



THE TORONTO AND REGION CONSERVATION AUTHORITY

Business Excellence Advisory Board Meeting #3/07

Chair: David Barrow
Vice Chair: Paul Ainslie
Members: Eve Adams
Bill Fisch
Rob Ford
Peter Milczyn
Ron Moeser
Maja Prentice
Gino Rosati
Gerri Lynn O'Connor - Chair, Authority

April 27, 2007

9:00 A.M.

TENNIS CANADA, PLAYERS LOUNGE B

AGENDA

1. **MINUTES OF MEETING #1/07, HELD ON MARCH 2, 2007 AND
MINUTES OF MEETING #2/07, HELD ON APRIL 13, 2007** Pages
(Minutes Summary of Meeting #1/07 previously distributed. Minutes of Meeting #2/07 enclosed herewith on YELLOW)
2. **BUSINESS ARISING FROM THE MINUTES**
3. **DISCLOSURE OF PECUNIARY INTEREST AND THE GENERAL NATURE THEREOF**
4. **DELEGATIONS**
5. **PRESENTATIONS**
 - 5.1 A presentation by Allister Byrne, Partner, Grant Thornton, LLP, in regard to item 7.1 - Audited Financial Statements - 2006.
6. **CORRESPONDENCE**

7. SECTION I - ITEMS FOR AUTHORITY ACTION

7.1 AUDITED FINANCIAL STATEMENTS - 2006

3-50

9. NEW BUSINESS

NEXT MEETING OF THE BUSINESS EXCELLENCE ADVISORY BOARD #4/07,
TO BE HELD ON FRIDAY, JUNE 1, 2007 AT 9:00 A.M.
IN THE VICTORIA ROOM, BLACK CREEK PIONEER VILLAGE

Brian Denney
Chief Administrative Officer

/af

TO: Chair and Members of the Business Excellence Advisory Board
Meeting #3/07, April 27, 2007

FROM: James W. Dillane, Director, Finance and Business Services

RE: AUDITED FINANCIAL STATEMENTS - 2006

KEY ISSUE

The 2006 audited financial statements are presented for the Business Excellence Advisory Board's approval and recommendation to the Authority.

RECOMMENDATION

THE BOARD RECOMMENDS TO THE AUTHORITY THAT the transfer of funds into and from reserves during 2006, as outlined in the schedule to the financial statements entitled "Continuity of Reserves", be approved;

AND FURTHER THAT the 2006 audited financial statements, as presented, be approved, signed by the Chair and Secretary-Treasurer of the Toronto and Region Conservation Authority (TRCA), and distributed to each member municipality and the Minister of Natural Resources, in accordance with subsection 38 (3) of the Conservation Authorities Act.

BACKGROUND

The financial statements of Toronto and Region Conservation Authority for 2006 are presented for approval. The accounting firm of Grant Thornton LLP, has completed its audit and has included with the financial statements an unqualified auditor's report, dated April 4, 2007. The audited financial statements are presented as Attachment 1 to the report.

The auditor has also prepared a report addressed to the Business Excellence Advisory Board, which serves as TRCA's audit committee, entitled "Communication of Audit Results." In this report, the auditor addresses audit results, reportable matters and technical accounting updates. Also included in this report are copies of the draft auditors' report, management representation letter, internal control letter, independence letter and an update of the latest accounting and auditing developments. Members should refer to Attachment 2 for the complete report.

A representative from Grant Thornton LLP will be in attendance to present the auditor's report on the 2006 financial statements.

RATIONALE

Deficit position:

For the year ended December 31, 2006, expenditures exceeded revenues and reserve allocations by an amount of \$240,914, increasing the deficit from \$589,750 to \$830,664, as outlined in the table below:

	Budget	Actual
Deficit, beginning of the year	(\$589,750)	(\$589,750)
2006 operating results	-	425,014
2006 capital results	(1,250,000)	(665,928)
Deficit, end of year	(\$1,839,750)	(\$830,664)

Within the operating accounts, TRCA achieved an operating surplus of \$425,014. A number of positive and negative variances contributed to this final surplus position. Most notably of these variances, as explained in the year end financial progress report, include a shortfall of general Living City funding from The Conservation Foundation of Greater Toronto (\$284,400); unbudgeted sales tax and property tax recoveries (\$244,000); and within the Restoration Services Division special tree planting and restoration projects produced revenues in excess of budget in the amount of \$636,700, of which \$332,000 will be used to offset the in-year deficit within the capital accounts caused by the construction of the Restoration Services Centre, as noted below.

Although the 2006 budget had anticipated a deficit of \$1,250,000 within the capital accounts (representing the difference between available funding and budgeted project expenditures in 2006), delays in completing the Restoration Services Centre resulted in an underexpenditure of \$681,700 and a contribution to the overall deficit of \$680,840. After taking into account the operating surplus within the Restoration Services Division of \$332,000, the net deficit that can be attributed to this construction project in 2006 amounts to approximately \$349,000. An additional \$814,000 has been budgeted in 2007 to complete the project and the 2007 operating budget provides conservatively an amount of \$200,000 that can be generated from special projects and used to pay down the cost of the Restoration Services Centre. It will take several years beyond 2007 before the costs of construction will be fully recovered in this manner.

At the beginning of the year the deficit within the land accounts amounted to \$158,000. Staff is pleased to report that there was available funding in 2006 to pay for all acquisitions during the year as well as for lands which had been acquired in prior years.

As noted on the statement of financial position (page 3 of the financial statements), TRCA cash flows are sufficient to ensure no borrowing is required to finance the deficit.

Reserves:

At Authority Meeting #9/03, held on November 28, 2003, Resolution #A254/03 approved a reserves policy including the establishment of a new operating contingency reserve. Since then, the operating contingency reserve balance has grown from \$871,667 to \$1,491,320. Staff is of the opinion that this amount is probably insufficient to meet material, unforeseen economic hardship. The 2007 budget provides for a surplus position of \$100,000, a modest attempt at paying down the accumulated deficit and eventually building up reserves. The Special Projects reserve was set up to fund the cost of the new Restoration Services Centre in Vaughan, within the Boyd complex. During the year the reserve was used in its entirety to help finance a portion of the costs incurred for that project.

The "Continuity of Reserves" schedule on page 17 of the financial statement package, provides a summary of reserves balances as of December 31, 2006.

Internal Control Letter

Appendix "C" of Attachment 2, "Report to the Business Excellence Advisory Board - Communication of Audit Results" contains the internal control or management letter, wherein the auditor highlights various internal control findings. There were no new findings during the 2006 audit cycle. The auditor notes that while management has addressed several items from the 2005 report, there still remains outstanding several recommendations, including improved sales and admission system and additional physical security of IT infrastructure. Management is in agreement with the recommendations and will seek to address them this year.

