TOWN OF CALEDON

Audit Committee Meeting
Monday, March 20, 2017
9:30 a.m.
Council Chamber, Town Hall

AGENDA

CALL TO ORDER

DECLARATION OF PECUNIARY INTEREST

REGULAR BUSINESS

1. Staff Report – 2016 Audited Financial Statements

    a. 2016 Management Discussion and Analysis (MD&A)

    b. Draft Town of Caledon Consolidated Financial Statements for the year ended December 31, 2016

    c. Management letter presented by Cameron Johnston, Partner, Millard, Rouse & Rosebrugh LLP

ADJOURNMENT



Accessibility Accommodations

Please provide advance notice if you require an accessibility accommodation to attend or participate in Committee Meetings or to access information in an alternate format please contact Legislative Services by phone at 905-584-2272 x. 2366 or via email to accessibility@caledon.ca.

American Sign Language (ASL) Interpreters are also available upon request.

Meeting:	Monday, March 20, 2017
Subject:	2016 Audited Financial Statements
Submitted By:	Heather Haire, Treasurer, Finance and Infrastructure Services

RECOMMENDATIONS

That the Corporation of the Town of Caledon Consolidated Financial Statements for the year ended December 31, 2016 be approved.

DISCUSSION

Annually, the Town of Caledon is required to prepare and publish audited consolidated financial statements.

Attached to this report are:

- Schedule A - Management Discussion and Analysis for the year ended December 31, 2016
- Schedule B - Consolidated Draft Financial Statements for the year ended December 31, 2016
- Schedule C – Report to the Members of the Audit Committee from the Town's external auditor.

Staff prepared a Management Discussion and Analysis (MD&A) report which contains a high level summary of the 2016 year-end to assist all stakeholders in understanding the financial picture presented in the 2016 audited and consolidated financial statements.

Staff will also be submitting the Town's Financial Report for consideration of the GFOA Canadian Award for Financial Reporting program (CAnFR). In addition to the audited financial statements, this includes enhanced financial information such as MD&A and other important financial/statistical and non-financial information about the Town.

Financial Implications

The Town of Caledon is pleased to present its 2016 Financial Report and Consolidated Draft Financial Statements, for the year ended December 31, 2016. The financial statements have been prepared in accordance with the *Municipal Act, 2001* and based on the reporting standards set by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada and best practices in financial reporting as recommended by the Government Finance Officers Association.

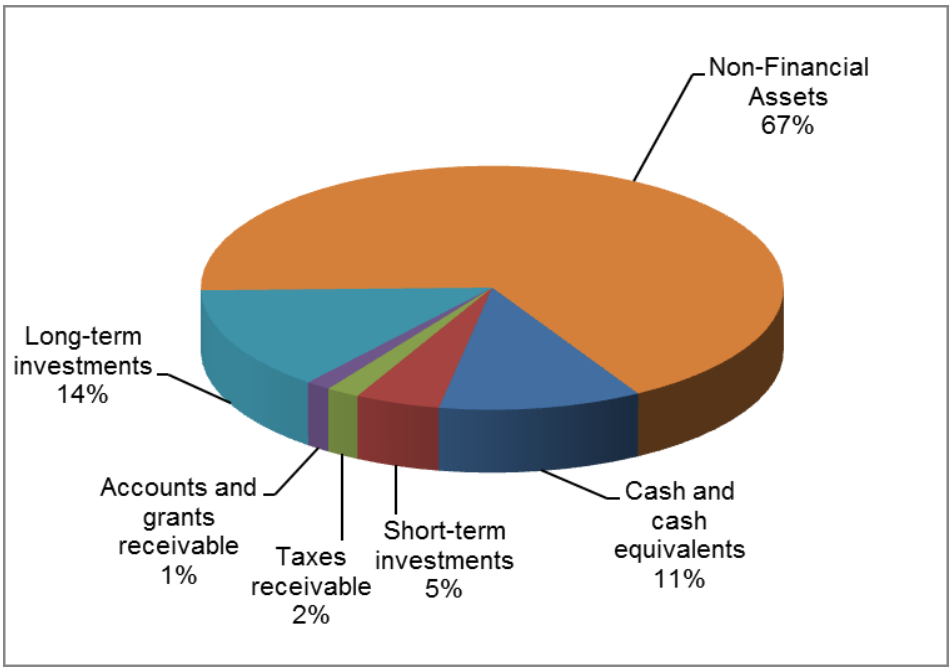
The 2016 Financial Report and Consolidated Financial Statements are the responsibility of Management of the Corporation of the Town of Caledon. The financial statements have been examined by Millard, Rouse and Rosebrugh, LLP Chartered Professional Accountants, the external auditors for the Corporation. The responsibility of the external auditor is to express an opinion on whether the financial statements are fairly presented, in all material respects, in accordance with public sector accounting standards.

The Financial Highlights below have been extracted from the Town's Audited Consolidated Financial Statements found in Schedule B of this report.

Statement of Financial Position

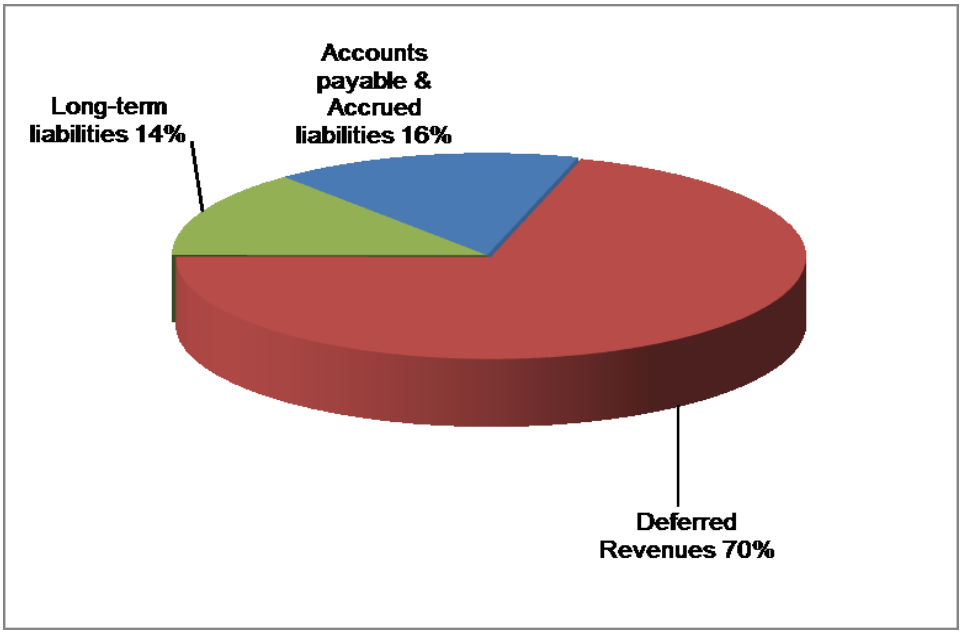
The following highlights outline the Financial Position as at December 31, 2016 (in thousands of dollars)

What we own (Assets)	$ 000's	%
Cash and cash equivalents	$ 50,125	11%
Short-term investments	21,003	5%
Taxes receivable	8,197	2%
Accounts and grants receivable	6,116	1%
Long-term investments	61,355	14%
Non-Financial Assets	298,227	67%
Total	$ 445,023	100%



What we owe (Liabilities)	$ 000's	%
Accounts payable & Accrued liabilities	$ 18,311	16%
Deferred Revenues	81,822	70%
Long-term liabilities	16,094	14%
Total	$ 116,227	100%

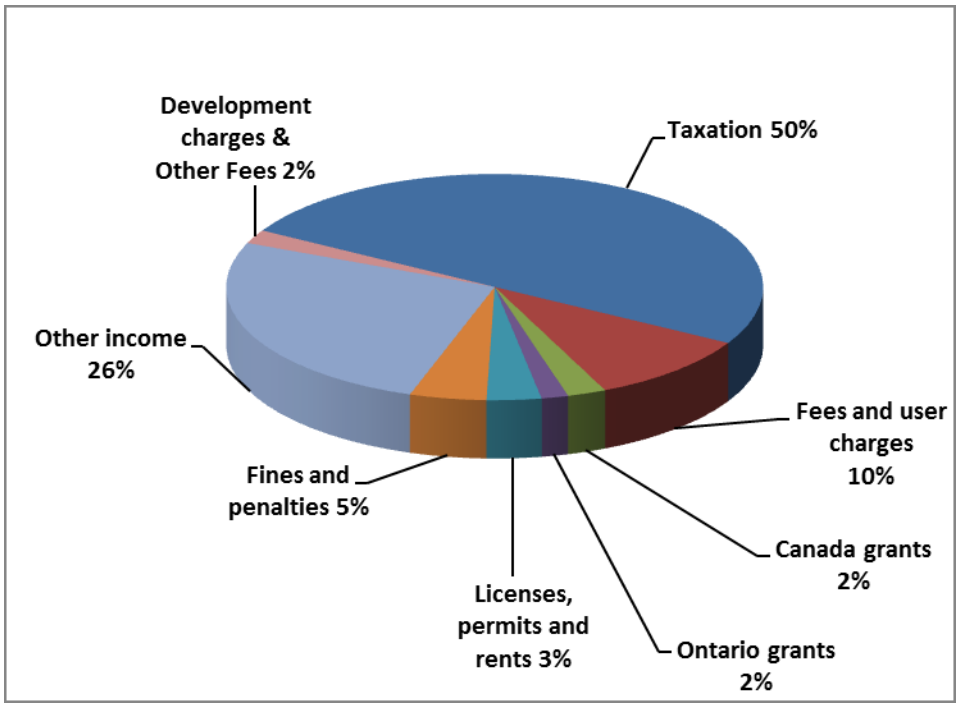
Net worth	$ 000's	%
Accumulated operating surplus (deficit)	$ (411)	0%
Investment in Tangible Capital Assets	297,155	90%
Reserves and Reserve Funds	32,052	10%
Total	$ 328,796	100%



