
| <b>Commitments (note 12)</b>                           |                      |                      |
| <b>Accumulated surplus (note 9)</b>                    | <b>\$ 70,969,798</b> | <b>\$ 69,546,540</b> |

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, 2018, with comparative information for 2017

|  | 2018<br>Budget<br>(Note 13) | 2018<br>Actual | 2017<br>Actual |
|--|-----------------------------|----------------|----------------|
| Revenue (note 15):   |                             |                |                |
| Municipal grants   | \$ 8,891,511                | \$ 8,891,511   | \$ 8,596,587   |
| Ministry of Natural Resources,<br>transfer payments                              | 300,311                     | 300,311        | 300,311        |
| Corporate services   | 97,750                      | 153,048        | 374,777        |
| People, culture and creative<br>Engineering flood forecasting and<br>operations  | 15,000                      | 22,233         | 449            |
|  | 116,626                     | 156,035        | 58,301         |
| Planning and watershed management  | 3,175,921                   | 2,736,077      | 3,133,262      |
| Science and partnerships   | 826,177                     | 916,208        | 1,042,690      |
| Project management office  | 216,106                     | 97,392         | 78,685         |
| WMSS operations  | 326,500                     | 331,915        | 249,154        |
| Conservation areas   | 11,421,550                  | 14,041,889     | 12,251,996     |
| Partnership projects   | 899,404                     | 791,450        | 893,935        |
| Major projects   | 2,609,276                   | 2,890,017      | 1,556,698      |
| Total revenue  | 28,896,132                  | 31,328,086     | 28,536,845     |
| Expenses (note 15):  |                             |                |                |
| Corporate services   | 3,125,895                   | 2,799,558      | 2,337,338      |
| People, culture and creative<br>Engineering, flood forecasting and<br>operations | 1,606,605                   | 1,611,086      | 1,299,446      |
|  | 1,315,614                   | 1,246,474      | 1,255,768      |
| Planning and watershed management  | 4,237,925                   | 3,853,653      | 3,839,078      |
| Science and partnerships   | 1,832,133                   | 1,785,794      | 1,780,541      |
| Project management office  | 1,259,581                   | 877,575        | 2,051,605      |
| WMSS operations  | 1,260,995                   | 1,245,986      | 1,367,118      |
| Conservation areas   | 11,293,724                  | 13,126,176     | 10,730,229     |
| Partnership projects   | 899,404                     | 791,450        | 894,102        |
| Major projects   | 1,154,000                   | 2,483,309      | 646,293        |
| Debt financing charges   | 168,955                     | 83,767         | 85,474         |
| Total expenses   | 28,154,831                  | 29,904,828     | 26,286,992     |
| Annual surplus (note 9)  | 741,301                     | 1,423,258      | 2,249,853      |
| Accumulated surplus, beginning of year   |                             | 69,546,540     | 67,296,687     |
| Accumulated surplus, end of year   |                             | \$ 70,969,798  | \$ 69,546,540  |

See accompanying notes to financial statements.

# CONSERVATION HALTON

## Statement of Changes in Net Financial Assets

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

|  | 2018<br>Budget | 2018<br>Actual | 2017<br>Actual |
|--|----------------|----------------|----------------|
| Annual surplus                                     | \$ 741,301     | \$ 1,423,258   | \$ 2,249,853   |
| Acquisition of tangible capital assets             | (3,034,321)    | (2,400,114)    | (3,117,908)    |
| Amortization of tangible capital assets            | 1,785,000      | 1,785,054      | 1,684,449      |
| Proceeds on disposal of tangible capital assets    | -              | 5,828          | 64,813         |
| Loss (gain) on disposal of tangible capital assets | -              | 28,583         | (1,770)        |
|  | (508,020)      | 842,609        | 879,437        |
| Change in prepaid expenses                         | -              | (18,053)       | 41,914         |
| Change in inventories                              | -              | (78,495)       | 24,910         |
| Net change in net financial assets                 | (508,020)      | 746,061        | 946,261        |
| Net financial assets, beginning of year            |                | 3,683,836      | 2,737,575      |
| Net financial assets, end of year                  |                | \$ 4,429,897   | \$ 3,683,836   |

See accompanying notes to financial statements.

# CONSERVATION HALTON

## Statement of Cash Flows

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

|  | 2018         | 2017         |
|--|--------------|--------------|
| Cash provided by (used in):                        |              |              |
| Operating activities:                              |              |              |
| Annual surplus                                     | \$ 1,423,258 | \$ 2,249,853 |
| Items not involving cash:                          |              |              |
| Amortization                                       | 1,785,054    | 1,684,449    |
| Loss (gain) on disposal of tangible capital assets | 28,583       | (1,770)      |
|  | 3,236,895    | 3,932,532    |
| Change in non-cash working capital balances:       |              |              |
| Accounts receivable                                | (1,016,734)  | (888,828)    |
| Prepaid expenses                                   | (18,053)     | 41,914       |
| Inventory  | (78,495)     | 24,910       |
| Accounts payable and accrued charges               | 1,093,962    | 328,966      |
| Vacation pay and accumulated time entitlements     | 17,703       | 23,452       |
| Deferred revenue                                   | 395,463      | (153,994)    |
| Deferred revenue - capital and major projects      | 178,474      | 396,369      |
|  | 3,809,215    | 3,705,321    |
| Capital transactions:                              |              |              |
| Acquisition of tangible capital assets             | (2,400,114)  | (3,117,908)  |
| Proceeds on disposal of tangible capital assets    | 5,828        | 64,813       |
|  | (2,394,286)  | (3,053,095)  |
| Investing activities:                              |              |              |
| Investments  | (2,086,986)  | (51,592)     |
| Investment - Water Management System               | -            | (1,104,498)  |
|  | (2,086,986)  | (1,156,090)  |
| Financing transactions:                            |              |              |
| Deferred revenue - Water Management System         | -            | 1,104,498    |
| Proceeds from long-term debt                       | 686,664      | 24,231       |
| Repayment of long-term debt                        | (407,993)    | (567,547)    |
|  | 278,671      | 561,182      |
| Net change in cash                                 | (393,386)    | 57,318       |
| Cash, beginning of year                            | 1,432,504    | 1,375,186    |
| Cash, end of year                                  | \$ 1,039,118 | \$ 1,432,504 |

See accompanying notes to financial statements.

# CONSERVATION HALTON

## Notes to Financial Statements

Year ended December 31, 2018

---

### **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.

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, 2018

## 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) 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.

### (e) 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.

### (f) 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, 2018

## 1. Significant accounting policies (continued):

### (g) 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.

### (h) Use of estimates:

The presentation of financial statements 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. Significant items subject to such estimates and assumptions include accrued liabilities, contaminated site liability, contingencies and tangible capital assets. Actual results could differ from estimates.

## 2. Short-term investments:

|  | 2018          | 2017          |
|--|---------------|---------------|
| Business investment account                  | \$ 796,729    | \$ 432,426    |
| High interest savings account                | 4,116,896     | -             |
| Guaranteed investment certificates           | 4,500,000     | 4,000,000     |
| Pooled fund – Provincial and Corporate bonds | 4,108,346     | 7,002,559     |
| Pooled fund – Equity                         | 499,998       | 499,998       |
| Total  | \$ 14,021,969 | \$ 11,934,983 |

The guaranteed investment certificates have effective rates that range between 2.10% and 2.23% (2017 - 1.20% to 2.00%). Interest is receivable on the date of maturity. Maturity dates range from March 7, 2019 to November 9, 2019. The business investment account and pooled funds earn interest at variable rates which is paid monthly.

Market value of investments are \$14,462,153 (2017 - \$12,278,498).