Report prepared by: Rocco Sgambelluri, extension 5232
For Information contact: Rocco Sgambelluri, extension 5232;
Jim Dillane, extension 6292

Date: April 18, 2007

Attachments: 2

Toronto and Region Conservation Authority
Financial Statements
December 31, 2006

Grant Thornton 

DRAFT

Contents

DRAFT

	<u>Page</u>
Auditors' Report	1
Statement of Financial Activities and Deficit	2
Statement of Financial Position	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 9
Schedule of Financial Activities – Watershed Management and Health Monitoring	10
Schedule of Financial Activities – Environmental Advisory Services	11
Schedule of Financial Activities – Watershed Stewardship	12
Schedule of Financial Activities – Conservation Land Management, Development and Acquisition	13
Schedule of Financial Activities – Conservation and Education Programming	14
Schedule of Financial Activities – Corporate Services	15
Schedule of Financial Activities – Vehicle and Equipment	16
Continuity of Reserves	17

DRAFT

Auditors' Report

To the Members of the
Toronto and Region Conservation Authority

We have audited the statement of financial position of the **Toronto and Region Conservation Authority** as at December 31, 2006 and the statements of financial activities and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Markham, Canada
April 4, 2007

Grant Thornton LLP
Chartered Accountants

**Toronto and Region Conservation Authority
Statement of Financial Activities and Deficit**

DRAFT

Year Ended December 31

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Watershed management and health monitoring	\$ 25,204,001	\$ 18,495,572	\$ 8,593,258
Environmental advisory services	3,778,299	3,692,577	3,711,406
Watershed stewardship	12,213,200	9,817,716	6,996,044
Conservation land management, development and acquisition	38,455,500	35,070,628	25,752,425
Conservation and education programming	16,047,000	15,254,922	13,821,526
Corporate services	5,627,900	5,244,585	4,833,133
Vehicle and equipment, net of usage charged	-	27,129	134,295
	<u>101,325,900</u>	<u>87,603,129</u>	<u>63,842,087</u>
Revenue			
Municipal			
Levies	26,902,400	21,097,727	21,771,302
Other	5,407,300	8,081,985	2,246,443
Government grants			
MNR transfer payments	845,800	845,753	845,753
Provincial - other	3,192,200	5,552,902	2,252,108
Federal	1,499,400	1,588,217	1,110,042
Authority generated			
User fees, sales and admissions	13,937,000	13,003,163	10,964,378
Contract services	573,700	334,321	641,027
Interest income	360,000	473,446	396,122
Proceeds from sale of properties	600,000	330,658	1,030,523
The Conservation Foundation of Greater Toronto	1,235,100	2,896,712	1,454,127
Donations and fundraising	2,786,700	1,154,588	1,433,404
Facility and property rentals	2,249,400	2,218,706	2,256,811
Canada Post Corporation agreement	81,600	34,946	36,164
ORM Corridor Park contribution agreement	1,200,000	1,054,085	-
Toronto Waterfront Revitalization Corporation	36,997,600	26,420,408	15,707,086
Sales and property tax refunds	-	244,350	220,187
Sundry	604,500	676,731	1,068,685
	<u>98,472,700</u>	<u>86,008,698</u>	<u>63,434,162</u>
Excess of expenditures over revenue	(2,853,200)	(1,594,431)	(407,925)
Appropriations from (to) reserves (Page 17)	<u>1,603,200</u>	<u>1,353,517</u>	<u>254,848</u>
	(1,250,000)	(240,914)	(153,077)
Deficit, beginning of year	<u>(589,750)</u>	<u>(589,750)</u>	<u>(436,673)</u>
Deficit, end of year	\$ <u>(1,839,750)</u>	\$ <u>(830,664)</u>	\$ <u>(589,750)</u>

See accompanying notes to the financial statements.

DRAFT

Toronto and Region Conservation Authority
Statement of Financial Position

DRAFT

December 31

2006

2005

Assets

Cash and cash equivalents	\$ 10,618,733	\$ 5,930,969
Marketable securities (Note 7)	3,998,647	3,698,374
Receivables (Note 3)	13,552,566	9,855,518
Inventory	521,009	533,232
Prepays	<u>185,403</u>	<u>163,543</u>
	\$ 28,876,358	\$ 20,181,636

Liabilities

Payables and accruals	\$ 15,478,710	\$ 6,962,306
Deferred revenue		
Municipal levies	6,372,978	5,399,556
Capital, special projects and other	5,982,184	5,182,857
Vacation pay and sick leave entitlements	<u>1,645,898</u>	<u>1,561,781</u>
	<u>29,479,770</u>	<u>19,106,500</u>

Fund Balances

Reserves (Page 17)	1,873,150	3,226,667	
Deficit		<u>(830,664)</u>	<u>(589,750)</u>
	1,042,486	2,636,917	
Amounts to be funded in future years	<u>(1,645,898)</u>	<u>(1,561,781)</u>	
	<u>(603,412)</u>	<u>1,075,136</u>	
	\$ 28,876,358	\$ 20,181,636	

Contingent liabilities and commitments (Note 8)

On behalf of the Authority

_____ Chair

_____ Secretary-Treasurer

See accompanying notes to the financial statements.

Toronto and Region Conservation Authority
Statement of Cash Flows

Year Ended December 31

DRAFT
2006 **2005**

Increase (decrease) in cash and cash equivalents

Operating		
Excess of expenditures over revenue	\$ (1,594,431)	\$ (407,925)
Changes in non-cash working capital		
Receivables	(3,697,048)	(4,604,763)
Inventory	12,223	50,074
Prepays	(21,860)	191,550
Payables and accruals	8,516,404	2,209,801
Deferred revenue	1,772,749	(395,097)
Vacation pay and sick leave entitlements	84,117	227,567
	<u>5,072,154</u>	<u>(2,728,793)</u>
Investing		
Proceeds on maturities of marketable securities	1,698,376	2,994,618
Purchase of marketable securities	<u>(1,998,649)</u>	<u>(1,999,998)</u>
	<u>(300,273)</u>	<u>994,620</u>
Financing		
Increase in amounts to be funded in future years	<u>(84,117)</u>	<u>(227,567)</u>
Net increase (decrease) in cash and cash equivalents	4,687,764	(1,961,740)
Cash and cash equivalents, beginning of year	<u>5,930,969</u>	<u>7,892,709</u>
Cash and cash equivalents, end of year	\$ <u>10,618,733</u>	\$ <u>5,930,969</u>

See accompanying notes to the financial statements.

Toronto and Region Conservation Authority

Notes to the Financial Statements

DRAFT

December 31, 2006

1. Nature of operations

The Toronto and Region Conservation Authority (the "Authority") is established under the Conservation Authorities Act of Ontario to further the conservation, restoration, development and management of natural resources, other than gas, oil, coal and minerals for the nine watersheds within its area of jurisdiction. The Authority's area of jurisdiction includes areas in the City of Toronto, the Regions of Durham, Peel and York, and the Township of Adjala-Tosorontio and Town of Mono.

2. Summary of significant accounting policies

The financial statements of the Authority are prepared by management in accordance with Canadian generally accepted accounting principles for organizations operating in the local government sector as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Authority are as follows:

Basis of accounting

Revenue and expenditures are recorded on the accrual basis, whereby they are reflected in the accounts in the year in which they have been earned and incurred, respectively, whether or not such transactions have been settled by the receipt or payment of money.