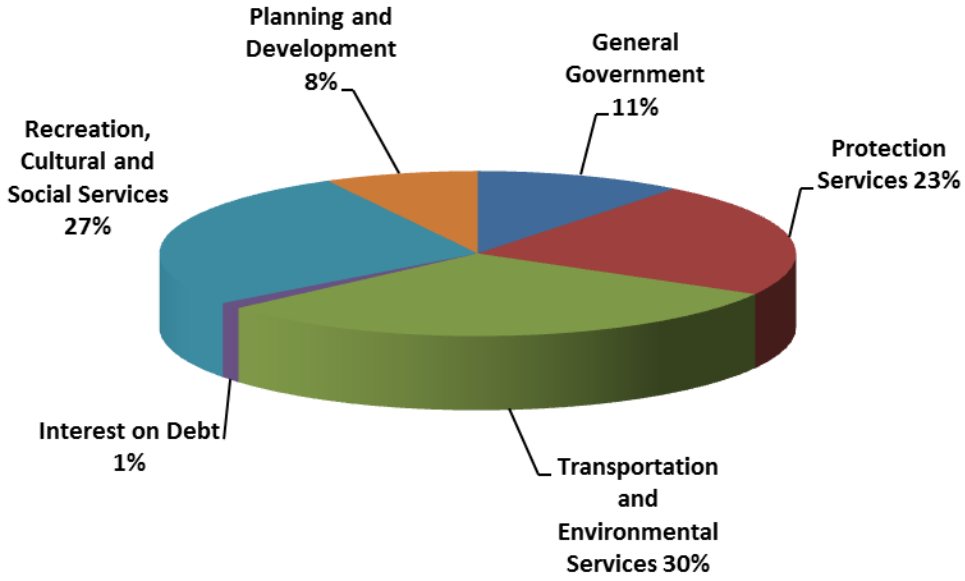
Revenues and Expenses

The following highlights outline the Statement of Operations as at December 31, 2016 (in thousands of dollars)

Where the money came from (Revenues)	$ 000's	%
Taxation	$ 56,067	50%
Fees and user charges	11,260	10%
Canada grants	2,620	2%
Ontario grants	1,810	2%
Licenses, permits and rents	3,685	3%
Fines and penalties	5,186	5%
Other income	29,496	26%
Development charges & Other Fees	2,217	2%
Total	$ 112,341	100%



What the money was used for (Expenses)	$ 000's	%
General Government	$ 8,241	11%
Protection Services	17,509	23%
Transportation and Environmental Services	23,504	30%
Interest on Debt	958	1%
Recreation, Cultural and Social Services	21,279	27%
Planning and Development	6,070	8%
Total	$ 77,561	100%



The Town's significant financial accounting policies are contained within the notes to the Town's financial statements found on Schedule B. During the year, financial transactions and review/refinement of financial processes/policies are guided by provincial legislation, the Ontario *Municipal Act, 2001* and related regulations, that all municipalities in Ontario must comply with, public sector accounting standards as recommended by the Public Sector Accounting Board of CPA Canada.

Applicable Legislation and Requirements

The audited financial statements are provided pursuant to section 294.1 of the *Municipal Act* which states that a municipality shall, for each fiscal year, prepare annual financial statements in accordance with generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the CPA Canada. Section 295 contains requirements for municipalities to publish a full set of financial statements in a newspaper in the municipality or to advertise the availability of the financial statements within 60 days of receiving the audited financial statements of the previous fiscal year.

NEXT STEPS

- A copy of the 2016 Audited Financial Statements is forwarded to the Ministry of Municipal Affairs.
- Submit annual financial report to the GFOA for an independent review and consideration for the Canadian Award for Financial Reporting program (CAnFR).
- Newspaper Ad for 2016 Financial Statement Results.
- Post the annual financial report on the Town's website

ATTACHMENTS

Schedule A - Management Discussion and Analysis for the year ended December 31, 2016
Schedule B - The Corporation of the Town of Caledon Consolidated Financial Statements For the year ended December 31, 2016
Schedule C - Report to the Members of the Audit Committee from the Town's external auditor

2016 MANAGEMENT DISCUSSION AND ANALYSIS

The Town of Caledon prepares its budget on a fund accounting basis where budgeted capital and operating expenditures are balanced with revenues. The Town of Caledon like all other municipalities is required under the Public Sector Accounting Board rules to prepare financial statements on the full accrual basis of accounting, including amortization, tangible capital assets, post-employment benefits, solid waste landfill closures and post-closure.

The Consolidated Financial Statements in the 2016 Financial Report have been prepared in accordance with general accepted accounting principles for local government as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. By converting the Town's statements to a full accrual basis, it changes the budget from a balanced budget to recognize either a surplus or deficit. The statements and related information are the responsibility of management and include the financial activities of all entities deemed to be controlled by the Town of Caledon.

Some highlights that impacted the 2016 financial statements include:

- A significant investment in Tangible Capital Assets of $26.5M in infrastructure, roads, equipment and new facilities net of amortization and disposals.

- An increase in short and long-term investments of $14.1M to better match future cash needs and to invest excess cash flow from operations.

- An increase in deferred revenue on the statement of financial position of $13.3M which relates primarily to building activity within the Town, i.e development charges collected in 2016.

- An increase in long-term liabilities of $1.1M due to a new debenture issued by the Region of Peel for the 2014 enhanced road program of $3.1 million which was partially offset by the principal debt payment of $2.0M on the Caledon Hydro debt which was funded by the Debt Retirement Fund held by the Region of Peel.

- The 2016 statement of operations reflects a full accrual surplus of $34.8M mainly due to the contributed assets (e.g. Town assumption of public infrastructure works from completed developments) received in 2016 of $22.6M, federal and provincial grant revenue recognized of $4.4M, $2.2M of development charge revenue recognized and a significant increase in planning, engineering and development revenue which surpassed the 2015 revenues by $3.9M. For more details please see Page 11.

2016 FINANCIAL POSITION OF THE TOWN

The Town's total net assets (also referred to as accumulated surplus) increased by $34.8M in 2016 as shown in the table below:

Account Description	Change in 2016 Increase(Decrease)	
Financial Assets – e.g. cash, receivables and investments	$18.7M	A
Financial Liabilities – e.g. payables, deferred revenues and debt	($10.5M)	B
Non-financial Assets – e.g. tangible capital assets	$26.6M	C
2016 Change in Total Net Assets	$34.8M	D=A+B+C

Financial Assets

As at December 31 ($ millions)	2016	2015	Change in 2016 Increase/ (Decrease)
Cash and Cash Equivalents	$ 50.1	$ 46.3	$ 3.8
Short-term Investments	$ 21.0	$ 17.7	$ 3.3
Taxes Receivable	$ 8.2	$ 7.6	$ 0.6
Accounts Receivable and Grants Receivables	$ 6.1	$ 5.9	$ 0.2
Long-term Investments	$ 61.4	$ 50.6	$ 10.8
	$ 146.8	$ 128.1	$ 18.7

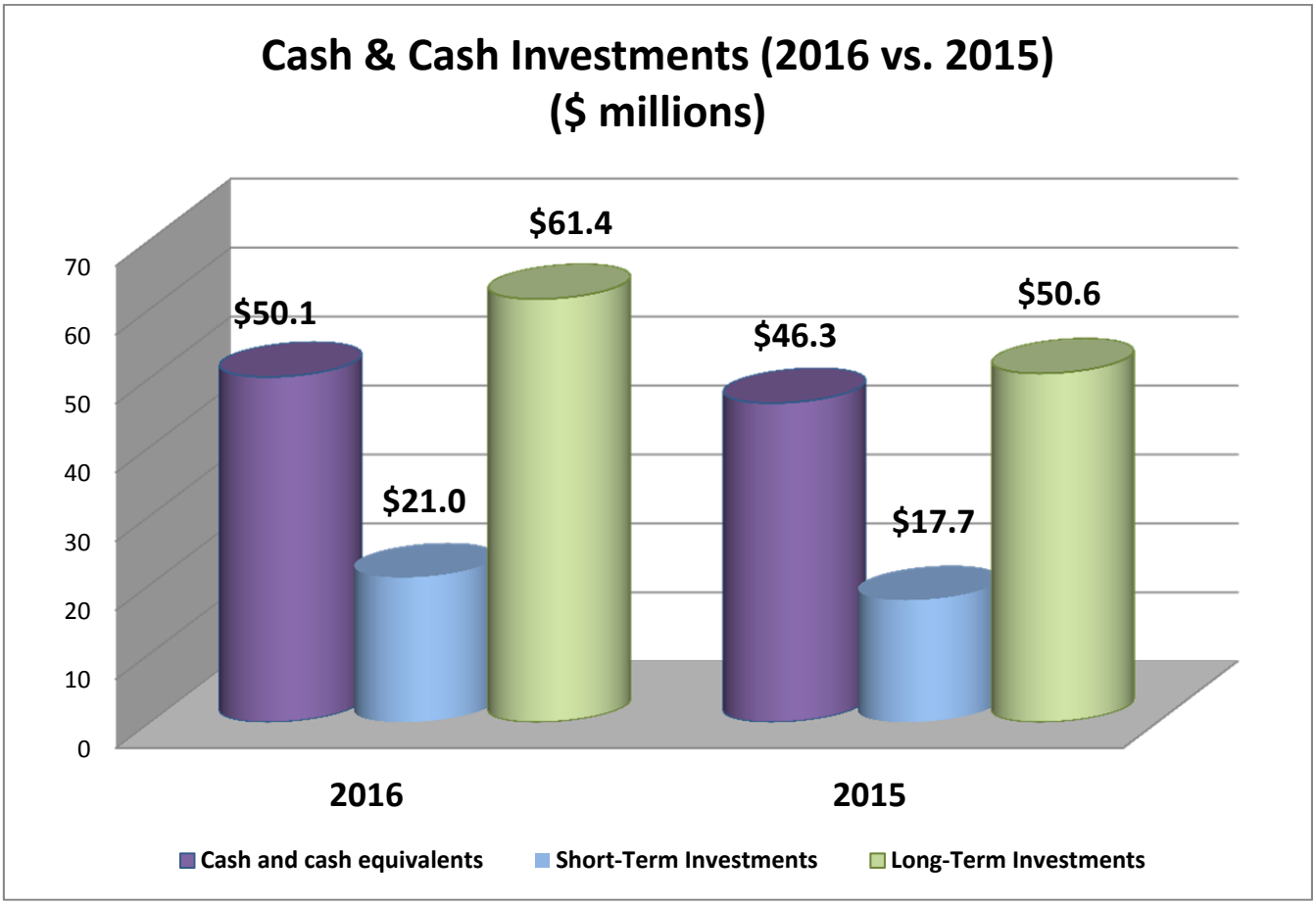
The $18.7M increase in financial assets for the Town is mainly attributed to the following:

- $3.8M increase in cash and cash equivalents is mainly due to managing expected cash flow requirements from capital projects. Cash equivalents consist of highly liquid investments which amount to $35.8M in 2016 and $34.7M in 2015.

- $3.3M increase in short term investments due to the collection of development charges, and some long-term investments that matured and reinvested in short-term investment opportunities.

- $0.6M minimal increase in taxes receivable. The Town continues a proactive property tax collection process which has included selling properties in tax arrears for more than 3 years. The current collection process also provides for a special tax arrears payment program that has been in place for 3 years now and the majority of accounts previously in arrears are now current status.

- $10.8M increase in long term investments. The Town invested excess cash into long-term investments to match the future long-term needs of the Town.



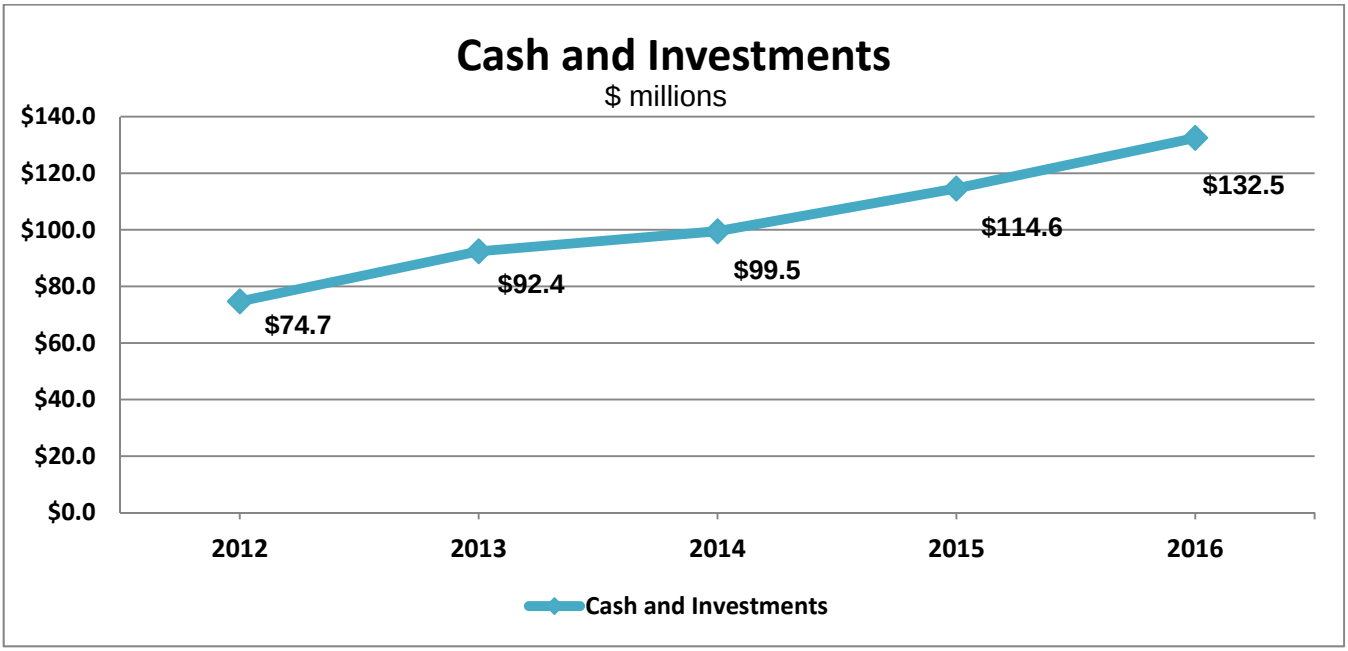
Investments

Overall cash and investments increased by $17.9M from 2015 to 2016 as a result of improved cash flow from:

- Increase in development activity resulting in an increase of Development Charges collected and parkland cash-in-lieu
- Increase in the supplementary assessment revenue received for tax assessments from the Municipal Property Association Corporation (MPAC)
- Income from the sale of investments and interest income from the Town's investments
- Increase in planning and development fees collected

With the Town's improved cash flow management, funds were invested into high interest saving accounts; GIC's or long term bonds to provide a better return on investment. The Town has developed a cash flow model to better predict available funds for investment opportunities in order to generate additional revenue. Over the years the Town has made significant

contributions in short term and long term investments, to create a diversified portfolio while generating additional investment income. The chart below shows the 5 year trend on cash and investments balance:



Taxes Receivable

The Town has made progress in reducing its property taxes receivable over the years by offering special payment plans for residents in arrears and proactively conducting tax sales on properties in arrears. The payment plans are offered to both residential and commercial properties for either 3 or 5 years depending on the property type. These plans came into effect in 2012 and positive results are being realized over the years. Completing tax sales on properties in arrears brings those properties back into productive use and has also been an effective tool to bring taxes receivable as a percentage of total taxes down considerably. (9% in 2012 vs 5.6% at the end of 2016).

	2016	2015	2014	2013	2012
Taxes Receivable ($ millions)	8.2	7.6	9.3	10.4	11.0
Taxes Receivable % of Total Taxes	5.6%	5.5%	7.0%	8.3%	9.0%

Financial Liabilities

As at December 31 ($ millions)	2016	2015	Change in 2016 Increase/ (Decrease)
Accounts Payable and Accrued Liabilities	$ 18.3	$ 22.2	$ (3.9)
Deferred Revenue	$ 81.8	$ 68.5	$ 13.3
Long-term Liabilities	$ 16.1	$ 15.0	$ 1.1
	$ 116.2	$ 105.7	$ 10.5

Overall, financial liabilities for the Town have increased by $10.5M primarily due to the following:

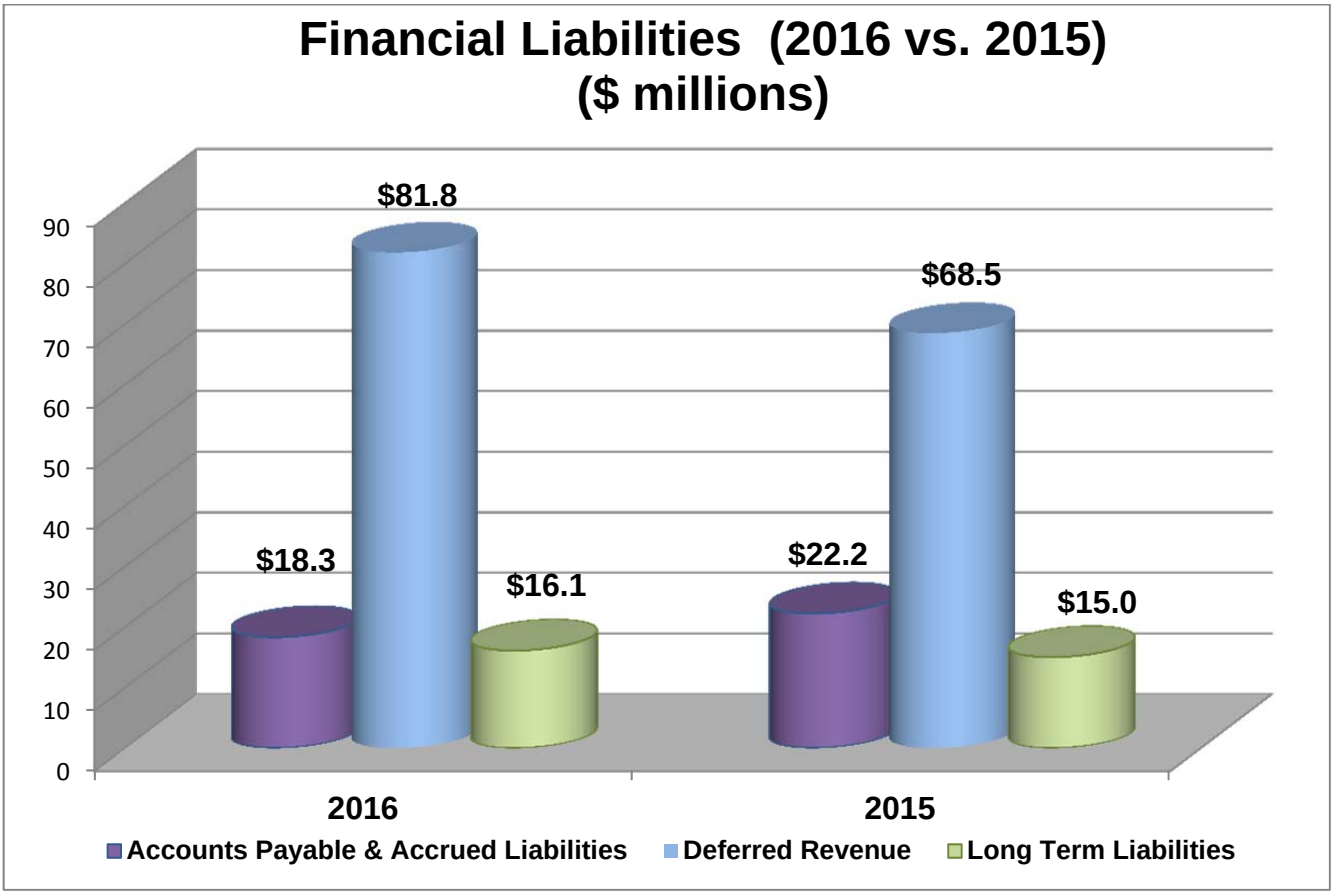
- A decrease in accounts payable and accrued liabilities by $3.9M which is attributed to the timing of large capital projects and commitments.