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2018

## 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 has received 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:

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| Cash   | \$ 209               | \$ 13                |
| Provincial and provincially regulated agency bonds | 9,945,933            | 8,447,844            |
| Guaranteed investment certificates                 | 1,146,128            | 2,236,685            |
| <b>Total</b>                                       | <b>\$ 11,092,270</b> | <b>\$ 10,684,542</b> |

The Provincial and provincially regulated agency bonds have effective yields of 2.27% to 5.0% (2017 - 3.62% to 5.00%). Interest is receivable on the date of maturity. Maturity dates range from January 13, 2020 to June 2, 2037.

The guaranteed investment certificates have been an effective interest rate of 2.15% (2017 - 1.29% and 1.75%). Interest is receivable on the date of maturity. Maturity dates is March 5, 2019.

Market value of investments are \$11,732,413 (2017 - \$11,515,027).

## 4. Accounts receivable:

Included in accounts receivable is \$58,723 (2017 - \$649,896) due from Conservation Halton Foundation.

During 2018, the Foundation contributed \$441,116 (2017 - \$1,094,653) to fund projects carried out by the Conservation Halton.

# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2018

## 5. Deferred revenue:

|                         | Balance at<br>December 31,<br>2018 | Additions           | Revenue<br>recognized | Balance at<br>December 31,<br>2017 |
|-------------------------|------------------------------------|---------------------|-----------------------|------------------------------------|
| Watershed Management    | \$ 1,961,263                       | \$ 280,337          | \$ 68,411             | \$ 1,749,337                       |
| Partnership Projects    | 752,889                            | 1,507,675           | 1,438,093             | 683,307                            |
| Source Water Protection | 16,824                             | -                   | 3,214                 | 20,038                             |
| Conservation Areas      | 3,289,252                          | 6,632,343           | 6,515,174             | 3,172,083                          |
|                         | <u>\$ 6,020,228</u>                | <u>\$ 8,420,355</u> | <u>\$ 8,024,892</u>   | <u>\$ 5,624,765</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<br>December 31,<br>2018 | Contributions<br>received | Revenue<br>recognized | Balance at<br>December 31,<br>2017 |
|--|------------------------------------|---------------------------|-----------------------|------------------------------------|
| Capital - Ministry of<br>Natural Resources | \$ 592,296                         | \$ 520,577                | \$ 335,854            | \$ 407,573                         |
| Capital - Municipal                        | 560,878                            | 656,813                   | 663,062               | 567,127                            |
|  | <u>\$ 1,153,174</u>                | <u>\$ 1,177,390</u>       | <u>\$ 998,916</u>     | <u>\$ 974,700</u>                  |



# CONSERVATION HALTON

Notes to Financial Statements, continued

Year ended December 31, 2018

## 7. Long-term liabilities:

|  | 2018                | 2017                |
|--|---------------------|---------------------|
| 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 November 2020   | \$ 433,000          | \$ 483,000          |
| Municipal debt financing and interest payments due annually at variable current interest rates ranging from 3.0% to 3.2% (2017 - 3.2%), annual principal repayments, due from December 2019 to December 2047 | 2,011,461           | 1,682,790           |
|  | <u>\$ 2,444,461</u> | <u>\$ 2,165,790</u> |

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

|            |                     |
|------------|---------------------|
| 2019       | \$ 353,472          |
| 2020       | 674,171             |
| 2021       | 232,170             |
| 2022       | 224,118             |
| 2023       | 192,819             |
| Thereafter | 767,711             |
|            | <u>\$ 2,444,461</u> |

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 8. Tangible capital assets:

| 2018  | 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        | \$ 14,633,457                       | \$ 8,053,376            | \$ 450,559             | \$ 25,849,614  | \$ 2,407,208 | \$ 1,345,273                   | \$ 1,096,590              | \$ 89,924,088 |
| Additions                                   | 408,860       | -                 | 535,880                             | 356,405                 | 25,771                 | 277,762        | 96,381       | 209,537                        | 489,518                   | 2,400,114     |
| Disposals                                   | -             | -                 | (11,501)                            | (164,328)               | -                      | (22,279)       | (35,001)     | (116,725)                      | -                         | (349,834)     |
| Transfers                                   | -             | -                 | 340,697                             | -                       | -                      | -              | -            | -                              | (340,697)                 | -             |
| Cost, end of year                           | 35,932,065    | 564,806           | 15,498,533                          | 8,245,453               | 476,330                | 26,105,097     | 2,468,588    | 1,438,085                      | 1,245,411                 | 91,974,368    |
| Accumulated amortization, beginning of year | -             | 308,061           | 4,783,271                           | 4,111,869               | 196,766                | 12,483,440     | 1,697,099    | 854,656                        | -                         | 24,435,162    |
| Amortization                                | -             | 11,467            | 401,533                             | 378,602                 | 21,586                 | 605,840        | 200,157      | 165,869                        | -                         | 1,785,054     |
| Disposals                                   | -             | -                 | (2,760)                             | (157,275)               | -                      | (17,079)       | (31,501)     | (106,808)                      | -                         | (315,423)     |
| Accumulated amortization, end of year       | -             | 319,528           | 5,182,044                           | 4,333,196               | 218,352                | 13,072,201     | 1,865,755    | 913,717                        | -                         | 25,904,793    |
| Net carrying amount end of year             | \$ 35,932,065 | \$ 245,278        | \$ 10,316,489                       | \$ 3,912,257            | \$ 257,978             | \$ 13,032,896  | \$ 602,833   | \$ 524,368                     | \$ 1,245,411              | \$ 66,069,575 |

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 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 |
| Adjustment                                  | -             | -                 | 55,000                              | -                       | -                      | -              | -            | -                              | -                         | 55,000        |
| 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           | 14,633,457                          | 8,053,376               | 450,559                | 25,849,614     | 2,407,208    | 1,345,273                      | 1,096,590                 | 89,924,088    |
| 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    |
| Adjustment                                  | -             | -                 | 55,000                              | -                       | -                      | -              | -            | -                              | -                         | 55,000        |
| 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           | 4,783,271                           | 4,111,869               | 196,766                | 12,483,440     | 1,697,099    | 854,656                        | -                         | 24,435,162    |
| 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, 2018

## 9. Accumulated surplus:

Accumulated surplus consists of operating surplus and reserves as follows:

|   | Balance at<br>December 31,<br>2018 | Excess of<br>Revenue over<br>expenses | Transfers<br>(to) from<br>reserves | Balance at<br>December 31,<br>2017 |
|---|------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| Surplus - investment in tangible capital assets | \$ 66,069,575                      | \$ (1,819,465)                        | \$ 2,400,114                       | \$ 65,488,926                      |
| Surplus (deficit) - current funds               | (2,892,089)                        | 3,242,723                             | (3,103,388)                        | (3,031,424)                        |
| Total surplus                                   | 63,177,486                         | 1,423,258                             | (703,274)                          | 62,457,502                         |
| Reserves  |                                    |                                       |                                    |                                    |
| Conservation areas capital projects             | 2,403,892                          | -                                     | (29,764)                           | 2,433,656                          |
| Conservation areas stabilization                | 936,568                            | -                                     | 82,000                             | 854,568                            |
| Vehicle, equipment and building                 | 1,483,436                          | -                                     | 271,322                            | 1,212,114                          |
| Watershed management capital projects           |                                    |                                       |                                    |                                    |
| - municipal funds                               | 389,228                            | -                                     | 214,653                            | 174,575                            |
| Watershed management capital projects           |                                    |                                       |                                    |                                    |
| - self generated funds                          | 356,309                            | -                                     | 15,700                             | 340,609                            |
| Watershed management stabilization              | 730,413                            | -                                     | (5,000)                            | 735,413                            |
| Capital Projects                                |                                    |                                       |                                    |                                    |
| - debt financing charges                        | 335,081                            | -                                     | 93,514                             | 241,567                            |
| Legal - planning and watershed management       | 258,891                            | -                                     | 2                                  | 258,889                            |
| Legal - corporate                               | 199,998                            | -                                     | 199,998                            | -                                  |
| Water Festival                                  | 188,911                            | -                                     | (20,000)                           | 208,911                            |
| Property management                             | 95,040                             | -                                     | (133,860)                          | 228,900                            |
| Land securement                                 | 9,036                              | -                                     | (99,300)                           | 108,336                            |
| Stewardship and restoration                     | 405,509                            | -                                     | 114,009                            | 291,500                            |
| Total reserves                                  | 7,792,312                          | -                                     | 703,274                            | 7,089,038                          |
| Accumulated surplus                             | \$ 70,969,798                      | \$ 1,423,258                          | \$ -                               | \$ 69,546,540                      |