Cash and cash equivalents

The Authority considers deposits in banks, certificates of deposit and short term investments with original maturities of 90 days or less as cash and cash equivalents.

Capital expenditures

Capital expenditures are reported on the statement of financial activities in the year incurred.

Reserves

Reserves for future expenditures and contingencies are established as required at the discretion of the members of the Authority. Increases or decreases in these reserves are made by appropriations to or from operations.

Revenue recognition

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

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

Toronto and Region Conservation Authority

Notes to the Financial Statements

DRAFT

December 31, 2006

2. Summary of significant accounting policies (continued)

Deferred revenue

The Authority receives certain amounts principally from other public sector bodies, the proceeds of which may only be used in the conduct of certain programs or completion of specific work. Further, certain user charges and fees are collected but for which the related services have yet to be performed. These amounts are recognized as revenue when the related expenditures are incurred or services performed.

Inventory

Inventories of goods for resale are valued at the lower of cost and net realizable value. Nursery inventory is valued at the lower of cost and replacement value. Cost is determined on a first-in, first out basis.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from those estimates.

Vacation pay and sick leave entitlements

Vacation credits earned but not taken and sick leave entitlements are accrued as earned.

3. Receivables	<u>2006</u>	<u>2005</u>
Municipal levies	\$ 125,000	\$ -
Toronto Waterfront Revitalization Corporation	4,859,873	5,503,041
City of Toronto	484,836	443,902
Regional Municipality of York	356,562	328,441
Conservation Foundation of Greater Toronto	1,147,583	390,071
Government of Canada	756,595	850,523
Province of Ontario	3,418,598	337,016
Interest receivable	322,610	476,470
Trade and other	<u>2,080,910</u>	<u>1,526,054</u>
	\$ <u>13,552,566</u>	\$ <u>9,855,518</u>

Toronto and Region Conservation Authority

Notes to the Financial Statements

DRAFT

December 31, 2006

4. Trust funds

The Authority administers funds on behalf of the Rouge Park Alliance amounting to \$435,146 (2005 - \$353,832). These funds are held in trust by the Authority for the benefit of others and therefore are not presented as part of the Authority's financial position or financial activities.

5. Reserve funds held under provincial revenue-sharing policy

Revenue generated from the sale of properties may be held in a reserve created under the Ministry of Natural Resources' policy for the disposition of Authority-owned properties. The Ministry reserves the right to direct the purpose to which the provincial share of funds may be applied or to request a refund. The proceeds on the sale of properties are attributed to the province and the member municipalities on the basis of their original contribution when the properties were acquired. The reserve balance must always be maintained in proportion to the original contribution by the province and the Authority, represented by the member municipalities. The Authority is permitted to withdraw the municipal share of the reserve provided that the corresponding provincial share is either matched by other sources of funding or returned to the province. Interest at prevailing market rates must be imputed on the unspent balance (if any) of the reserve.

The changes of the reserve in 2006 and 2005 are based upon the following transactions recorded in operations:

	<u>2006</u>	<u>2005</u>
Reserve balance, beginning of year	\$ -	\$ -
Net proceeds from sale of properties	330,658	1,030,523
Interest	7,570	-
Applications:		
Greenspace acquisition project	<u>(292,083)</u>	<u>(1,030,523)</u>
Reserve balance, end of year	\$ <u>46,145</u>	\$ <u>-</u>

6. Pension agreements

The Authority makes contributions to the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer plan, on behalf of full-time members of staff and eligible part-time staff. The plan is a defined benefit pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contributions made by the Authority to OMERS for 2006 were \$1,468,990 (2005 - \$1,212,522).

Toronto and Region Conservation Authority

Notes to the Financial Statements

DRAFT

December 31, 2006

7. Financial instruments

The Authority's financial instruments include cash and cash equivalents, marketable securities, receivables, payables and accruals, the sick leave benefit plan accrual, deferred revenue, security deposits and vacation pay and sick leave entitlements.

The fair values of cash and cash equivalents, receivables, payables and accruals, deferred revenue and vacation pay approximate their carrying values because of their expected short term maturity and treatment on normal trade terms.

The Authority's short term deposits as at December 31, 2006 consisted primarily of money market products. Further information on these investments is as set out below:

<u>Term to Maturity</u>	<u>Market Value</u>	<u>Face Value</u>	<u>Weighted Average Rate of Interest</u>
Less than one year	\$ 1,685,880	\$ 1,499,998	3.85%
Less than three years	<u>2,540,066</u>	<u>2,498,649</u>	4.01%
	<u>\$ 4,225,946</u>	<u>\$ 3,998,647</u>	

8. Contingent liabilities and commitments

(a) Legal actions and claims:

The Authority has received statements of claim as defendant under various legal actions resulting from its involvement in land purchases, fatalities, personal injuries and flooding on or adjacent to its properties. The Authority maintains insurance coverage against such risks and has notified its insurers of the legal actions and claims. It is not possible at this time to determine the outcome of these claims and, therefore, no provision has been made in these financial statements.

(b) As part of some agreements entered into by the Authority, sites purchased are required to be remediated. Any unpaid costs associated with these activities have not been reflected in these financial statements as any costs would be reimbursed through contributions as required under the agreements.

Toronto and Region Conservation Authority

Notes to the Financial Statements

DRAFT

December 31, 2006

8. Contingent liabilities and commitments (continued)

(c) The Authority has completed the acquisition of lands required to undertake various projects. One of the most significant of these projects is the Revised Project for the Etobicoke Motel Strip. Some of the properties required for this project were obtained through expropriation. Funding was obtained from the City of Etobicoke and the Municipality of Metropolitan Toronto (now collectively known as the City of Toronto) and the Province of Ontario. On October 4, 2004, a decision of the Ontario Municipal Board was delivered in one of the expropriations. The amount awarded was between \$7.2 and \$9.1 million plus interest and costs. The appeal to the Divisional Court was heard in December of 2005 and the decision was received in April of 2006 which reduced the award by \$4 million. As a result of this decision, the Authority has recorded an amount of \$5,063,462 for market value, disturbance damages and interest. Still outstanding is the amount of injurious affection, interest on this amount and costs. Also outstanding are three remaining expropriations.

(d) Lease commitments

The Authority has entered into agreements to lease premises, equipment and vehicles for various periods until 2011. Minimum lease payments in aggregate for each of the next four years are as follows:

2007	404,773
2008	317,868
2009	143,312
2010	9,533
2011	7,150

9. Budget figures - 2006

The 2006 budget figures included in these financial statements are those adopted by the Authority on April 28, 2006. The budget figures are unaudited.