- $13.3M increase in deferred revenues from additional development charges and cash-in-lieu of parkland dedication received from building activity.

- Long Term Liabilities was increased by $1.1M due to a new debenture of $3.1M for the 2014 Enhanced Roads Program partially offset by the $2.0M payment of annual principal on the Hydro debt. Note 8 of the Town's audited financial statements shows the individual debentures and terms.

The Net Long Term liabilities balance of $15.3M shown below represents the Town's debentures less the sinking fund assets that are included under the long-term investments in Note 6 of the Town's 2016 financial statements. These sinking funds increase every year due to the Town's sinking fund contributions and the interest earned on the sinking fund investments. More details of the Town's outstanding debt, issued through the Region of Peel, is provided later in this Management Discussion and Analysis.

As at December 31 ($ millions)	2016	2015	Change in 2016 Increase/ (Decrease)
Long-term Liabilities	$ 16.1	$ 15.0	$ 1.1
Sinking Fund Assets	$ (0.8)	$ (0.6)	$ (0.2)
	$ 15.3	$ 14.4	$ 0.9



Non-Financial Assets

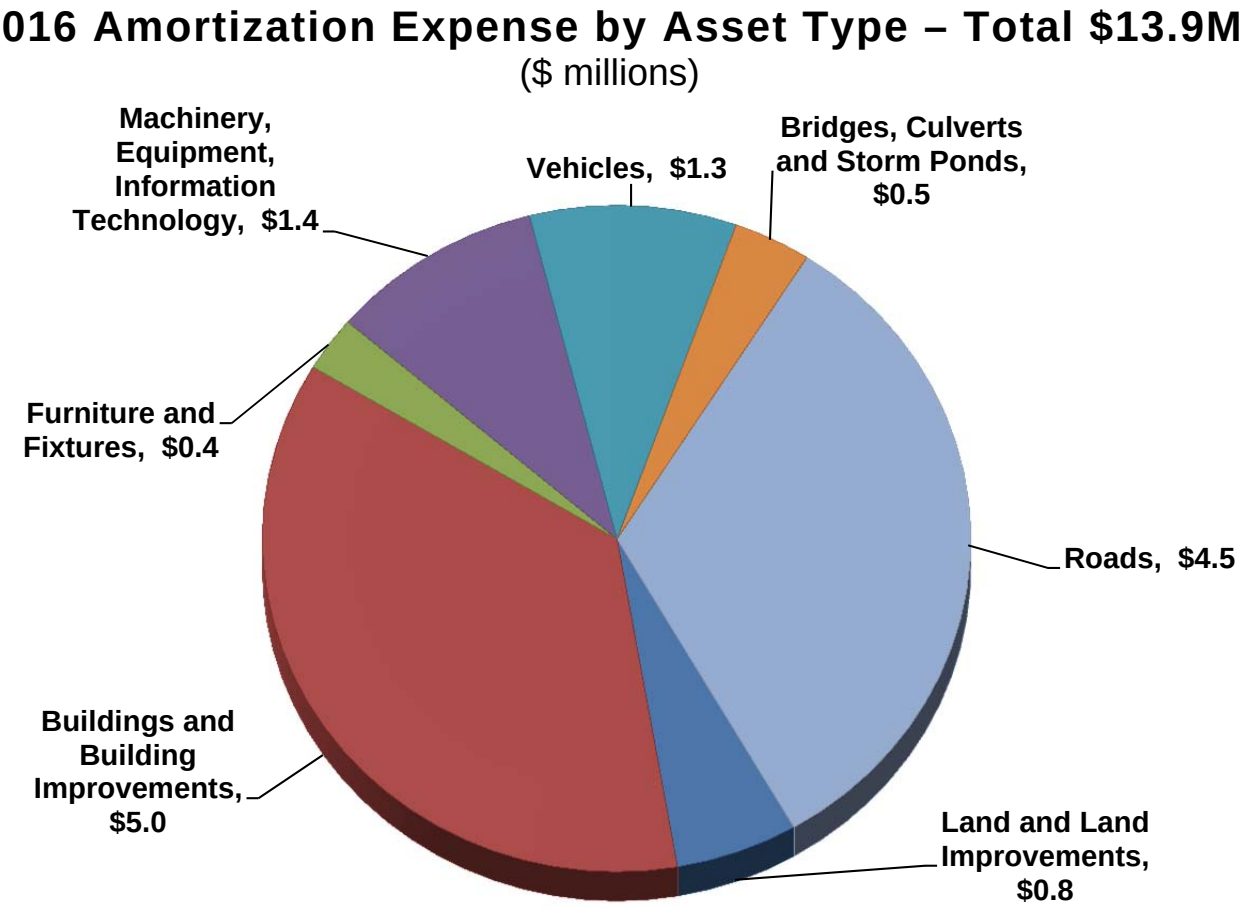
As at December 31 ($ millions)	2016	2015	Change in 2016 Increase/ (Decrease)
Tangible Capital Assets - Net	$ 297.2	$ 270.7	$ 26.5
Inventories of Supplies	$ 0.7	$ 0.4	$ 0.3
Prepaid expenses	$ 0.3	$ 0.5	$ (0.2)
	$ 298.2	$ 271.6	$ 26.6

Total non-financial assets are predominately tangible capital assets but also include supplies of inventories and prepaid expenses. The Town had made significant investment in tangible capital assets of approximately $40.8M with a net increase of $26.5M in tangible capital assets in 2016 once amortization and disposals are netted.

In 2016, the Town capitalized $40.8M in gross capital assets. Below are some of the major capital projects capitalized in 2016:

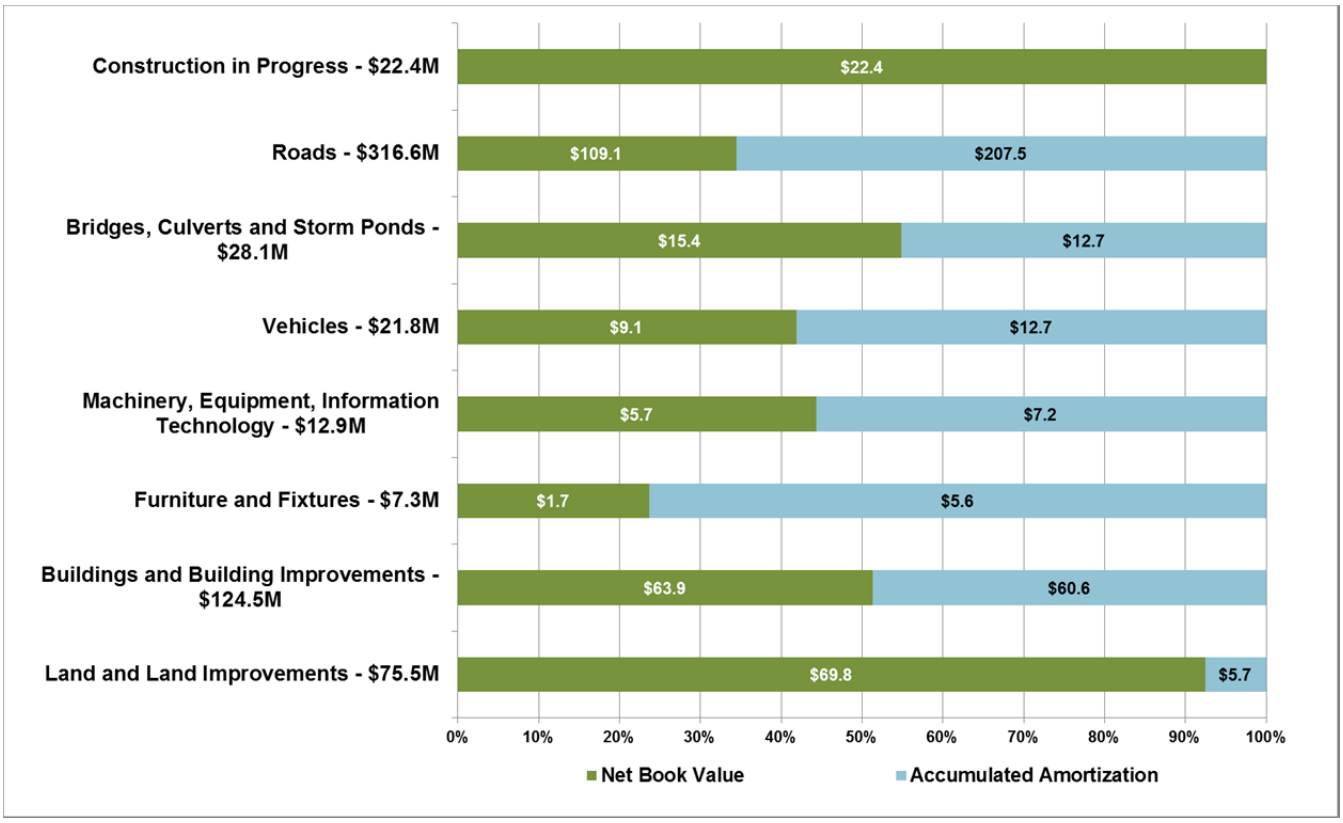
Major Projects Capitalized in 2016 - $ millions	
Kennedy Road (MW 1A) Construction	$3.60
2015 - Roads Program	$2.10
2014 - Roads Reconstruction & Rehab (Enhanced Roads Program)	$1.50
Johnston Sports Park Phase 2	$1.40
Simpson Road Servicing North	$1.30
2015 Fleet Replacement	$1.20
Kennedy Road Land	$1.20
Bell Air & Newlove Dr. Reconstruction	$0.60