# CONSERVATION HALTON

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2018

## 10. Budget amounts:

The 2018 budget amounts approved by Conservation Halton on November 23, 2017 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 November 23, 2017, with adjustments as follows:

|   | 2018<br>Actual | 2017<br>Actual |
|---|----------------|----------------|
| Budget deficit for the year                     | \$ (949,651)   | \$ (177,109)   |
| Less: Amortization of tangible capital assets   | (1,785,000)    | (1,684,000)    |
| Add: Acquisition of tangible capital assets     | 3,034,321      | 6,998,000      |
| Add: Debt financing charges - principal portion | 441,631        | 404,664        |
| Less: Municipal debt financing                  | -              | (2,632,500)    |
| Budget surplus per Statement of Operations      | \$ 741,301     | \$ 2,909,055   |

## 11. 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, 2019 for \$574,861 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, 2018

## 12. 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, 2018 are as follows:

|      |              |
|------|--------------|
| 2019 | \$ 7,301,910 |
| 2020 | 52,709       |
| 2021 | 41,748       |
| 2022 | 3,180        |
|      | <hr/>        |
|      | \$ 7,399,547 |

## 13. 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. Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are the joint responsibility of Ontario municipal organizations and their employees. As a result, Conservation Halton does not recognize any share of the OMERS pension surplus or deficit.

The latest available report for the OMERS plan was December 31, 2018. At that time the plan reported a \$4.2 billion actuarial deficit (2017 - \$5.4 billion deficit), based on actuarial liabilities of \$99.1 billion (2017 - \$93.6 billion) and actuarial assets of \$94.9 billion (2017 - \$88.2 billion). Ongoing adequacy of the current contribution rates will need to be monitored and may lead to increased future funding requirements.

The 2018 employer portion of OMERS pension contributions was \$1,113,805 (2017 - \$1,072,634).

## 14. Comparative figures:

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

# CONSERVATION HALTON

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 15. Revenue and expenses by program:

| 2018   | Corporate &<br>Strategic<br>Initiatives | People<br>Culture &<br>Creative | Engineering,<br>Flood<br>Forecasting<br>& Operations | Planning &<br>Watershed<br>Management | Science &<br>Partnerships | Innovation &<br>Project<br>Management<br>Office | WMSS<br>Operations | Conservation<br>Areas | Partnership<br>Projects | Major<br>Projects | Debt<br>Financing | Reserve<br>Funding | Total        |
|--|---|---------------------------------|--|---------------------------------------|---------------------------|---|--------------------|-----------------------|-------------------------|-------------------|-------------------|--------------------|--------------|
| <b>Revenue:</b>  |   |                                 |  |                                       |                           |   |                    |                       |                         |                   |                   |                    |              |
| Municipal funding  | \$ 2,326,545                            | \$ 1,274,005                    | \$ 497,677   | \$ 1,056,004                          | \$ 978,956                | \$ 810,989                                      | \$ 783,395         | \$ 192,354            | \$ -                    | \$ -              | \$ 610,586        | \$ 361,000         | \$ 8,891,511 |
| Provincial transfer<br>payments                                      | -                                       | -                               | 300,311  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | -                 | -                  | 300,311      |
| Program fees and<br>other  | 153,048                                 | 22,233                          | 156,035  | 2,736,077                             | 916,208                   | 97,392  | 331,915            | 14,041,889            | 791,450                 | 2,890,017         | -                 | -                  | 22,136,264   |
|  | 2,479,593                               | 1,296,238                       | 954,023  | 3,792,081                             | 1,895,164                 | 908,381   | 1,115,310          | 14,234,243            | 791,450                 | 2,890,017         | 610,586           | 361,000            | 31,328,086   |
| <b>Expenses:</b>   |   |                                 |  |                                       |                           |   |                    |                       |                         |                   |                   |                    |              |
| Salaries, wages<br>and benefits                                      | 2,001,835                               | 1,093,237                       | 665,954  | 3,422,884                             | 1,391,785                 | 618,447   | 767,887            | 7,558,241             | 158,389                 | 422,325           | -                 | -                  | 18,100,984   |
| Members per diems<br>and expenses                                    | 24,547                                  | -                               | -  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | -                 | -                  | 24,547       |
| Materials and<br>supplies  | 182,847                                 | 161,598                         | 26,135   | 23,446                                | 218,406                   | 83,090  | 121,949            | 1,536,541             | 69,979                  | 1,892,558         | -                 | -                  | 4,316,549    |
| Property taxes   | -                                       | -                               | -  | -                                     | -                         | -   | 40,743             | -                     | -                       | -                 | -                 | -                  | 40,743       |
| Purchased services   | 292,026                                 | 310,879                         | 152,914  | 44,557                                | 175,603                   | 176,440   | 242,936            | 2,741,777             | 563,082                 | 2,411,399         | -                 | -                  | 7,111,613    |
| Legal  | 8,260                                   | 5,970                           | -  | 354,956                               | -                         | -   | 9,281              | 53,586                | -                       | -                 | -                 | -                  | 432,053      |
| Finance and rent   | 20,622                                  | 39,402                          | -  | 2,118                                 | -                         | (24,755)  | 12,342             | 174,179               | -                       | (2,242,973)       | -                 | -                  | (2,019,065)  |
| Debt financing charges   | -                                       | -                               | -  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | 83,767            | -                  | 83,767       |
| Amortization of tangible<br>capital assets                           | 255,038                                 | -                               | 401,471  | 5,692                                 | -                         | 24,353  | 52,719             | 1,045,781             | -                       | -                 | -                 | -                  | 1,785,054    |
| Loss (gain) on disposal of<br>tangible capital assets                | 14,383                                  | -                               | -  | -                                     | -                         | -   | (1,871)            | 16,071                | -                       | -                 | -                 | -                  | 28,583       |
|  | 2,799,558                               | 1,611,086                       | 1,246,474  | 3,853,653                             | 1,785,794                 | 877,575   | 1,245,986          | 13,126,176            | 791,450                 | 2,483,309         | 83,767            | -                  | 29,904,828   |
| Excess (deficiency)<br>of revenues over<br>expenses, for the<br>year | \$ (319,965)                            | \$ (314,848)                    | \$ (292,451)   | \$ (61,572)                           | \$ 109,370                | \$ 30,806                                       | \$ (130,676)       | \$ 1,108,067          | \$ -                    | \$ 406,708        | \$ 526,819        | \$ 361,000         | \$ 1,423,258 |

# CONSERVATION HALTON

Notes to Financial Statements (continued)