10. Comparative figures

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

Toronto and Region Conservation Authority
Schedule of Financial Activities – Watershed Management and Health
Monitoring

DRAFT

Year Ended December 31

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Watershed strategies	\$ 1,777,800	\$ 1,829,165	\$ 1,385,534
Resource inventory and environmental monitoring	1,335,201	1,367,149	1,197,062
Flood forecasting and warning	213,700	241,495	245,339
Floor control structures, operations and maintenance	325,000	277,834	332,308
Source Water Protection	<u>1,445,000</u>	<u>1,562,300</u>	<u>1,129,761</u>
	5,096,701	5,277,943	4,290,004
Capital and other projects and studies			
Regional monitoring study and other monitoring projects	621,100	601,819	664,739
Water management projects	3,190,500	1,670,644	1,608,272
Lower Don flood control	14,522,500	9,834,803	1,046,965
Terrestrial Natural Heritage study	240,600	235,779	303,750
Floodplain mapping	432,000	137,966	341,243
Groundwater strategies	591,600	482,930	338,285
Other flood control projects	<u>509,000</u>	<u>253,688</u>	-
	<u>25,204,001</u>	<u>18,495,572</u>	<u>8,593,258</u>
Revenue			
Municipal			
Levies	7,163,300	5,616,568	3,998,802
Other	1,122,900	200,311	258,584
Government grants			
MNR transfer payments	550,000	550,000	549,860
Provincial – other	1,891,950	1,954,540	1,436,685
Federal	303,550	410,716	251,431
Authority generated			
Contract services	-	12,953	100,644
Interest		12,014	-
The Conservation Foundation of Greater Toronto	202,500	112,707	86,534
Toronto Waterfront Revitalization Corporation	14,522,500	9,834,803	1,046,965
Donations and fundraising	400,000	600,072	401,887
Sundry	<u>88,500</u>	<u>154,540</u>	<u>65,725</u>
	<u>26,245,200</u>	<u>19,459,224</u>	<u>8,197,117</u>
Excess of expenditures over revenue	\$ 1,041,199	963,652	(396,141)

Toronto and Region Conservation Authority
Schedule of Financial Activities – Environmental Advisory Services
Year Ended December 31

DRAFT

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Municipal/public plan input and review	\$ 1,631,799	\$ 1,588,579	\$ 1,269,344
Development plan input and review	<u>2,146,499</u>	<u>2,103,998</u>	<u>2,442,062</u>
	<u>3,778,298</u>	<u>3,692,577</u>	<u>3,711,406</u>
Revenue			
Municipal			
Levies	(138,200)	(138,200)	458,900
Other	778,300	792,701	841,144
Government grants			
MNR transfer payments	178,400	178,353	178,493
Provincial – other	-	1,668	18,800
Federal	-	-	7,150
Authority-generated			
Regulation administration fees	2,627,000	2,742,469	2,282,351
Sundry	<u>-</u>	<u>1,818</u>	<u>-</u>
	<u>3,445,500</u>	<u>3,578,809</u>	<u>3,786,838</u>
Excess of revenue over expenditures	\$ (332,798)	\$ (113,768)	\$ 75,432

Toronto and Region Conservation Authority
Schedule of Financial Activities – Watershed Stewardship
Year Ended December 31

DRAFT

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Watershed stewardship	\$ 2,450,400	\$ 1,884,746	\$ 1,821,665
Capital and other projects and studies			
Erosion control and slope stabilization project	2,875,100	2,211,678	1,771,694
Erosion control – Peel and York Regions	26,000	34,965	-
Toronto Remedial Action Plan	2,226,700	1,749,530	1,862,457
Peel Natural Heritage project	1,142,300	987,552	781,371
York Natural Heritage project	525,600	692,505	451,657
Durham Natural Heritage project	148,900	120,260	94,993
Nursery workshop and office	<u>2,818,200</u>	<u>2,136,480</u>	<u>212,207</u>
	<u>12,213,200</u>	<u>9,817,716</u>	<u>6,996,044</u>
Revenue			
Municipal			
Levies	8,030,600	6,030,219	4,546,726
Other	99,000	1,055,708	349,239
Government grants			
Provincial – other	505,500	202,109	231,757
Federal	628,300	653,317	580,331
Authority generated			
Contract services	573,700	321,368	540,383
Tipping fees	600,000	298,672	471,726
Interest	-	992	815
The Conservation Foundation of Greater Toronto	235,300	310,495	114,252
Donations and fundraising	-	5,406	34,591
Sundry	<u>122,600</u>	<u>173,896</u>	<u>98,952</u>
	<u>10,795,000</u>	<u>9,052,182</u>	<u>6,968,772</u>
Excess of expenditures over revenue	\$ <u>(1,418,200)</u>	\$ <u>(765,534)</u>	\$ <u>(27,272)</u>

**Toronto and Region Conservation Authority
Schedule of Financial Activities – Conservation Land Management,
Development and Acquisition**

DRAFT

Year Ended December 31

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Conservation land management			
Property services	\$ 1,314,300	\$ 1,259,553	\$ 1,100,952
CA land management	294,400	243,745	288,499
Rental properties	<u>1,816,700</u>	<u>1,701,348</u>	<u>1,927,083</u>
	3,425,400	3,204,646	3,316,534
Capital and other projects and studies			
Greenspace acquisition	5,100,000	5,460,733	2,122,564
Rouge River Natural Areas			
Acquisition project	-	-	256,910
Waterfront development	2,332,900	1,716,945	2,207,908
Port Union development	4,171,500	2,919,841	2,600,122
Mimico Linear Park	2,093,000	1,248,255	3,115,822
Tommy Thompson Park	2,552,200	324,523	342,974
Western Beaches Watercourse Facility	13,658,400	12,030,662	8,535,881
Etobicoke Motel Strip waterfront project	553,200	5,408,357	154,267
Conservation area development	1,265,700	662,995	667,912
Living City Centre at Kortright – infrastructure	679,400	141,738	68,886
Peel campground improvements	-	28,858	258,314
Washroom upgrades	329,800	9,804	-
Peel land planning	429,800	172,606	-
Drinking water system upgrades	242,900	442,862	582,569
Black Creek Pioneer Village			
retrofit / attractions project	421,300	214,627	1,375,258
Greater Toronto Region trail	-	33	2,560
ORM Corridor Park Development	<u>1,200,000</u>	<u>1,083,143</u>	<u>143,944</u>
	<u>38,455,500</u>	<u>35,070,628</u>	<u>25,752,425</u>
Revenue			
Municipal			
Levies	5,396,300	3,525,326	5,172,734
Other	3,272,100	5,922,490	693,581
Government grants			
Provincial – other	276,600	2,740,402	243,049
Federal	5,000	70,223	29,074
Authority-generated			
Rental properties	2,249,400	2,218,706	2,256,811
Tipping fees	-	-	4,722
Interest	-	12,900	4,924
Proceeds from sale of properties	600,000	330,658	1,030,523
The Conservation Foundation of			
Greater Toronto	115,200	1,657,363	416,223
Toronto Waterfront Revitalization			
Corporation	22,475,100	16,585,605	14,660,121
Donations and fundraising	2,100,000	499,232	850,000
Canada Post Corporation agreement	81,600	34,946	36,164
ORM Corridor Park contribution agreement	1,200,000	1,054,085	
Sales and property tax refunds	-	66,374	220,187
Sundry	<u>289,800</u>	<u>181,071</u>	<u>472,825</u>
	<u>38,061,100</u>	<u>34,899,381</u>	<u>26,090,938</u>