Net of amortization of $13.9M and disposals of $0.4M the net increase to the Town of Caledon's capital assets is $26.5M. The amount amortized by asset provides an indication of how much should be set aside each year for repair or replacement of Town assets. The chart below shows the breakdown of amortization expense by asset.



The next chart shows the historical cost of the Town's assets with details on the portion that has been amortized / depreciated to date (i.e. accumulated amortization) and the portion that still has an accounting useful life (i.e. Net Book Value). As noted below, in most cases more than 50% of the Town's assets are amortized based on category.

2016 Tangible Capital Assets: Historical Cost $609.1M and Net Book Value $297.2 (In millions)



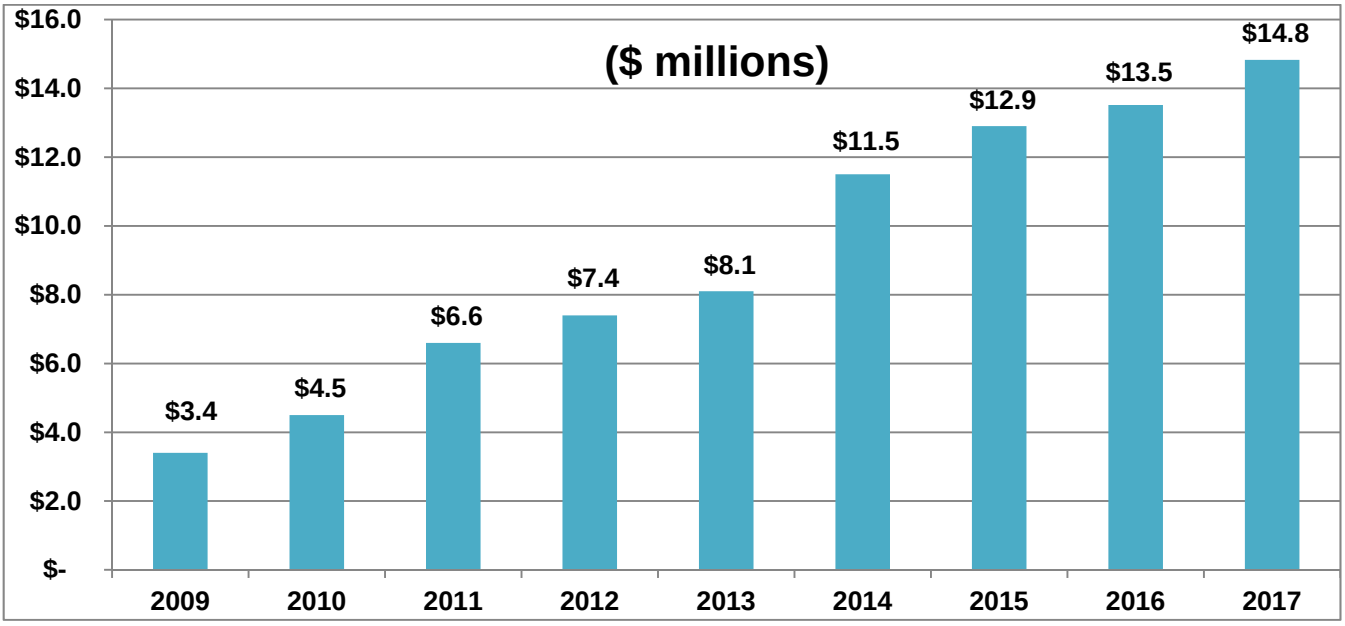
The Town's sustainable funding source for capital almost offsets the projected amortization expenses of approximately $13.9M per year. With amortization providing an indication of how much should be set aside/spent each year to repair and replace the Town's assets, the Town needs to build-up sustainable funding for capital. In recent years, the Town has actively worked to reduce the infrastructure funding shortfall by levying more property tax dollars for capital purposes. The goal for the Town's tax funded capital program is $20.0M which is higher than the Town's annual amortization of $13.9M since:

1. Amortization is based on historical cost and replacement cost is higher

2. Tax funded capital is used to pay for repairs, maintenance as well as the Town's share of net new infrastructure due to growth

To illustrate the Town's commitment to funding the Town's infrastructure gap, the following chart outlines the Town's base tax levy contributions to capital over the past eight years (2009 to 2017) and also includes the 2017 tax levy funded capital approved in the 2017 budget.

Tax Funded Capital Program



Accumulated Surplus

As at December 31 ($ millions)	2016	2015	Change in 2016 Increase/ (Decrease)	
Financial Assets	$ 146.8	$ 128.1	$ 18.7	A
Financial Liabilities	$ 116.2	$ 105.7	$ 10.5	B
Net Financial Assets	$ 30.6	$ 22.4	$ 8.2	C=A-B
Non-Financial Assets	$ 298.2	$ 271.6	$ 26.6	D
Total Net Assets	$ 328.8	$ 294.0	$ 34.8	E=C+D
Accumulated Surplus - End of Year	**$ 328.8**	**$ 294.0**	**$ 34.8**	E

Another important change in the statement of financial position is the accumulated surplus, this increase represents the addition to tangible capital assets. The change to this position is equal to the annual surplus reported in the consolidated statement of operations. In 2016, the Town's financial position, the Town's accumulated surplus at the end of December 31, 2016, increased by $34.8M (from $294.0M in 2015 to $328.8M in 2016). Other balances included in the accumulated surplus are disclosed in Note 9 of the financial statements.

2016 OPERATIONS AND FULL ACCRUAL ACCOUNTING SURPLUS

The budgets for the Town are prepared on the funding basis of accounting where revenues equal expenditures for budget/planning purposes. On the fund basis of accounting, the Town ended 2016 with a surplus of $2.3M due primarily to the gain on the sale of investments in 2016 and the additional supplementary tax revenue.

Overall the Town is showing an increase in revenue over 2015 which is attributed to additional tax revenues from an increase in supplementary assessment received from Municipal Property Association Corporation (MPAC) and an increase in the general tax levy. Supplementary tax revenue is incremental revenue mainly related to properties that increase in value due to redevelopment (e.g. tax revenue from vacant land changed to a house on the same land). The Town has been working proactively with MPAC to ensure the tax rolls are updated to include all closed building permits in order to bring in additional tax revenue to the Town and ensure properties are assessed correctly.

Further, there was less development charge revenue recognized in 2016 due to more expenses being incurred on non-growth, existing infrastructure. The Town assumed several roads, storm sewers, parks, street lights, storm water ponds, sidewalks and curbs in 2016 for a total of $22.6M of contributed tangible capital assets recognized in 2016 which is captured under other income on the financial statements. Fees and user charges showed fluctuations as compared to budget in particular in the planning and development area due to an uptake in development activity which resulted in additional subdivision application plans materializing in 2016.

Conversion to Full Accrual Accounting

When reporting the Town operations on the full accrual basis of accounting, adjustments are made to fund accounting numbers as treatment of revenues and expenses differ between the two accounting methods. For example, prior to 2009 there was no requirement to list tangible capital assets on the Town's statement of financial position. Accordingly, municipalities did not have amortization (or "depreciation") expenses listed in financial statements prior to 2009. Instead, the Town, as all Ontario municipalities at the time, expensed tangible capital assets (TCA) additions with revenues related to capital project additions shown to fully offset the capital expenditures. Under the full accrual method of accounting, the TCA additions are now capitalized on the Town's Statement of financial position and amortization expenses are listed on the statement of operations, similar to private sector financial statements. Amortization has become one of the largest expenses for many municipalities due to the value of municipal tangible capital assets including roads, bridges, recreational facilities, fire stations, fire and public works vehicles.

The Town has a long-term plan of increasing tax funded capital to reduce the gap between sustainable tax funded capital and TCA amortization. However, by meeting this gap it only covers the historical cost of the asset and not the replacement cost.