Year ended December 31, 2018

## 15. Revenue and expenses by program:

| 2017   | Corporate &<br>Strategic<br>Initiatives | People<br>Culture &<br>Creative | Engineering,<br>Flood<br>Forecasting<br>& Operations | Planning &<br>Watershed<br>Management | Science &<br>Partnerships | Innovation &<br>Project<br>Management<br>Office | WMSS<br>Operations | Conservation<br>Areas | Partnership<br>Projects | Major<br>Projects | Debt<br>Financing | Reserve<br>Funding | Total        |
|--|---|---------------------------------|--|---------------------------------------|---------------------------|---|--------------------|-----------------------|-------------------------|-------------------|-------------------|--------------------|--------------|
| <b>Revenue:</b>  |   |                                 |  |                                       |                           |   |                    |                       |                         |                   |                   |                    |              |
| Municipal funding  | \$ 1,615,736                            | \$ 1,455,654                    | \$ 478,331   | \$ 1,451,371                          | \$ 856,497                | \$ 1,786,043                                    | \$ 165,896         | \$ 192,354            | \$ -                    | \$ -              | \$ 469,705        | \$ 125,000         | \$ 8,596,587 |
| Provincial transfer<br>payments                                      | -                                       | -                               | 300,311  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | -                 | -                  | 300,311      |
| Program fees and<br>other  | 374,777                                 | 449                             | 58,301   | 3,133,262                             | 1,042,690                 | 78,685  | 249,154            | 12,251,996            | 893,935                 | 1,556,698         | -                 | -                  | 19,639,947   |
|  | 1,990,513                               | 1,456,103                       | 836,943  | 4,584,633                             | 1,899,187                 | 1,864,728                                       | 415,050            | 12,444,350            | 893,935                 | 1,556,698         | 469,705           | 125,000            | 28,536,845   |
| <b>Expenses:</b>   |   |                                 |  |                                       |                           |   |                    |                       |                         |                   |                   |                    |              |
| Salaries, wages<br>and benefits                                      | 1,730,010                               | 979,466                         | 756,983  | 3,281,865                             | 1,238,643                 | 1,670,961                                       | 835,318            | 6,579,092             | 201,707                 | 52,600            | -                 | -                  | 17,326,645   |
| Members per diems<br>and expenses                                    | 25,498                                  | -                               | -  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | -                 | -                  | 25,498       |
| Materials and<br>supplies  | 44,866                                  | 82,222                          | 19,694   | 25,693                                | 317,232                   | 128,386   | 164,669            | 1,502,168             | 234,492                 | 1,164,676         | -                 | -                  | 3,684,098    |
| Property taxes   | -                                       | -                               | 7,169  | -                                     | -                         | -   | 30,899             | -                     | -                       | -                 | -                 | -                  | 38,068       |
| Purchased services   | 261,455                                 | 229,656                         | 103,545  | 307,591                               | 224,666                   | 220,654   | 253,887            | 1,523,885             | 457,903                 | 2,290,470         | -                 | -                  | 5,873,712    |
| Legal  | 5,178                                   | 11,313                          | -  | 216,506                               | -                         | -   | 10,180             | 68,849                | -                       | -                 | -                 | -                  | 312,026      |
| Finance and rent   | 25,829                                  | (3,211)                         | (28,098)   | 1,270                                 | -                         | 7,228   | -                  | 117,227               | -                       | (2,861,453)       | -                 | -                  | (2,741,208)  |
| Debt financing charges   | -                                       | -                               | -  | -                                     | -                         | -   | -                  | -                     | -                       | -                 | 85,474            | -                  | 85,474       |
| Amortization of tangible<br>capital assets                           | 231,715                                 | -                               | 396,475  | 6,153                                 | -                         | 24,099  | 77,587             | 948,420               | -                       | -                 | -                 | -                  | 1,684,449    |
| Loss (gain) on disposal of<br>tangible capital assets                | 12,787                                  | -                               | -  | -                                     | -                         | 277   | (5,422)            | (9,412)               | -                       | -                 | -                 | -                  | (1,770)      |
|  | 2,337,338                               | 1,299,446                       | 1,255,768  | 3,839,078                             | 1,780,541                 | 2,051,605                                       | 1,367,118          | 10,730,229            | 894,102                 | 646,293           | 85,474            | -                  | 26,286,992   |
| Excess (deficiency)<br>of revenues over<br>expenses, for the<br>year | \$ (346,825)                            | \$ 156,657                      | \$ (418,825)   | \$ 745,555                            | \$ 118,646                | \$ (186,877)                                    | \$ (952,068)       | \$1,714,121           | \$ (167)                | \$ 910,405        | \$ 384,231        | \$ 125,000         | \$ 2,249,853 |



# Conservation Halton

Audit Findings Report  
for the year ended December 31, 2018

*KPMG LLP*

Chartered Professional Accountants, Licensed  
Public Accountants

Prepared on March 26, 2019 for upcoming Finance and  
Audit Committee meeting on April 11, 2019

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



# Table of contents

---

|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY</b>                                 | <b>2</b>  |
| <b>MATERIALITY</b>                                       | <b>4</b>  |
| <b>THE AUDIT OF TODAY, TOMORROW &amp; THE FUTURE</b>     | <b>11</b> |
| <b>THE 2018 AUDITORS' REPORT</b>                         | <b>13</b> |
| <b>ADJUSTMENTS AND DIFFERENCES</b>                       | <b>14</b> |
| <b>APPENDICES</b>  | <b>15</b> |
| <b>APPENDIX 1: REQUIRED COMMUNICATIONS</b>               | <b>16</b> |
| <b>APPENDIX 2: MANAGEMENT REPRESENTATION LETTER</b>      | <b>17</b> |
| <b>APPENDIX 3: ENGAGEMENT LETTER</b>                     | <b>18</b> |
| <b>APPENDIX 4: AUDIT QUALITY AND RISK MANAGEMENT</b>     | <b>19</b> |
| <b>APPENDIX 5: BACKGROUND AND PROFESSIONAL STANDARDS</b> | <b>20</b> |
| <b>APPENDIX 6: CURRENT DEVELOPMENTS</b>                  | <b>21</b> |
| <b>APPENDIX 7: LEAN IN AUDIT™</b>                        | <b>24</b> |



The contacts at KPMG in connection with this report are:

**Matthew Betik, CPA, CA**  
**Partner**  
 Tel: (519) 747-8245  
[mbetik@kpmg.ca](mailto:mbetik@kpmg.ca)

**Stacey Kraemer, CPA, CA**  
**Audit Senior Manager**  
 Tel: (519) 747-8846  
[skraemer@kpmg.ca](mailto:skraemer@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 as at and for the year ended December 31, 2018.



## Finalizing the audit

As of March 26, 2019, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of management representation letter;
- Receipt of legal responses;
- Completing our discussions with the Finance and Audit committee
- Obtaining evidence of the Board's approval of the financial statements

Our auditors' report will be dated upon the completion of any remaining procedures.

\*This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance and 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



# Executive summary



## Audit risks and results

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- grant revenue, deferred revenue, and grant receivables (government transfers); and
- revenue recognition policies

See pages 6 to 11



## Audit materiality

Materiality has been determined based on budget revenue for 2018. We have determined materiality to be \$750,000

See page 5



## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.



## Control and other observations

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

# Executive summary

Materiality



## Adjustments and differences

We did not identify differences that remain uncorrected.



## Independence

We are independent and have extensive quality control and conflict checking processes in place.



## Current developments

Your 2018 Auditors' Report has changed from the prior year. See page 12 for a summary of these changes.

There are no other new relevant accounting or auditing changes to be brought to your attention at this time. We have included a summary of future accounting standards in Appendix 6.

| Materiality determination                          | Comments  | Amount         |
|--|---|----------------|
| <b>Benchmark</b>                                   | Based on total revenue per 2017 audited financial statements  | \$28.4 million |
| <b>Materiality</b>                                 | Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$750,000 | \$750,000      |
| <b>% of Benchmark</b>                              | The corresponding percentage for the prior year's audit was 3%  | 3%             |
| <b>Audit Misstatement Posting Threshold (AMPT)</b> | Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$37,500   | \$37,500       |
|  | Different threshold used to accumulate reclassification misstatements.  | \$115,000      |

Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

#### We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

# Audit risks and results

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

## Significant financial reporting risks

Fraud risk from revenue recognition

## Why are we focusing here?

- This is a presumed fraud risk.
- There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition.
- We have not identified any specific additional risks of revenue recognition relating to this audit.

## Our response and significant findings

- Not applicable as we have rebutted this fraud risk.