Excess of revenue over expenditures

\$ (394,400)

\$ ~~(171,247)~~

\$ ~~338,513~~

DRAFT

**Toronto and Region Conservation Authority
Schedule of Financial Activities – Conservation and Education
Programming**

DRAFT

Year Ended December 31

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>	
Expenditures				
Conservation land programming				
Conservation areas	\$ 2,934,400	\$ 2,952,818	\$ 3,602,852	
ORM Park Operation	1,126,000	1,034,804	-	
Conservation/Heritage education programming				
Black Creek Pioneer Village	5,298,500	5,072,641	5,026,405	
Kortright Centre for Conservation	1,402,200	1,433,468	1,368,735	
Community Transformation Partnership		1,443,400	1,053,119	822,457
Conservation Field Centres	1,973,000	1,882,536	1,866,651	
Education Outreach	714,800	719,142	566,150	
Conservation Education Management		352,600	287,875	303,019
Marketing	<u>802,100</u>	<u>818,519</u>	<u>265,257</u>	
	<u>16,047,000</u>	<u>15,254,922</u>	<u>13,821,526</u>	
Revenue				
Municipal				
Levies	3,422,200	3,411,737	3,528,400	
Other	130,000	103,054	90,872	
Government grants				
Provincial – other	506,900	519,903	297,876	
Federal	551,300	437,711	236,431	
Authority-generated				
Conservation areas	3,067,500	2,882,733	3,021,054	
Black Creek Pioneer Village	3,132,600	2,959,528	2,600,951	
Kortright Centre	1,155,500	1,105,454	1,028,694	
ORM Park Operation	1,251,000	1,140,380	-	
Conservation Field Centres	1,596,900	1,512,871	1,473,799	
Community Transformation Partnership	458,500	314,587	38,991	
Corporate Education Outreach	-	2,857	-	
The Conservation Foundation of Greater Toronto	667,100	799,960	837,118	
Donations and fundraising	286,700	49,878	135,026	
Sundry	<u>95,200</u>	<u>164,699</u>	<u>247,337</u>	
	<u>16,321,400</u>	<u>15,405,352</u>	<u>13,536,549</u>	
Excess of expenditures over revenue	\$ 274,400	\$ 150,430	\$ (284,977)	

Toronto and Region Conservation Authority
Schedule of Financial Activities – Corporate Services
Year Ended December 31

DRAFT

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Corporate management	\$ 937,500	\$ 964,568	\$ 922,444
Office services	1,130,800	1,126,249	997,859
Financial services	791,200	788,668	781,638
Human resources	475,700	478,919	422,138
Information technology	870,400	841,550	850,731
Corporate communications	982,300	956,830	659,621
Professional Access Program	-	94,171	-
Recoveries from Programs	<u>(650,000)</u>	<u>(725,315)</u>	<u>(593,266)</u>
	4,537,900	4,525,640	4,041,165
Capital and other projects and studies			
Administrative office	690,000	463,923	274,334
Information Technology			
Acquisition project	<u>400,000</u>	<u>255,022</u>	<u>517,634</u>
	<u>5,627,900</u>	<u>5,244,585</u>	<u>4,833,133</u>
Revenue			
Municipal:			
Levies	3,028,200	2,652,077	4,065,740
Other	5,000	7,721	13,023
Government grants			
MNR transfer payments	117,400	117,400	117,400
Provincial – other	11,250	134,280	23,941
Federal	11,250	16,250	5,625
Authority-generated			
Interest	360,000	447,540	390,383
Retail Sales	48,000	43,612	42,090
The Conservation Foundation of Greater Toronto	15,000	16,188	-
Donation and fundraising	-	-	11,900
Sales and property tax rebate	-	177,976	-
Sundry	<u>8,400</u>	<u>706</u>	<u>183,846</u>
	<u>3,604,500</u>	<u>3,613,750</u>	<u>4,853,948</u>
Excess of revenue over expenditures	\$ (2,023,400)	\$ (1,630,835)	\$ 20,815

Toronto and Region Conservation Authority
Schedule of Financial Activities – Vehicle and Equipment
Year Ended December 31

DRAFT

	2006 <u>Budget</u> (Note 9)	2006 <u>Actual</u>	2005 <u>Actual</u>
Expenditures			
Operations			
Fuel, maintenance and repairs	\$ 425,600	\$ 469,271	\$ 458,970
Other overhead	<u>46,100</u>	<u>56,334</u>	<u>45,227</u>
	<u>471,700</u>	<u>525,605</u>	<u>504,197</u>
Capital			
Purchase of equipment and machinery	230,000	289,612	202,892
Purchase of vehicles	130,000	174,587	291,606
Proceeds on disposals or trade-in	<u>(53,000)</u>	<u>(66,528)</u>	<u>(32,870)</u>
	<u>307,000</u>	<u>397,671</u>	<u>461,628</u>
Total expenditures	778,700	923,276	965,825
Recovery of expenditures by charges based on usage	<u>(778,700)</u>	<u>(896,147)</u>	<u>(831,530)</u>
Charge (credit) to expenditures	\$ <u>-</u>	\$ <u>27,129</u>	\$ <u>134,295</u>

**Toronto and Region Conservation Authority
Continuity of Reserves**

Year Ended December 31, 2006

DRAFT

	Balance Beginning of Year	Appropriations	Inter-reserve Transfers	Balance End of Year
Vehicle and equipment	\$ 340,302	\$ (27,129)	\$ -	\$ 313,173
Tree donation program	24,644	(2,132)	-	22,512
Special projects	1,311,462	(1,311,462)	-	-
Operating contingency	1,550,259	(58,939)	-	1,491,320
Funds held under provincial sharing policy	-	46,145	-	46,145
	<u>\$ 3,226,667</u>	<u>\$ (1,353,517)</u>	<u>\$ -</u>	<u>\$ 1,873,150</u>

Report to the Business Excellence Advisory Board - Communication of
Audit Results

Toronto and Region Conservation Authority

For the year ended December 31, 2006

Grant Thornton 

Grant Thornton LLP
Chartered Accountants
Management Consultants

April 4, 2007

To the members of the Business Excellence Advisory Board
Toronto and Region Conservation Authority

We are pleased to report that we have now completed our audit of the financial statements of Toronto and Region Conservation Authority (the "Authority") for the year ended December 31, 2006. We have attached our draft auditors' report. We will finalize this auditors' report once we have the opportunity to discuss the results of our audit with you.

The report to the audit committee has been prepared in accordance with the assurance recommendations issued by the Canadian Institute of Chartered Accountants (CICA) entitled "Communications with Those Having Oversight Responsibility for the Financial Reporting Process". That standard recommends we communicate with the Business Excellence Advisory Board (the "Board") various matters including: the overall audit strategy, our responsibility as auditors, any matters arising from the audit, misstatements, significant accounting policies, and any other matters that may be of interest to the audit committee.