Further, Ontario Regulation 284/09, requires that municipalities that have excluded expenses in budgets must present a report to Council providing the impact of full accrual basis of accounting on the 2016 fund accounting budget and the impact on the Town's full accrual accounting accumulated surplus. For year-end purposes the Town will include all full accrual basis of accounting to prepare and present the financial statements in accordance with Public Sector Accounting Board. The items below are to be included December 31, 2016 financial statements:

- Amortization of tangible capital assets
- Accumulated Surplus/(Deficit) from Operations
- Net Book Value loss on disposal of Tangible Capital Assets
- Revenue – Grants (including Federal Gas Tax)/Development Charges/Recoveries from other municipalities/Other - for Capital
- Revenue – Contributed Assets (assets assumed by the Town)
- Expenditures – Interest on former Caledon Hydro Corporation debt
- Transfer from/to Reserves are not considered Revenue or Expenses and are removed from the Town's Surplus

The following is the adjustment from the Town's fund accounting surplus of $2.3M to the actual full accrual surplus of $34.8M:

	$ Millions	
2016 - Fund Accounting		
Surplus		$2.3
Tangible Capital Asset Amortization	($13.9)	
Tax Levy Funded Capital Program	$13.5	
Capital Budget Items not considered TCA	($2.8)	
Net Book Value loss on disposal of Tangible Capital Assets	($0.4)	
		($3.6)
Revised deficit after accounting for TCA		($1.3)
Other Full Accrual Adjustments		
Deferred Revenues & Other external Funding (e.g. grants)	$30.6	
Net 2016 Transfers to Reserves not considered an Expense	$5.5	
		$36.1
2016 Full Accrual Surplus		$34.8

As shown in the table above, deferred revenue and other full accrual adjustments for revenue are the main drivers of the full accrual surplus.

MUNICIPAL DEBT

The Town of Caledon currently has external debt, issued by the upper-tier municipality, the Region of Peel, related to capital infrastructure. Provincial limits on municipal debt are set based on a maximum percentage of revenues that may be used to service the debt costs (e.g. interest and principal payments) on an annual basis.

In the Province of Ontario, municipalities have the authorization to incur long-term debt for municipal infrastructure as long as annual debt repayments do not exceed 25% of net revenues. The Province provides an annual statement for municipalities known as the Annual Repayment Limit statement, outlining the revenue and debt servicing calculations. The Town of Caledon's 2016 Annual Repayment Limit (ARL) statement from the Province states that the Town is utilizing 4.57% of net revenues to service debt.

The Town of Caledon's debt servicing costs, as a percentage of net revenues, are projected not to exceed the provincial ARL of 25%. In 2011, Town of Caledon Council approved the establishment of an internal long-term debt limit for the Town of 10% of net revenues (below the Provincial limit of 25%).

The Town currently has external debt, issued through the Region of Peel, related to:

1. The purchase of hydro assets outside the former Village of Bolton from Ontario Hydro.
2. The completion of the Bolton Arterial Route – Phase 3 on Coleraine Drive.
3. The 2011 Fire Aerial Apparatus purchase.
4. The completion of the 2014 Enhanced Road Program.

Hydro Debenture (1999)

In 1999, the Town issued debt for the purchase of hydro assets. The hydro assets were subsequently sold and a portion of the funds were transferred the Region of Peel to setup a Debt Retirement Fund. Semi-annual payments of principal and interest for the Hydro debenture are funded from a Debt Retirement Fund. When the Debt Retirement fund was established, projections on the initial investment and interest to be earned indicated that the Debt Retirement Fund would have sufficient funds to meet the semi-annual interest payments and annual principal payments to maturity, December 2019. Due to past and current economic conditions, projections on interest income for the Debt Retirement Fund have been revised downwards in recent years and there is a projected shortfall between the Debt Retirement Fund and the Town's future debt payments (towards the beginning of 2017).

The projected shortfall between the debt retirement reserve fund and the Town's external long-term debt repayments is planned to be covered from the Town's other reserve funds. The Town of Caledon plans to use an existing internal reserve fund that has accumulated sufficient funds to cover the projected 2017-2019 shortfall of approximately $7.5M in the Debt Retirement Fund.

Bolton Arterial Route Debenture (2010)

This external debenture was issued in 2010 for the completion of the Bolton Arterial Route (BAR) on Coleraine Drive. The thirty-year, $5.4M debenture issued is known as a “sinker”, where interest payments are made semi-annually and the full amount of the $5.4M principal is due at the end of 30 years. In addition to annual internal payments the Town contributes annually to a sinking fund is held and managed by the Region of Peel, for the purposes of extinguishing the debt at maturity.

The annual sinking fund contributions and the interest income to be earned on the investments of the sinking fund over 30 years are projected to fully cover the principal payment due at maturity. Since the BAR was transferred to the Region of Peel in 2014, the Region has assumed the debt servicing costs. However, due to the fact that the debenture was issued for the Town of Caledon the debenture will continue to be reported on the Town of Caledon’s financial statement with an offsetting revenue payment from the Region of Peel until maturity in 2040.

Fire Aerial Apparatus (2011)

In 2011, Council approved additional external debt to be issued, through the Region of Peel, for the purchase of a Fire Aerial truck. The ten-year, $0.6M debenture issued in 2011 is also a “sinker”, described above where interest payments are made semi-annually and the full amount of the $0.6M principal is due at the end of 10 years. The sinking fund is held and managed by the Region of Peel, for the purposes of extinguishing the debt at maturity. The annual sinking fund contributions and the interest income to be earned on the investments of the sinking fund over 10 years are projected to fully cover the principal payment due at maturity.

The ARL includes the maximum amount the Town or a municipality has available to commit to payments relating to debt and financial agreements. Included in the calculation are payments for long term financial commitments, liabilities and contractual obligations excluding debt. The following are fixed payments beyond the term of council and are considered debt obligations therefore are included in the calculation of the Town’s annual repayment limit.

Enhanced Roads Program (2014)

In 2014, Council approved a capital project for the reconstruction and rehabilitation of roads in Caledon partially funded by external debt to be issued, through the Region of Peel for $3.1M. The ten-year debenture issued in 2016 requires annual principal payments of $310,000 with interest costs ranging from 1.15% to 2.5%. These costs have been included in the Town’s 2016 operating budget. These debt payments have been included in the calculation of the Town’s annual repayment limit.

Fleet Repayment (2012)

In 2012, Council approved a capital project for the replacement of 34 vehicles and equipment. The annual debenture payments were estimated at $640,000 annually for a five year term (2013 to 2017), which was included in the 2013-2017 operating budgets. Due to a positive cash flow in the Town’s account the issuance of this debenture was not required however the

payment will still remain as part of the base operating budget to repay the capital project over the original 5 year term of the estimated debt.

Trackless Equipment – Repayment (2013)

In 2013, Council approved the purchase of (7) Seven used Trackless Sidewalk Plows and Sanding Units for $629,691. The project is to be funded from the Infrastructure Services Operating Budget savings related to equipment rentals for 2013 to 2016. These are fixed payments beyond the term of council and are considered like internal debt obligations to be included as part of the updated annual repayment limit (ARL) the Town calculates for internal purposes.

Non-Material Leases

These are fixed payments over a term that the Town has agreements with which includes leases for the OPP Orangeville location and photocopiers. These are financing agreements that the Town has entered into which are calculated as part of the ARL.

Annual Repayment Limit (ARL)

Provincial policy allows municipalities to incur debt charges equivalent to 25 percent of their net revenues without prior approval of the Ontario Municipal Board. On an annual basis, the Province provides each municipality with an ARL statement that outlines the maximum debt charges allowed (25% of net revenues), the debt charges reported, and the remaining debt repayment limit. Further, as part of the 2012 Budget, Council adopted a debt policy where the Town may issue debt to a maximum projected debt servicing charges (principal and interest payments) of 10% of net revenues.

The Province provides each municipality with an ARL statement, in accordance with Regulation 403/02 of Section 401 of the Municipal Act 2001, outlining the percentage of net revenues the municipality is currently using to service debt. The calculation of the ARL for a municipality in 2016 is based on its analysis of data contained in the 2014 Financial Information Return (FIR). The Town of Caledon's 2016 ARL statement report indicates that the Town has net debt charges of $3.1M or approximately 4.57% of the Town's net revenues. This leaves a balance of 20.43% (25% - 4.57%) or approximately $14.0M of the ARL available.