# Audit risks and results

## Significant financial reporting risks

Fraud risk from management override of controls

## Why are we focusing here?

- This is a presumed fraud risk.
- We have not identified any specific additional risks of management override relating to this audit.

## Our response and significant findings

- 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.
- As a result of our audit procedures, no audit misstatements were identified nor was any fraud identified.



# Audit risks and results

## Other areas of focus

Government transfers

## Why are we focusing here?

This area is identified as higher risk of error in revenue recognition on deferred revenue.

## Our response and significant findings

- We examined contracts, letters and other supporting documentation to support the year-end balances and revenue recognition or deferral of revenue.
- No issues were noted.

# Audit risks and results

## Other matter

Accrued remediation costs

## Why are we focusing here?

Significant event

## Our response and significant findings

- During December 2018, it was identified that furnace oil leaked in the Main Chalet of the Kelso/Glen Eden facility
- Conservation Halton (“CH”), along with service providers and direction received from the TSSA concluded that CH is required to remediate the property and clean up the spill
- We also understand that CH has insurance that is expected to cover the vast majority of the costs
- Accounting rules require that CH accrue as a liability the estimated costs to remediate the property in accordance with appropriate property and environmental standards. While we understand that there are significant uncertainties in what the final cost will be, that does not relieve the entity from making an estimate based on the best information available. Furthermore, to the extent that insurance will cover the cost, an appropriate recover can be recorded.
- As such, CH has recorded a liability for approximately \$820K and a corresponding recovery for \$810K, for a net liability of \$10K, being the amount of the insurance deductible.
- In future periods, the estimate will need to be re-evaluated and adjusted as necessary. The amount of insurance recoverable should also be reassessed to ensure that the coverage continues to be applicable.

# Financial Statement Presentation and disclosure

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

We also highlight the following:




---

## **Form, arrangement, and content of the financial statements**

The form, arrangement and content of the financial statements are appropriate for the size, scope and industry segment of the organization. It is consistent with its peer group in Ontario and in accordance with PSAB standards.

---

## **Application of accounting pronouncements issued but not yet effective**

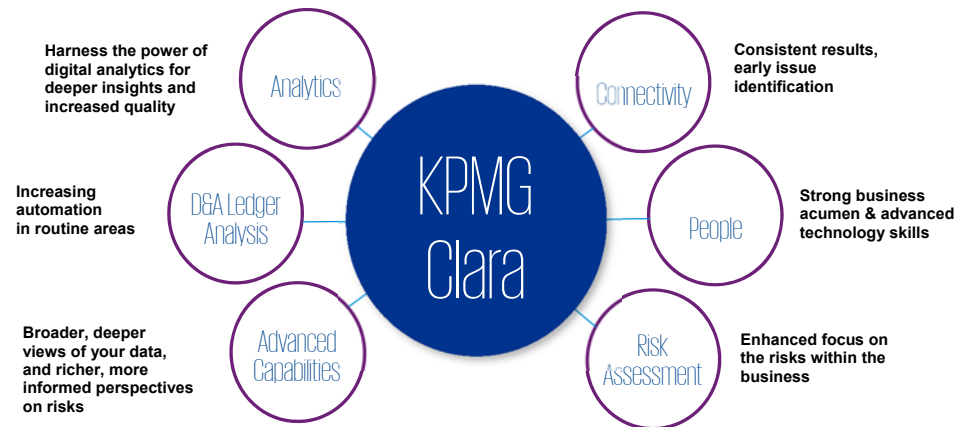
No concerns at this time regarding future implementation

---

# The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



| Technology we use today       |   |
|-------------------------------|---|
| Tool                          | Benefit to audit  |
| <b>Journal Entry Analysis</b> | Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature. |

# The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and our alliances with technology firms including Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit Conservation Halton in the future. We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

| Technology under development                       |   |
|--|---|
| Tool   | Benefit to audit  |
| <b>Business process mining (BPM)</b>               | BPM harnesses sub-ledger analytics and provides us with a deeper understanding of your processes. Our BPM tool is currently being piloted globally and will be coming soon to Canada. The tool provides immediate visualization of how 100% of your transactions are being processed to complement your process narratives and flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks and leveraging your team's resources efficiently. It also helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.  |
| <b>Optical Contract Reader &amp; Analysis Tool</b> | Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk. |

# The 2018 Auditors' Report



## Highlights of changes to your 2018 auditors' report

Re-ordering of the auditors' report including moving opinion to the first section.

Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.

Separate section on "Other Information" (e.g. Annual Report).

Expanded descriptions of management's responsibility, including those related to assessing the Entity's ability to continue as a going concern.

New description of responsibilities of those charged with governance.

Expanded descriptions of management's, those charged with governance and auditors' responsibilities.

# 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 adjustments or differences be corrected. We have already made this request of management.








## Corrected adjustments

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

## Uncorrected differences

We did not identify differences that remain uncorrected.

# Appendices

-  **Appendix 1: Required communications**
-  **Appendix 2: Management representation letter**
-  **Appendix 3: Engagement letter**
-  **Appendix 4: Audit Quality and Risk Management**
-  **Appendix 5: Background and professional standards**
-  **Appendix 6: Current developments**
-  **Appendix 7: Lean in Audit**



# 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 Finance and Audit Committee. The management representation letter is included in Appendix 2.



## Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter in Appendix 3. In accordance with professional standards, copies of the engagement letter is included in Appendix 3.

# Appendix 4: 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 summarizes the six key elements of our quality control system.

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

Other controls include:

- Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits
- Technical department and specialist resources provide real-time support to audit teams in the field

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every four years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



We do not offer services that would impair our independence.

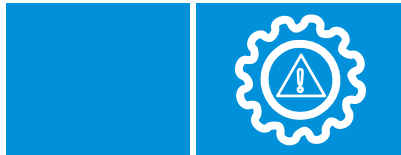
The processes we employ to help retain and develop people include:

- Assignment based on skills and experience
- Performance evaluation
- Development and training
- 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 5: 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 or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

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

## Documents containing or referring to the audited financial statements

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

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

# Appendix 6: 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 Conservation Halton'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 section entity.</p> <p>This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Conservation Halton'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>  |
| <b>PS 3320, Contingent Assets</b>  | <p>This standard defines contingent assets. They have two basic characteristics:</p> <ul style="list-style-type: none"> <li>(a) An existing condition or situation that is unresolved at the financial statement date</li> <li>(b) An expected future event that will resolve the uncertainty as to whether an asset exists</li> </ul> <p>The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely.</p>   |



---

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 Conservation Halton'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.

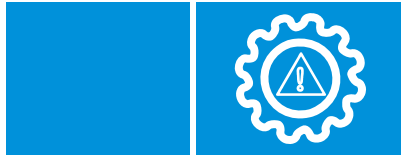
This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized. This standard is effective for fiscal periods beginning on or after April 1, 2017 (the Conservation's December 31, 2018 yearend).

**Implications:** Related parties will have to be identified. Additional disclosures may be required with respect to transactions with related parties.

---

|   |  |
|---|--|
| <b>PS 3420, Inter-entity Transactions</b> | <p>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:</p> <ul style="list-style-type: none"> <li>(a) In the normal course of business – use exchange amount</li> <li>(b) Fair value consideration – use exchange amount</li> <li>(c) No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair.</li> <li>(d) Cost allocation – use exchange amount</li> </ul> <p>This standard is effective for fiscal periods beginning on or after April 1, 2018 (the Conservation Halton's December 31, 2019 year end).</p> <p><b>Implications:</b> The Conservation Halton will have to identify these transactions and determine if they have been measured at the carrying amount if required.</p>   |
| <b>Financial Instruments</b>              | <p>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).</p> <p><b>Implications:</b> 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.</p> <p>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.</p> |

# Appendix 7: Lean in Audit™



## An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



## How it works

Lean in Audit employs three key Lean techniques:



### 1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



### 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



### 3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

[in](#)
[Twitter](#)
[YouTube](#)
[Instagram](#)





## Appendix 2: Management representation letter

April 11, 2019

KPMG LLP  
115 King Street South, 2<sup>nd</sup> Floor  
Waterloo, Ontario, N2J 5A3

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 year ended December 31, 2018.