We express our appreciation for the cooperation and assistance received from the management and staff of the Authority during the course of our audit.

If you have any particular comments or concerns, please do not hesitate to raise them at our scheduled meeting.

Yours very truly,

GRANT THORNTON LLP



Allister Byrne, F.C.A.
Partner

cc: Brian Denney, Chief Administration Officer
Jim Dillane, Director Finance and Business Services
Rocco Sgambelluri, Controller

15 Allstate Parkway
Suite 200
Markham, Ontario
L3R 5B4
T (416) 366-0100
F (905) 475-8906
E Markham@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International

Contents

	Page
Status of the audit.....	1
Audit results	2
Reportable matters	4
Technical updates	6
 Appendices	
Appendix A – Draft auditors’ report.....	7
Appendix B – Internal Control Letter	9
Appendix C – Independence Letter	13
Appendix D – Accounting and Auditing Developments	16

Status of the audit

We have completed our audit of the financial statements of Toronto and Region Conservation Authority for the year ended December 31, 2006 and the results of that audit are included in this report.

As noted in the covering letter, we have attached our draft Auditors' Report as Appendix A. The following items need to be addressed/completed before that report is signed:

- Approval of the financial statements by the Board of Directors;

Audit results

Our audit identified the adjusted and/or unadjusted non-trivial misstatements noted below.

Summary of misstatements

Misstatements identified and adjusted in the financial statements by the Authority as a result of our audit procedures were as follows:

Adjusted misstatements	Over/(Under) Statement of:			
	Assets	Liabilities	Equity	Earnings
Cheques Drawn but not Mailed at year end	(1,969,097)	(1,969,097)		
Total adjusted misstatements after estimated tax effect	\$(1,969,097)	\$(1,969,097)	\$	\$

Non-trivial misstatements noted during the course of our audit but not adjusted in the financial statements were as follows:

Unadjusted misstatements	Over/(Under) Statement of:			
	Assets	Liabilities	Equity	Earnings
Offset of Accruals		(15,276)		15,276
Unrecorded Surplus – Maritime Life	(29,132)			(29,132)
Posting of Prepaid Expenses	(11,370)	(11,370)		
Prepaid amount erroneously expensed in period	(19,644)			(19,644)
Total unadjusted misstatements after estimated tax effect	\$(60,166)	\$(26,666)	\$	\$(33,500)

We have discussed the unadjusted misstatements with management and they have concluded that, individually and in aggregate, these unadjusted misstatements are not material to the financial statements of the Authority.

Reportable matters

Internal control

Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting system provides timely, accurate and reliable financial information, and safeguards the assets of the entity.

Through our role as auditors of your financial statements we possess an understanding of the entity and its environment, including internal control. However, a financial statement audit is not designed to provide assurance on internal control. Professional standards do require us to communicate to the audit committee significant deficiencies and material weaknesses in internal control that have come to our attention in the course of performing the audit.

During the course of performing our audit, we identified the following weaknesses in internal control:

- Sales/admissions system
- Information Technology
- Audit documentation and staff available

Our comments and recommendations on these matters have been provided in an internal control letter [and attached as Appendix B].

Significant new accounting policies

There were no significant new accounting policies noted in the year.

Controversial, emerging or unique accounting policy issues

During the course of our audit, we noted the following emerging or unique accounting policy issues that are applicable to your entity, further details have been summarized below along with other technical updates in Appendix D:

- PS 3150 – Tangible Capital Assets
- CICA 3855 Financial Instruments: Recognition and measurement
- CICA 3865 Hedges

- CICA 1530 Comprehensive Income
- CICA 3863 Financial Instruments – Presentation

Sensitive accounting estimates and disclosures

During the course of our audit, we noted the following accounting estimates and disclosures:

- In 2003, TRCA acquired properties from Ontario Realty Corporation (ORC). The municipalities did not charge ORC property tax because it is a provincial organization. After the acquisition, there were delays with the processing of the deed of the title, as well as delays with billings for 2004 and 2005 property taxes, hence, TRCA did not get billed the related property taxes for these 2 years. However, accruals were set up for 2004 and 2005 estimated tax amount that were unpaid. As of 2006, estimated outstanding tax amount for 2005 year is \$73,892, while estimated outstanding tax for 2004 year is at \$158,438. In 2006, management of the Authority has decreased the 2004 tax accrual by 1/3 (\$52,813) based on the understanding that there is no legal liability for property taxes that remains unbilled for over 2 years, and hence TRCA can reduce the 2004 tax liability. As management is unsure of the status or whereabouts of these 2004 tax billings, only a portion of the tax liability has been written down.

Cooperation during the audit

We report that we received cooperation from management and the employees of the Authority. To our knowledge, we were provided access to all necessary records and other documentation and any issues that arose as a result of our audit were discussed with management and have been resolved to our satisfaction.

Consultations with other accountants

To our knowledge, management did not seek the advice or opinion of other external accountants on financial reporting or accounting matters.

Fraud and illegal acts

Our inquiries of management did not reveal any fraud or illegal acts, nor did any of our audit procedures.

Independence

As external auditors of the Authority, we are required to be independent in accordance with Canadian professional standards. These standards require that we disclose to the audit committee all relationships that, in our professional judgement, may reasonably be thought to bear on our independence. We have provided a letter to the audit committee, presented as Appendix D of this report which confirms our independence with respect to the Authority.

Technical updates

Accounting and auditing standards

Recent changes in accounting and auditing standards have been summarized in Appendix D. These accounting and auditing changes have had no potential effect on the authority for this year on the Authority:

- CICA Section 1530 – Comprehensive Income
- PS 1200 Financial Statement Presentation
- PS 2700 Segment Disclosures
- PS 1300 Government Reporting Entity
- PS 1150 Generally Accepted Accounting Principles
- PS 2130 Measurement Uncertainty
- PS 3150 – Tangible Capital Assets
- CICA 3855 Financial Instruments: Recognition and measurement
- CICA 3865 Hedges
- CICA 1530 Comprehensive Income
- CICA 3863 Financial Instruments – Presentation

Appendix A – Draft auditors' report

Auditors' Report

To the Members of the
Toronto and Region Conservation Authority

DRAFT

We have audited the statement of financial position of the **Toronto and Region Conservation Authority** as at December 31, 2006 and the statements of financial activities and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Markham, Canada
April 4, 2007

Grant Thornton LLP
Chartered Accountants

Appendix B – Internal Control Letter

April 4, 2007

The Business Excellence Advisory Board
The Toronto and Region Conservation Authority
5 Shoreham Drive
Downsview, Ontario
M3N 1S4

Dear Board Members:

Re: Internal Control Findings From the December 31, 2006 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Grant Thornton LLP implemented new processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. Our procedures identified a number of items that we wish to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, may not necessarily include all matters that may be identified through a more extensive or special engagement.

Matters reported in 2005

We are pleased to report that appropriate action has been taken on the following of the recommendations made last year:

1. Payroll – Exception reports are now being generated and reviewed by the Controller and Payroll Supervisor for each pay.