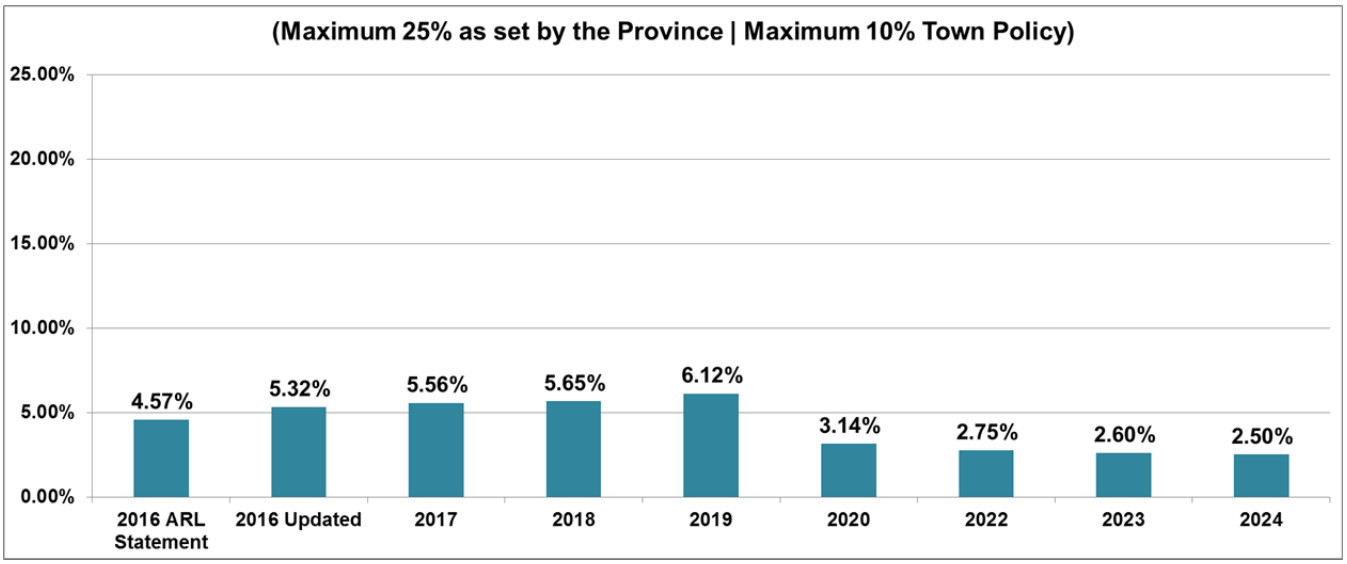
The Treasurer is required to calculate an updated ARL and disclose it to Council in order to assist Council in decisions as part of the budget process for capital programs and debt. An update of the ARL/debt servicing costs as a percentage of net revenues based on the recommended debentures and projections included the following updates and assumptions such as:

- Future debentures assumed:
  - 2014 Reconstruction and Rehabilitation Roads Project (Enhanced) $3.1M -2016
  - 2015 to 2018 Enhanced Road Project $4.1M each year.
  - 2013 Caledon Equestrian Park (Town's $1.7M investment to be funded via a Non-Tax Supported debenture following construction) - 2016
  - 2014 Caledon East Concrete Road $0.43M - 2016
- Maturity of Caledon Hydro Debenture in 2019

- Assessment growth revenue projections for 2017 to 2024 based on the same assumptions used in the 2017 budget

Prior to authorizing these commitments, the Treasurer is required by the Municipal Act to update the Town's annual financial debt and obligation repayment limit (debt capacity), incorporating the new commitments and certifying that the Town remains within this limit. The annual debt repayments / debt servicing costs may not exceed 25% of revenues as set by the Province of Ontario. The Town's policy for debt is 10% of Net Revenues. After updating the annual financial debt and obligation repayment limit calculations, the Treasurer for the Town of Caledon certifies that the Town is projected to remain below both the Provincial and the Town's internal debt repayment limits.

The chart below shows the projected ARL adjusted for the current debt rates from Infrastructure Ontario and assumptions above:



As noted in the chart above, there is a projected increase in debt servicing costs from 2016 to 2019 due to projected debt related to the Town's enhanced road program of $4.1M per year. However, as shown in the chart above, it is important to note that the Town's debt financing payments for Hydro debenture will end in 2019, when the hydro debt matures.

CONCLUSION

Through on-going collaboration and regular consultation with Council, staff will continue to present a well-balanced annual budget each year based on the seven financial principles to ensure fiscal sustainability. These principles include the use of:

- A 10- year capital forecasting and assessment growth model to mitigate significant fluctuations in taxes
- Reserve funding geared towards specific purposes including keeping municipal infrastructure in a state of good repair
- Matching reserve funds contributions to fund future debt obligations
- Asset management plans to guide asset maintenance and replacement
- Borrowing only when necessary and at affordable levels
- Innovative approaches to financing to better reduce external debt levels
- Prudent investing to maximize investment returns

With a focused approach on the seven financial principles, the Town plans to continue to maintain its strong financial position well into the future.



Heather Haire, CPA, CA
Treasurer
Finance & Infrastructure Services
March 20, 2017

THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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THE CORPORATION OF THE TOWN OF CALEDON

For the year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the Town of Caledon

We have audited the accompanying consolidated financial statements of The Corporation of the Town of Caledon which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Date approved
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

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THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2016	2015
Financial Assets		
Cash and cash equivalents (Note 2)	50,124,531	46,251,430
Short-term investments (Note 3)	21,003,020	17,661,660
Taxes receivable (Note 4)	8,197,067	7,598,426
Accounts and grants receivable (Note 5)	6,115,778	5,906,043
Long-term investments (Note 6)	61,354,974	50,648,982
	146,795,370	128,066,541
Financial Liabilities		
Accounts payable and accrued liabilities	18,310,646	22,155,721
Deferred revenue (Note 7)	81,821,578	68,503,144
Long-term liabilities (Note 8)	16,094,365	15,040,365
	116,226,589	105,699,230
Net Financial Assets	30,568,781	22,367,311
Non-Financial Assets		
Tangible capital assets - net (Note 10)	297,155,489	270,702,307
Inventories of supplies	703,503	459,305
Prepaid expenses	368,602	487,646
	298,227,594	271,649,258
Total Net Assets	328,796,375	294,016,569
Accumulated Surplus - End of Year (Note 9)	328,796,375	294,016,569

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See accompanying notes

THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

For the year ended December 31	2016 Budget	2016 Actual	2015 Actual
Revenue			
Taxation (Note 13)	55,521,086	56,066,630	52,711,772
Fees and user charges (Note 14)	8,725,135	11,260,168	6,957,056
Canada grants	2,685,884	2,620,011	4,545,240
Ontario grants	1,586,770	1,810,396	2,179,620
Licenses, permits and rents	4,434,008	3,684,999	3,265,851
Fines, penalties and interest on taxes	5,121,982	5,186,131	4,955,618
Other income (Note 15)	23,864,399	29,495,755	14,332,889
Development charges and other fees	1,864,590	2,216,624	8,631,949
	103,803,854	112,340,714	97,579,995
Expenses			
General government	7,976,874	8,241,408	8,755,847
Protection services	16,896,960	17,509,439	15,723,300
Transportation services	21,821,486	22,695,448	23,432,103
Environmental services	730,407	808,677	760,610
Social and family services	55,965	46,510	48,472
Recreation and cultural services	21,411,558	21,231,851	19,964,515
Planning and development	6,192,988	6,070,000	6,490,032
Interest on corporate debt (Note 8 a)	1,017,929	957,575	1,027,578
	76,104,167	77,560,908	76,202,457
Annual Surplus from Operations	27,699,687	34,779,806	21,377,538
Accumulated Surplus - Beginning of Year	294,016,569	294,016,569	272,639,031
Accumulated Surplus - End of Year (Note 9)	321,716,256	328,796,375	294,016,569

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See accompanying notes

THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

For the year ended December 31	2016 Budget	2016 Actual	2015 Actual
Annual Surplus from Operations	27,699,687	34,779,806	21,377,538
Amortization of tangible capital assets	14,000,000	13,915,785	13,249,052
Acquisition of tangible capital assets	(14,500,000)	(40,807,322)	(35,769,525)
Loss on disposal of tangible capital assets	-	174,836	562,921
Proceeds on disposal of tangible capital assets	-	263,519	907,056
Other	-	(125,154)	(383,719)
Increase/(Decrease) in Net Financial Assets	27,199,687	8,201,470	(56,677)
Net Financial Assets - Beginning of Year	22,367,311	22,367,311	22,423,988
Net Financial Assets - End of Year	49,566,998	30,568,781	22,367,311

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See accompanying notes

THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31	2016	2015
Cash Provided By (Used In)		
Operating Activities		
Annual Surplus from operations	34,779,806	21,377,538
Items not involving cash		
Amortization of tangible capital assets	13,915,785	13,249,052
Contributed tangible capital assets	(22,645,385)	(7,156,421)
Loss/(Gain) on disposal of tangible capital assets	174,836	562,921
Long-term bond premium amortization	-	28,510
	26,225,042	28,061,600
Changes in non-cash working capital items (Note 12)	8,539,829	16,621,642
Capital Activities		
Acquisition of tangible capital assets	(18,161,937)	(28,613,104)
Proceeds on disposal of tangible capital assets	263,519	907,056
	(17,898,418)	(27,706,048)
Investing Activities		
Net (purchase)/redemption of investments	(14,047,352)	(33,436,222)
Financing Activities		
Proceeds of debenture	3,100,000	-
Repayment of long-term liabilities	(2,046,000)	(1,921,000)
	1,054,000	(1,921,000)
Net Change in Cash and Cash Equivalents	3,873,101	(18,380,028)
Cash and Cash Equivalents - Beginning of Year	46,251,430	64,631,458
Cash and Cash Equivalents - End of Year	50,124,531	46,251,430
Cash and Cash Equivalents are Comprised of:		
Cash and bank (unrestricted)	49,713,985	43,279,394
Cash and bank (restricted)	410,546	2,972,036
	50,124,531	46,251,430

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See accompanying notes

The Corporation of the Town of Caledon is a Municipality in the Province of Ontario, Canada. It conducts its operations guided by the provisions of provincial statutes such as the Municipal Act and related legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation of the Town of Caledon (the "Town") are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of Chartered Professional Accountants Canada.

(a) Reporting Entities

(i) The consolidated financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the reporting entity. The reporting entity is composed of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Town and which are owned or controlled by the Town. These consolidated financial statements include:

Town of Caledon Library Board
Town of Caledon Business Improvement Area
Town of Caledon Provincial Offences Office

Inter-departmental and inter-organizational transactions and balances between these organizations have been eliminated.