*General:*

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 also 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:

*Responsibilities:*

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated November 30, 2018, including 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 information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
    - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
    - (ii) the 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. All significant actions are included in such summaries.
  - c) providing you with unrestricted access to such relevant information.
  - d) providing you with complete responses to all enquiries made by you during the engagement.
  - e) providing you with additional information that you may request from us for the purpose of the engagement.

- f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

*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 we are 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 that involves:
    - management;
    - employees who have significant roles in internal control over financial reporting; or
    - others
 where such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

*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.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

*Estimates:*

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

*Going concern:*

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

*Non-SEC registrants or non-reporting issuers:*

- 10) 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,

---

By: Marnie Piggot, Director, Finance

---

By: Hassaan Basit, Chief Administrative Officer

## ***Attachment I – Definitions***

### ***Materiality***

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

### ***Fraud & error***

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

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

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

### ***Related parties***

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

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

## Appendix 3: Engagement letter



KPMG LLP  
 115 King Street South, 2nd floor  
 Waterloo Ontario N2J 5A3  
 Canada  
 Tel (519) 747-8800  
 Fax (519) 747-8830

### **PRIVATE & CONFIDENTIAL**

Ms. Marnie Piggot  
 Director, Finance  
 Conservation Halton  
 2596 Britannia Road West  
 Burlington, Ontario L7P 0G3

November 30, 2018

Dear Ms. Piggot:

The purpose of this letter is to outline the terms of our engagement to audit the annual financial statements ("financial statements" or "annual financial statements") of Conservation Halton (the "Entity"), commencing for the period ending December 31, 2018.

This letter supersedes our previous letter to the Entity dated January 8, 2014.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions and any exhibits, attachments and appendices hereto and subsequent amendments form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the "Engagement Letter").

### **FINANCIAL REPORTING FRAMEWORK FOR THE FINANCIAL STATEMENTS**

The annual financial statements will be prepared and presented in accordance with Canadian public sector accounting standards (hereinafter referred to as the "financial reporting framework").

The annual financial statements will include an adequate description of the financial reporting framework.

### **MANAGEMENT'S RESPONSIBILITIES**

Management responsibilities are described in Appendix – Management's Responsibilities.

An audit does not relieve management or those charged with governance of their responsibilities.



Conservation Halton  
November 30, 2018

## **AUDITORS' RESPONSIBILITIES**

Our responsibilities are described in Appendix – Auditors' Responsibilities.

If management does not fulfill the responsibilities above, we cannot complete our audit.

## **AUDITORS' DELIVERABLES**

The expected form and content of our report(s) is provided in Appendix – Expected Form of Report. However, there may be circumstances in which a report may differ from its expected form and content.

In addition, if we become aware of information that relates to the financial statements after we have issued our audit report, but which was not known to us at the date of our audit report, and which is of such a nature and from such a source that we would have investigated that information had it come to our attention during the course of our audit, we will, as soon as practicable: (1) communicate such an occurrence to those charged with governance; and (2) undertake an investigation to determine whether the information is reliable and whether the facts existed at the date of our audit report. Further, management agrees that in conducting that investigation, we will have the full cooperation of the Entity's personnel. If the subsequently discovered information is found to be of such a nature that: (a) our audit report would have been affected if the information had been known as of the date of our audit report; and (b) we believe that the audit report is currently being relied upon or is likely to be relied upon by someone who would attach importance to the information, appropriate steps will be taken by KPMG and appropriate steps will also be taken by the Entity to prevent further reliance on our audit report.

Such steps include, but may not be limited to, appropriate disclosures by the Entity to the users of the financial statements and audit report thereon of the newly discovered facts and the impact to the financial statements.

## **ADDITIONAL RESPONSIBILITIES REGARDING "OTHER INFORMATION"**

"Other information" is defined in professional standards to be the financial or non-financial information (other than the financial statements and the auditors' report thereon) included in the "annual report". An "annual report" is defined in professional standards to comprise a document or combination of documents. Professional standards also indicate that:

- an annual report is prepared typically on an annual basis in accordance with law, regulation or custom (i.e., is reoccurring)
- an annual report contains or accompanies the financial statements and the auditors' report thereon
- an annual report's purpose is to provide owners (or similar stakeholders) with information on the Entity's:
  - o operations; and/or
  - o financial results and financial position as set out in the financial statements.





Conservation Halton  
November 30, 2018

Based on discussions with management, the following are expected to meet the definition of an “annual report” under professional standards:

- The document likely to be entitled "Glossy Annual Report"

Management agrees, when possible, to provide us with the final versions of the document(s) comprising the “annual report” prior to the date of our auditors’ report on the financial statements. If that timing is not possible, management agrees to provide us with the final versions of the document(s) comprising the “annual report” prior to the entity’s issuance so that we can complete our responsibilities required under professional standards.

Management is responsible for the “other information”. Our responsibility is to read the “other information” and, in doing so, consider whether such information is materially inconsistent with:

- the financial statements; or
- our knowledge obtained in the audit.

Our responsibility is also to remain alert for indications that the “other information” appears to be materially misstated.

Our auditors’ report on the financial statements, when applicable under professional standards, will contain a separate section where we will report on this “other information”.

## **INCOME TAX COMPLIANCE AND ADVISORY SERVICES**

Tax compliance and advisory services are outside the scope of this letter. These services will be subject to the terms and conditions of a separate engagement letter.

## **FEES**

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the services described in this letter is \$26,000.

Harmonized Sales Tax (HST) will be computed and shown separately on our invoices, together with our firm’s HST registration number, so that you will have the information required to claim input tax credits and input tax refunds, if applicable.

The Entity agrees, by accepting the terms of this engagement, to pay all invoices to KPMG within 30 days of receipt.

\* \* \* \* \*

We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.

We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable to the Entity, please sign the duplicate of this letter in the space provided and return it to us.



Conservation Halton  
November 30, 2018

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Matthew Betik, CPA, CA  
Partner, responsible for the engagement and its performance, and for the report that is  
issued on behalf of KPMG LLP, and who, where required, has the appropriate authority  
from a professional, legal or regulatory body  
519-747-8245

/ga

Enclosure

The terms of the engagement for Conservation Halton set out are as agreed:

A handwritten signature in black ink that reads 'Marnie Piggot'.

---

Marnie Piggot, Director, Finance

November 30, 2018

---

Date (DD/MM/YY)



Conservation Halton  
November 30, 2018

## Appendix - Management's Responsibilities

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above.
- (b) providing us with all information of which management is aware that is relevant to the preparation of the financial statements such as financial records, documentation and other matters, including:
  - the names of all related parties and information regarding all relationships and transactions with related parties
  - 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. All significant actions are to be included in such summaries.
- (c) providing us with unrestricted access to such relevant information.
- (d) providing us with complete responses to all enquiries made by us during our engagement.
- (e) providing us with additional information that we may request from management for the purpose of the engagement.
- (f) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain evidence.
- (g) 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- (h) ensuring that all transactions have been recorded and are reflected in the financial statements.
- (i) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that, as required by professional standards, we may disclaim an audit opinion when management does not provide certain written representations required.
- (j) ensuring that internal auditors providing direct assistance to us, if any, will be instructed to follow our instructions and that management, and others within the entity, will not intervene in the work the internal auditors perform for us.