2. Information technology – non-water fire suppression System for Sever Room:

(a) The Board has concluded that it will be impractical to install a non-water suppression system in the server room due to nature of building structure. There have however been improvements made to mitigate risk of fire arising within the server room, such as the instalment of a separate air conditioning system inside the server room. This will allow for temperatures to be regulated, and will protect servers from overheating.

(b) Electronic door lock to server room:

A computerized electronic lock system has now been installed at the server room, and access is only available to individuals in the IT department, the Director, and several property management personnel.

The following matters were raised in last year's management letter and we would like to re-iterate them this year:

1. Sales/admissions system – improvements to the billing system to ensure completeness and cut-off of revenue:
 - Implementing pre-numbered billing and “request-to-invoice” forms is still outstanding. We understand that a software consultant has been engaged to investigate feasibility of this issue, and implementation and use is expected by the end of 2007;
2. Information technology – the following recommendations to improve physical security are in progress to be implemented by management:
 - Development of an off-site operational site as part of a disaster recovery plan a formalized IT Discovery Plan has been drafted to be presented to the Board in 2007 for approval. Additionally, the IT department is in the process of purchasing and setting up a new cluster in the Downsview office, which will have replicated information from TRCA's head office and act as the second offsite operations. Implementation and ability to use is expected by the end of 2007.

Year end audit

We again experienced delays in receiving agreed upon schedules, working papers and financial statements. For the most part this was related to TRCA being totally involved in the preparation of the 2007 budget and related deliberations which afforded little time for preparation for the audit. Your finance staff are certainly hard working and capable but we believe that in order to meet all of the budget and audit deadlines some additional staff resource may need to be considered.

This communication is prepared solely for the information of management to assist it in discharging its responsibilities with respect to the financial statements and is not intended for any other purpose. This communication is not to be provided to a third party without our prior written consent. We accept no responsibility to a third party who relies on this communication.

Please thank all the staff for their cooperation during our audit. Should you wish to discuss any of our comments, or if you require assistance in their implementation, please call me.

Yours very truly,

GRANT THORNTON LLP

Grant Thornton LLP

Allister Byrne, F.C.A.
Partner

cc: Brian Denney, Chief Administration Officer
Jim Dillane, Director Finance and Business Services
Rocco Sgambelluri, Controller

Appendix C – Independence Letter

February 21, 2007

The Business Excellence Advisory Board
The Toronto and Region Conservation Authority
5 Shoreham Drive
Downsview, Ontario
M3N 1S4

Dear Board Members:

We have been engaged to audit the financial statements of Toronto and Region Conservation Authority (the "Authority") for the year ending December 31, 2006.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Authority and Grant Thornton LLP that, in our professional judgement, may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) holding a position, either directly or indirectly, that give the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since March 27, 2006, the date of our last letter.

We were not engaged to provide any services in addition to the 2006 audit engagement over the period from March 27, 2006 to the date of this letter, other than the review of the operating statement for Black Creek Pioneer Village and provide some additional audit services related to the implementation of the new audit standards regarding the documentation of internal control as required by the CICA.

We are not aware of any relationships between the Authority and ourselves that in our professional judgement may reasonably be thought to bear on our independence that, have occurred from March 27, 2006 to the date of this letter.

GAAS requires that we confirm our independence to the Audit Committee. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Authority within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of Ontario as of the date of this letter.

This report is intended solely for the use of the Business Excellence Advisory Board, management and others within the Authority and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you.

Yours very truly,

GRANT THORNTON LLP

Grant Thornton LLP

Allister Byrne, F.C.A.

Partner

Appendix D – Accounting and Auditing Developments

PS 1200 *Financial Statement Presentation*

This Section has been revised as a result of the CICA Public Sector Accounting Handbook requirement to adopt the full accrual basis of accounting for local governments.

This Section establishes standards for recognition, presentation and disclosure in government financial statements. The main features of the Section are as follows:

- Governments are required to present a statement of financial position, statement of operations, statement of changes in net debt and a statement of cash flows;
- Financial statements should present net debt and accumulated surplus/ deficit on the statement of financial position, annual surplus/ deficit, the change in net debt and changes in cash flows;
- Current year budget and actual figures are to be presented on both the statement of operations and the statement of changes in net debt; and
- Funds and reserves are to be reported in the notes or schedules when the government chooses to report on them.

This Section applies to local governments for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged. This Section is currently applicable to senior levels of government.

PS 2700 *Segment Disclosures*

This Section establishes standards on how to define, identify and disclose segments in a government's summary financial statements. In providing segment disclosures, it is important that the definition of a segment is met, the objectives for segment disclosures are satisfied and an appropriate basis of segmentation is chosen. As a starting point, the standard suggests that major classifications of activities used in creating, presenting or managing budget information may be used to identify segments; however, professional judgment should be applied. The Section also addresses how to attribute items to the identified segments, how to account for and disclose changes in segmentation bases, as well as, changes in accounting policies.

The Section specifies both the required and desired segment disclosures in a government's financial statements. As a minimum, the notes or schedules to the financial statements for each government segment must include:

- The basis for identifying segments, the nature of the segments, the activities they encompass and the method of significant allocations to segments;
- Segment expense by major object or category;
- Segment revenue by source and type;
- Aggregate net surplus/deficit of government business enterprises and government business partnerships accounted for under the modified equity method for each segment, if applicable;
- Aggregate net surplus/deficit of government organizations accounted for under the modified equity basis in accordance with PS 1300.47, if applicable; and
- A reconciliation between the information disclosed for the segments and the consolidated information in the summary financial statements.

The standard applies to the summary financial statements of federal, provincial, territorial and local governments for fiscal years beginning on or after April 1, 2007, although earlier adoption is encouraged.

PS 1300 Government Reporting Entity

Section PS 1300 defines the scope of the government reporting entity in terms of organizations that would be included and recommends how to account for those organizations. A government reporting entity would be comprised of organizations that are controlled by the government. The Section provides a listing of indicators to assist in the determination of whether control exists. The government reporting entity should be consolidated, except for government business enterprises. The Section provides the characteristics to be considered in determining if an entity is a government business enterprise. Once an entity is determined to be a government business enterprise, it should be accounted for by the modified equity method.

The Section states that portfolio investments should be accounted for by the cost method and that trusts administered by a government or government organization should be excluded from the government reporting entity (but requires note disclosure).

This Section applies for all fiscal years beginning on or after April 1, 2005.

Transitional provisions allow governments to choose whether they will include a government organization on a modified equity basis in the financial statements of the government reporting entity, rather than fully consolidating, providing that the government organization was not previously consolidated and it has all of the following characteristics:

the government organization is a separate legal entity with the power to contract in its own name and that can sue and be sued;

- **the government organization** has the financial and operational authority to provide a government service within a defined service area;
- there is a governance framework of appointed or elected local board representatives from the defined service area; and
- there are significant restrictions on the government's ability to access assets

If the above criteria are met, a modified equity basis, as opposed to full consolidation is permitted from the date of initial application until fiscal years beginning on or after April 1, 2008. **For fiscal years that commence on or after April 1, 2008, a government must fully consolidate the government organizations.** Earlier adoption of this Section is encouraged. A decision tree is included in Appendix A of the Section, to assist in applying the transitional provisions.