Conservation Halton  
November 30, 2018

## Appendix - Auditors' Responsibilities

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's annual financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above
- to report on the annual financial statements

We will conduct the audit of the Entity's annual financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the annual 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
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks
- form an opinion on the Entity's annual financial statements based on conclusions drawn from the audit evidence obtained
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. The form (oral or in writing) and the timing will depend on the importance of the matter and the requirements under professional standards



Conservation Halton  
November 30, 2018

## Appendix - Expected Form of Report

### INDEPENDENT AUDITORS' REPORT

To the Directors

#### ***Opinion***

We have audited the financial statements of Conservation Halton (the Entity), which comprise:

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

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

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

#### ***Basis for Opinion***

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

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

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

#### ***Responsibilities of Management and Those Charged With Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of 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.



Conservation Halton  
November 30, 2018

## **Appendix - Expected Form of Report (continued)**

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity's to cease to continue as a going concern.



*Conservation Halton*  
*November 30, 2018*

#### **Appendix - Expected Form of Report (continued)**

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



## TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS (NOT-FOR-PROFIT)

These Terms and Conditions are an integral part of the accompanying engagement letter or proposal from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter. The term "Entity" used herein has the meaning set out in the accompanying engagement letter or proposal. The term "Management" used herein means the management of Entity.

### 1. DOCUMENTS AND LICENSES.

- a. All working papers, files and other internal materials created or produced by KPMG in relation to this engagement and all copyright and intellectual property rights therein are the property of KPMG.
- b. Only in connection with the services herein, Entity hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of Entity solely for presentations or reports to Entity or for internal KPMG presentations and intranet sites. Further, Entity agrees that KPMG may list Entity as a customer in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "Client is an Audit, Advisory, and/or Tax client of KPMG LLP").

### 2. ENTITY'S RESPONSIBILITIES.

- a. Entity agrees that all management responsibilities will be performed and all management decisions will be made by Entity, and not by KPMG.
- b. Entity's provision of documents and information to KPMG on a timely basis is an important factor in our ability to issue any reports under this Engagement Letter. KPMG is not responsible for any consequences arising from Entity's failure to deliver documents and information as required.
- c. To the extent that KPMG personnel are on Entity's premises, Entity will take all reasonable precautions for their safety.
- d. Entity understands and acknowledges that KPMG's independence may be impaired if any KPMG partner, employee or contractor accepts any offer of employment from Entity.
- e. Except as required by applicable law or regulation, Entity shall keep confidential the terms of this Engagement Letter, and such confidential information shall not be distributed, published or made available to any other person without KPMG's express written permission.
- f. Management agrees to promptly provide us with a copy of any comment letter or request for information issued by any securities or other regulatory authority in respect of information on which KPMG reported, including without limitation any continuous disclosure filings.

### 3. FEE ARRANGEMENTS.

- a. KPMG's estimated fee is based in part on the quality of Entity's records, the agreed-upon level of preparation and assistance from Entity's personnel, and adherence by Entity to the agreed-upon timetable. KPMG's estimated fee also assumes that Entity's financial statements and/or other financial information, as applicable, are prepared in accordance with the relevant financial reporting framework or the relevant criteria, as applicable, and that there are no significant changes to the relevant financial reporting framework or the relevant criteria, as applicable; no significant new or changed accounting policies; no significant changes to internal control; and no other significant issues.
- b. Additional time may be incurred for such matters as significant

issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, Entity and KPMG agree to revise the estimated fee. Our professional fees are also subject to an additional charge to cover information technology infrastructure costs and administrative support of our client service personnel. Disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

c. KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing any applicable report and/or consent.

d. Fees for any other services will be billed separately from the services described in this Engagement Letter and may be subject to written terms and conditions supplemental to those in the Engagement Letter.

e. Canadian Public Accountability Board ("CPAB") participation fees, when applicable, are charged to Entity based on the annual fees levied by CPAB.

### 4. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS; STORAGE AND USE OF INFORMATION.

a. KPMG is a member firm of the KPMG International Cooperative ("KPMG International"). Entity acknowledges that in connection with the provision of services hereunder, KPMG may use the services of KPMG International member firms, as well as other third party service providers or subcontractors, and KPMG shall be entitled to share with them all documentation and information related to the engagement, including Entity's confidential information and personal information ("information"). KPMG may also: (i) directly, or using such aforementioned KPMG International member firms, third party service providers or subcontractors, perform data analytics in respect of the information; and (ii) retain and disclose to KPMG International member firms the information to share best practices or for knowledge sharing purposes. In all such cases, such information may be used, retained, processed, or stored outside of Canada by such KPMG International member firms, other third party service providers or subcontractors, and may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is used, retained, processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG represents that such KPMG International member firms, other third party service providers or subcontractors have agreed or shall agree to conditions of confidentiality with respect to Entity's confidential information, and that KPMG is responsible to ensure their compliance with those conditions. Any services performed by KPMG International member firms or other third party service providers or subcontractors shall be performed in accordance with the terms of this Engagement Letter, but KPMG remains solely responsible to Entity for the delivery of the services hereunder. Entity agrees that any claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or other third party service providers or subcontractors referred to above.





## TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS (NOT-FOR-PROFIT)

b. Certain information (including information relating to time, billing and conflicts) collected by KPMG during the course of the engagement may be used, retained, processed and stored outside of Canada by KPMG, KPMG International member firms or third party service providers or subcontractors providing support services to KPMG for administrative, technological and clerical/organizational purposes, including in respect of client engagement acceptance procedures and maintaining engagement profiles; and to comply with applicable law, regulation or professional standards (including for quality performance reviews). Such information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is used, retained, processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG may also share information with its legal advisers and insurers for the purposes of obtaining advice.

c. Entity acknowledges that KPMG aggregates anonymous information from sources including the Entity for various purposes, including to monitor quality of service, and Entity consents to such use. KPMG may also use Entity's information to offer services that may be of interest to Entity.

### 5. PERSONAL INFORMATION CONSENTS AND NOTICES.

KPMG may be required to collect, use and disclose personal information about individuals during the course of the engagement. Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at [www.kpmg.ca](http://www.kpmg.ca). Entity represents and warrants that (i) it will obtain any consents required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice to those individuals whose personal information may be collected, used and disclosed by KPMG hereunder of the potential processing of such personal information outside of Canada (as described in Section 4 above). KPMG's Privacy Officer noted in KPMG's privacy policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

### 6. THIRD PARTY DEMANDS FOR DOCUMENTATION AND INFORMATION / LEGAL AND REGULATORY PROCESSES.

a. Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to acknowledge that KPMG or a foreign component auditor which has been engaged in connection with an assurance engagement ("component auditor") may from time to time receive demands from a third party (each, a "third party demand"), including without limitation (i) from CPAB or from professional, securities or other regulatory, taxation, judicial or governmental authorities (both in Canada and abroad), to provide them with information and copies of documents in KPMG's or the component auditor's files including (without limitation) working papers and other work-product relating to the affairs of Entity, its subsidiaries and affiliates, and (ii) summons for production of documents or information related to the services provided hereunder; which information and documents may contain confidential information of Entity, its subsidiaries or affiliates. Except where prohibited by law, KPMG or its component auditor, as applicable, will advise Entity or its affiliate or subsidiary of the third party demand. Entity acknowledges, and agrees to cause its subsidiaries and affiliates to acknowledge, that KPMG or its component auditor, as applicable, will produce documents and provide information in response to the third party demand, without further authority from Entity, its subsidiaries or affiliates.

b. KPMG will use reasonable efforts to withhold from production any documentation or information over which Entity asserts privilege. Entity must identify any such documentation or information at the time of its provision to KPMG by marking it as "privileged". Notwithstanding the foregoing, where disclosure of such privileged documents is required by law, KPMG will disclose such privileged documents. If and only if the authority requires such access to such privileged documents pursuant to the laws of a jurisdiction in which express consent of Entity is required for such disclosure, then Entity hereby provides its consent.

c. Entity agrees to reimburse KPMG for its professional time and any disbursements, including reasonable legal fees and taxes, in responding to third party demands.

d. Entity waives and releases KPMG from any and all claims that it may have against KPMG as a result of any disclosure or production by KPMG of documents or information as contemplated herein.

e. Entity agrees to notify KPMG promptly of any request received by Entity from any third party with respect to the services hereunder, KPMG's confidential information, KPMG's advice or report or any related document.

### 7. CONNECTING TO THE ENTITY'S IT NETWORK; EMAIL AND ONLINE FILE SHARING AND STORAGE TOOLS.

a. Entity authorizes KPMG personnel to connect their computers to Entity's IT Network and the Internet via the Network while at the Entity's premises for the purpose of conducting normal business activities.

b. Entity recognizes and accepts the risks associated with communicating electronically, and using online file sharing, storage, collaboration and other similar online tools to transmit information to or sharing information with KPMG, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Entity assumes all responsibility or liability in respect of the risk associated with the use of the foregoing, and agrees that KPMG is not responsible for any issues that might arise (including loss of data) as a result of Entity using the foregoing to transmit information to or otherwise share information with KPMG and, in the case of online tools other than email, KPMG's access to and use of the same in connection with obtaining Entity information and documents.

### 8. LIMITATION ON WARRANTIES.

THIS IS A SERVICES ENGAGEMENT. KPMG WARRANTS THAT IT WILL PERFORM SERVICES HEREUNDER IN GOOD FAITH WITH QUALIFIED PERSONNEL IN A COMPETENT AND WORKMANLIKE MANNER IN ACCORDANCE WITH APPLICABLE INDUSTRY STANDARDS. SUBJECT TO SECTION 14, KPMG DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS OR CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES, REPRESENTATIONS OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

### 9. LIMITATION ON LIABILITY AND INDEMNIFICATION

a. Subject to Section 14: Entity agrees that KPMG shall not be liable to Entity for any actions, damages, claims, fines, penalties, complaints, demands, suits, proceedings, liabilities, costs, expenses, or losses (collectively, "Claims") in any way arising out of or relating to the services performed hereunder for an aggregate amount in excess of one million dollars (\$1,000,000).



## TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS (NOT-FOR-PROFIT)

b. Subject to Section 14, in the event of a Claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Entity will indemnify and hold harmless KPMG from all such Claims, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

c. Subject to Section 14: (i) in no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, liabilities, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs); (ii) in any Claim arising out of the engagement, Entity agrees that KPMG's liability will be several and not joint and several; and (iii) Entity may only claim payment from KPMG of KPMG's proportionate share of the total liability based on degree of fault.

d. For purposes of this Section 9, the term KPMG shall include its subsidiaries, its associated and affiliated entities and their respective current and former partners, directors, officers, employees, agents and representatives. The provisions of this Section 9 shall apply regardless of the form of Claim, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

### 10. CONSENT TO THE USE OF THE KPMG NAME OR KPMG REPORT.

Except as otherwise specifically agreed in this Engagement Letter, KPMG does not consent to:

- i. the use of our name or our report in connection with information, other than what we have reported on as part of this engagement letter or our report thereon, that contains, incorporates by reference, or otherwise accompanies our report or our name;
- ii. the use of our report in another language, or the use of our report in connection with information that we reported on that has been translated into another language, or the use of our name in connection with information that we reported on that has been translated into another language;
- iii. the use of our report in connection with an offering document or other securities filing, including continuous disclosure filings; or
- iv. the use of our name or our report in connection with the interim financial statements (or other interim financial information) to any statement by the Entity regarding the services that we provided on the interim financial statements or other interim financial information. Any communication, report, statement or conclusion on the interim financial statements may not be included in, or otherwise referred to in any public document or public oral statements except when the interim review conclusion contains a modified conclusion, in which case our interim review report will accompany the interim financial statements.

If the Entity wishes to obtain KPMG's consent regarding the matters above or other matters not otherwise specifically covered by this Engagement Letter, we will be required to perform procedures as required by applicable professional standards, and such procedures would be a separate engagement and subject to separate engagement terms.

### 11. ALTERNATIVE DISPUTE RESOLUTION.

Any dispute or claim between the parties arising under or relating to this Engagement Letter or the services provided hereunder (the "Dispute") shall be submitted to non-binding mediation. If

mediation is not successful within 90 days after the issuance by a party of a request for mediation, then the Dispute shall be referred to and finally resolved by arbitration under the Arbitration Rules of the ADR Institute of Canada in force at that time. The Seat of Arbitration shall be the province where KPMG's principal office performing this engagement is located. The language of the arbitration shall be English. The Arbitral Tribunal shall be made up of a single Arbitrator. The arbitration award shall be final, conclusive and binding upon the parties, and not subject to appeal.

### 12. POTENTIAL CONFLICTS OF INTEREST.

a. KPMG is or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that, without further notice or disclosure to Entity, KPMG may: (i) accept or continue such engagements on matters unrelated to KPMG's engagement for Entity; and (ii) provide advice or services to any other person or entity making a competing bid or proposal to that of Entity whether or not KPMG is providing advice or services to Entity in respect of Entity's competing bid or proposal.

b. In accordance with professional standards, KPMG will not use any confidential information regarding Entity in connection with its engagements with other clients, and will establish confidentiality and other safeguards to manage conflicts, which may include, in KPMG's sole discretion, the use of separate engagement teams and data access controls.

c. In no event shall KPMG be liable to Entity, or shall Entity be entitled to a return of fees or disbursements, or any other compensation whatsoever as a result of KPMG accepting or continuing a conflicting engagement in accordance with the terms of this Engagement Letter.

d. Entity agrees that KPMG may, in its sole discretion, disclose the fact and nature of its engagement for Entity to (i) KPMG International member firms to inform conflict searches, and (ii) to the extent reasonably required in order to obtain the consent of another entity or individual in order to permit KPMG to act for such entity or individual, or for Entity, in connection with the engagement or any future engagement.

e. In the event that circumstances arise that place KPMG into a conflict of interest as between Entity and a pre-existing client, which in KPMG's sole opinion cannot be adequately addressed through the use of confidentiality and other safeguards, KPMG shall be entitled to immediately terminate the engagement with Entity, without liability.

f. Other KPMG International member firms are or may be engaged by entities and individuals who have potentially conflicting legal and business interests to Entity. Entity agrees that (i) it will not assert that other KPMG International member firms are precluded from being engaged by those other entities or individuals, and (ii) those engagements of other KPMG International member firms do not conflict with KPMG's engagement for Entity.

### 13. LOBBYING.

Unless expressly stated in this Engagement Letter, KPMG will not undertake any lobbying activity, as that term is defined in all applicable federal, provincial and municipal lobbyist registration statutes and regulations, in connection with the engagement. In the event that KPMG and Entity agree that KPMG will undertake lobbying activity in connection with the engagement, such agreement shall be set out in an amendment to this Engagement Letter.



**TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS  
(NOT-FOR-PROFIT)**

---

**14. SEVERABILITY.**

The provisions of these Terms and Conditions and the accompanying proposal or engagement letter shall only apply to the extent that they are not prohibited by a mandatory provision of applicable law, regulation or professional standards. If any of the provisions of these Terms and Conditions or the accompanying proposal or engagement letter are determined to be invalid, void or unenforceable, the remaining provisions of these Terms and Conditions or the accompanying proposal or engagement letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall remain valid and in effect and be enforceable and binding on the parties to the fullest extent permitted by law.

**15. GOVERNING LAW.**

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law).

**16. LLP STATUS.**

KPMG is a registered limited liability partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial LLP legislation.

**17. INDEPENDENT LEGAL ADVICE**

Entity agrees that it been advised to retain independent legal advice at its own expense prior to signing this Engagement Letter (including without limitation with respect to Entity's rights in connection with potential future conflicts) and agrees that any failure on its part to retain such independent legal counsel shall not affect (and it shall not assert that the same affects) the validity of the provisions of this Engagement Letter.

**18. SURVIVAL.**

All sections hereof other than Section 7(a) shall survive the expiration or termination of the engagement.