PS 1150 *Generally Accepted Accounting Principles*

This Section **significantly affects** how all levels of government select their accounting policies. It is intended to clarify:

What constitutes GAAP for the public sector;

What are the primary sources of GAAP for governments and those organizations that consider the Accounting Recommendations of the Handbook to be the most appropriate to their objectives and circumstances;

That if the basis of accounting used to prepare financial statements in accordance with regulatory, legislative or contractual requirements conflicts with the requirement of this Section, that basis cannot be described as being in accordance with GAAP; and

What criteria must be satisfied in determining an “other source of GAAP” when there is no primary source of GAAP available.

Other key points noted in the Section:

Removal of industry practice as a primary source of GAAP;

Replaces PS 1200.014 and PS 1700.44;

Closely resembles CICA 1100; and

Italicized Recommendations and non-italicized paragraphs have equal authority.

The standard is applicable to all governments for fiscal years beginning on or after April 1, 2005, excluding certain local governments currently required by legislation or regulation to prepare their financial statements in accordance with a basis of accounting other than GAAP. **Transitional provisions deferred the application of this standard to fiscal years beginning on or after April 1, 2006 for those local governments.** Earlier adoption is encouraged.

PS 2130 *Measurement Uncertainty*

This Section establishes disclosure standards when there is measurement uncertainty arising from items recognized or disclosed in financial statements. The disclosure standards in this Section supplement the standards in other Sections

CICA 3855 *Financial Instruments: Recognition and measurement*

This standard establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The standard is based on four fundamental cornerstones:

- financial instruments and non-financial derivatives represent rights or obligations that meet the definitions of assets or liabilities and should be reported in financial statements;
- fair value is the most relevant measure for financial instruments and the only relevant measure for derivative financial instruments;
- only items that are assets or liabilities should be reported as such in financial statements; and

- special accounting for items designated as being part of a hedging relationship should be provided only for qualifying items.

The standard requires that financial assets and financial liabilities be recognized when, and only when, the entity becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract.

The standard requires that all derivative financial instruments within its scope, except for derivatives that are linked to and must be settled by delivery of equity instruments of another entity whose fair value cannot be reliably measured, be measured at fair value, even when they are part of a hedging relationship.

The standard requires that all non-derivative financial assets be measured at fair value with the exception of:

- loans and receivables and held-to-maturity investments, which should be measured at amortized cost; and
- investments in equity instruments that do not have a quoted market price in an active market, which should be measured at cost, other than such instruments that are classified as held for trading.

The standard requires that all financial liabilities be measured at fair value when they are classified as held for trading or are derivatives, except for derivatives that are linked to and must be settled by delivery of equity instruments of another entity whose fair value cannot be reliably measured. All other financial liabilities are measured at amortized cost.

The standard permits an entity to designate any financial instrument, on initial recognition, as one that it will measure at fair value with gains and losses recognized in net income in the period in which they arise, except for financial instruments whose fair value cannot be reliably measured and financial instruments obtained in a related party transaction that were not classified as held for trading before the transaction.

The standard that gains and losses on financial instruments measured at fair value is recognized in net income in the periods in which they arise, with the exception of:

- certain gains and losses on financial assets classified as available for sale, which are recognized in other comprehensive income until the financial asset is derecognized or becomes impaired; and
- certain financial instruments that are part of a designated hedging relationship, which qualify for special accounting in accordance with HEDGES, Section 3865.

The standard will further allow for a differential reporting option. After initial recognition, an entity that qualifies under Section 1300 may elect to measure, available-for-sale financial assets that would otherwise be measured at fair value, other than financial assets that have a quoted market price in an active market or financial assets that are designated and effective hedging instrument.

For *publicly accountable enterprises and not-for-profit organizations* this standard should be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. Earlier adoption is only acceptable where there are no previously issued interim financial statements within the particular fiscal year. With respect to the implementation dates, earlier adoption is only permitted if all the requirements in Sections 3865 and 1530 are also adopted at that time.

Pending completion of research into the needs of users of financial reporting by ***non-publicly accountable enterprises***, the standards will become effective for financial statements related to fiscal years beginning on or after October 1, 2007.

Detailed transition guidance is provided, as well as examples for illustrative purposes.

CICA 3865 Hedges

This Section establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional.

The standard explains that the purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods.

The standard clarifies that there are many hedging relationships for which hedge accounting is unnecessary because gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in net income in the same period.

The standard applies only when an entity chooses to apply hedge accounting.

The standard stipulates three criteria for a hedging relationship to qualify for hedge accounting. These criteria are required at the inception of the hedging relationship.

The standard requires an entity to disclose its accounting policy for hedging relationships, including its policy for gains and losses on cash flow hedges of anticipated transactions for non-financial assets and non-financial liabilities.

It is anticipated that US/Canadian GAAP conflicts may arise in specific circumstances.

For ***publicly accountable enterprises and not-for-profit organizations*** this standard should be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted. Earlier adoption is permitted only as of the beginning of a fiscal year. With respect to the proposed implementation dates, earlier adoption is only permitted if all the requirements in Sections 3855 and 1530 are also adopted at that time.

Pending completion of research into the needs of users of financial reporting by ***non-publicly accountable enterprises***, the standards will become effective for financial statements related to fiscal years beginning on or after October 1, 2007.

Detailed transition guidance is provided, as well as examples for illustrative purposes.

CICA 1530 Comprehensive Income

Section 1530 establishes standards for the reporting and display of comprehensive income. This section does not address issues of recognition or measurement for comprehensive income and its components.

The standard requires an enterprise to present comprehensive income and its components in a financial statement with the same prominence as other financial statements that constitute a complete set of financial statements.

For ***publicly accountable enterprises and not-for-profit organizations*** this standard should be applied for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption permitted only as of the beginning of a fiscal year. With respect to the proposed implementation dates, earlier adoption is only permitted if all the requirements in Sections 3855 and 3865 are also adopted at that time.

Pending completion of research into the needs of users of financial reporting by ***non-publicly accountable enterprises***, the standards will become effective for financial statements related to fiscal years beginning on or after October 1, 2007.

When comparative statements are provided for earlier periods, those financial statements are restated to reflect application of this Section only for the following items:

- foreign currency translation of self-sustaining foreign operations;
- appraisal increase credits; and,
- donations from non-owners, unless this is impractical.

CICA 3863 *Financial Instruments – Presentation*

Section 3862 replaces the disclosure requirements of Section 3861, *Financial Instruments — Disclosure and Presentation*, and converges with IFRS 7. Section 3862, consistent with Section 3861, is based on the fundamental principle that entities should provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance. However, Section 3862 places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Section 3863 carries forward unchanged the presentation requirements of Section 3861 (which was based on IAS 32).

These Sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Entities will be allowed a choice, in the interim, as to whether they adopt these Sections together in place of Section 3861.