Reporting Entities

(ii) Non-Consolidated Entities

The following local boards, joint local boards, municipal enterprises and utilities are not consolidated:

The Regional Municipality of Peel
The Peel District School Board
The Dufferin-Peel Catholic District School Board
Conseil Scolaire de District du Centre-Sud Ouest
Conseil Scolaire de District Catholique Centre-Sud

(b) Basis of Accounting

(i) Accrual Basis of Accounting

Expenses and related sources of financing are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

(ii) Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments with a term to maturity of 90 days or less after year-end and includes funds held at the Region of Peel.

(iii) Inventory Held for Resale

Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined on the average cost basis.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting (Continued)

(iv) Non-Financial Assets, Tangible Capital Assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year, and are not intended for sale in the ordinary course of operations. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Land	No amortization		
Land improvements	15-20 years	Information technology	3-5 years
Buildings	40 years	Roads	7-35 years
Building improvements	40 years	Machinery and equipment	5-15 years
Vehicles	5-20 years	Bridges, culverts and storm ponds	20-50 years
Furniture and fixtures	5-20 years		

Contribution of Tangible Capital Assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt, and that fair value is also recorded as revenue. Similarly, transfers of assets to third parties are recorded as an expense equal to the net book value of the asset as of the date of transfer.

Tangible Capital Assets Disclosed at Nominal Values

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

(v) Investments

Investments are recorded at the lower of cost and amortized cost. Any discount or premium is amortized over the remaining term of the investments. When there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss.

(vi) Reserves and Reserve Funds

Certain amounts, as approved by Town Council, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to/from reserves and reserve funds are an adjustment to the respective funds when approved.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting (Continued)

(vii) Deferred Revenue - Unearned User Charges and Fees

Deferred revenue represents user charges and fees which have been collected but for which the related services have not yet been performed. These receipts will be recognized as revenues in the fiscal year the services are performed.

(viii) Deferred Revenue - Obligatory Reserve Funds

Revenues restricted by legislation, regulation or agreement and not available for general municipal purposes are reported as deferred revenue on the consolidated statement of financial position. The fees are recognized as revenue and reported on the consolidated statement of operations in the year the related costs incurred.

(ix) Liability for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Town is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

(x) Taxation and Related Revenues

Property tax billings are prepared by the Town based on assessment rolls issued by the Municipal Property Assessment Corporation. Tax rates are established annually by Town Council, incorporating amounts to be raised for local services. A normal part of the assessment process is the issue of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the Town determines the taxes applicable and renders supplementary tax billings. Taxes are recorded at estimated amount when they meet the definition of an asset, have been authorized and the taxable event occurs. Tax receivables are recognized net of an allowance for anticipated uncollectible amounts. Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known.

The Town is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

(xi) Investment Income

Investment income earned on available funds (other than obligatory reserve funds) are reported in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the respective deferred revenue balances.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting (Continued)

(xii) Government Transfers

Government transfers, which include entitlements and legislative grants, are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled. Government transfers consist of grants and subsidies received for various operating and capital programs.

(xi) Region and School Boards

The municipality collects taxation revenue on behalf of the Regional Municipality of Peel and the school boards. The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the Regional Municipality of Peel and the school boards are not reflected in these financial statements.

(xii) Trust Funds

Funds held in trust by the municipality, and their related operations, are not included in these financial statements. The financial activity and position of the trust funds are reported separately on the trust funds statement of continuity and balance sheet.

(xv) Pension Plan

The municipality is an employer of the Ontario Municipal Employees Retirement System ("OMERS"), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The municipality has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. As such, the municipality's contributions due during the year are expensed as incurred.

(xvi) Use of Estimates

The preparation of the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions on such areas as useful life and valuation of tangible capital assets, allowance for doubtful accounts, contributed assets, accrued liabilities and contingencies. Actual results could differ from management's best estimates as additional information becomes available in the future.

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2. CASH AND CASH EQUIVALENTS

	2016	2015
Unrestricted	49,713,985	43,279,394
Restricted - debt retirement fund	410,546	2,972,036
	50,124,531	46,251,430

Included in unrestricted cash and cash equivalents are funds held in high interest savings accounts in the amount of $35,754,702 (2015 - $34,604,320).

The Town's Debt Retirement Fund investments held by the Region of Peel are restricted for the purpose of providing periodic repayments related to the 1999 debt issued on behalf of the Town.

3. SHORT-TERM INVESTMENTS

	2016	2015
Short-term interest bearing investments	20,999,823	15,559,869
Short-term Provincial Government bond	-	2,092,112
Restricted - debt retirement fund investments	3,197	9,679
	21,003,020	17,661,660

Short-term investments have interest rates ranging from 0.95% to 5.75% and a market value of $21,019,844 (2015 - $17,930,663) at the end of the year.

The Town's Debt Retirement Fund investments held by the Region of Peel are restricted for the purpose of providing periodic repayments related to the 1999 debt issued on behalf of the Town.

4. TAXES RECEIVABLE

	2016	2015
Taxes receivable	8,371,969	7,954,131
Allowance for doubtful accounts	(174,902)	(355,705)
	8,197,067	7,598,426

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5. ACCOUNTS AND GRANTS RECEIVABLE

	2016	2015
Accounts receivable	5,821,721	5,728,789
Grants receivable - Federal	122,707	-
Grants receivable - Provincial	171,350	177,254
	6,115,778	5,906,043

6. LONG-TERM INVESTMENTS

	2016	2015
Long-term Government of Canada bond	-	2,032,149
Long-term interest bearing investments	60,480,508	47,905,769
Restricted - sinking fund	874,466	711,064
	61,354,974	50,648,982

The long-term investments have interest rates ranging from 1.00% to 3.04% and maturity dates from June 2018 to May 2025. The market value of the long-term investments is $60,747,872 (2015 - $49,888,261). There is one long-term investment where the total cost exceeds market value by $73,027.

The Town's Restricted Sinking Funds investments held by the Region of Peel are restricted for the purpose of providing repayments of debt issued on behalf of the Town. Included in these amounts are the debenture discounts in the amount of $83,797 (2015 - $67,458) that will be amortized over the term of the debenture.

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7. DEFERRED REVENUE

	Balance at December 31 2015	Contributions Received	Investment Income	Revenue Recognized	Balance at December 31 2016
Obligatory Reserve Funds					
Heritage property grant	21,777	468	219	-	22,464
Development charges	59,549,311	13,204,570	484,088	(2,216,624)	71,021,345
Recreational land	3,443,163	931,851	39,070	-	4,414,084
Building stabilization	4,023,076	-	39,292	(501,400)	3,560,968
Federal gas tax	806,379	3,313,106	13,026	(2,320,702)	1,811,809
	67,843,706	17,449,995	575,695	(5,038,726)	80,830,670
User Charges and Fees					
Deferred memberships	208,349	1,826,220	-	(1,840,922)	193,647
Deferred revenue	393,251	416,094	-	(114,195)	695,150
Aggregate Levy	57,838	208,866	-	(164,593)	102,111
	659,438	2,451,180	-	(2,119,710)	990,908
	68,503,144	19,901,175	575,695	(7,158,436)	81,821,578

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8. LONG-TERM LIABILITIES

(a) The Town has long-term debt managed and issued by the Region of Peel. The Town has the responsibility for the payment of principal and interest charges and/or annual contribution towards sinking funds that would be used to extinguish the debt at maturity. The total long-term liabilities reported on the consolidated statement of financial position include the following:

	2016	2015
Long-term debt, issued in 1999 in the amount of $16,027,000, has interest rates ranging from 6.45% to 6.65% and a maturity date of December 14, 2019. At the end of the year, the outstanding principal amount of the liability is:	6,972,000	9,018,000
2010 sinking fund debenture. The long-term debt has an interest rate of 5.1% and a maturity date of June 29, 2040. At the end of the year the outstanding principal amount of the liability is:	5,381,277	5,381,277
2011 sinking fund debenture. The long-term debt has an interest rate of 3.5% and a maturity date of December 31, 2021. At the end of the year the outstanding principal amount of the liability is:	641,088	641,088
Long-term debt, issued in 2016 in the amount of $3,100,000, has annual principal payments of $310,000 with interest rates ranging from 1.15% to 2.5% and a maturity date of June 1, 2026. At the end of the year the outstanding principal amount of the liability is:	3,100,000	-
Long-term liabilities	16,094,365	15,040,365
Less: sinking fund assets	790,669	643,606
Net long-term liabilities	15,303,696	14,396,759

The following table outlines the principal and interest requirements on the long-term debt.

	Principal	Interest	Total
2017	2,610,046	813,392	3,423,438
2018	2,751,046	664,768	3,415,814
2019	2,904,046	506,536	3,410,582
2020	431,046	337,819	768,865
2021	431,046	333,091	764,137
2022 - 2026	2,029,746	1,461,877	3,491,623
Thereafter	1,343,286	3,777,736	5,121,022
Interest to be earned on sinking funds	3,594,103	-	3,594,103
	16,094,365	7,895,219	23,989,584

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8. LONG-TERM LIABILITIES (Continued)

Interest expense in the amount of $957,575 (2015 - $1,027,578) has been recognized on the consolidated statement of operations.

The annual principal and interest payments required to service the long-term liabilities of the municipality are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

Principal payments include sinking fund contributions and projected interest earned on the sinking funds.

(b) For the 1999 debt issuance, the Town's debt retirement reserve held by the Region of Peel has a balance of $410,546 (2015 - $2,972,036) in restricted cash and $3,197 (2015 - $9,679) in short term investments for a total of $413,743 (2015 - $2,981,715). The funds held by the Region are projected to have sufficient funds to make a partial interest payment in December 2017. The Town will assume the balance of the payments from 2017 - 2019 in the amount of $7,505,084. This is comprised of $6,972,000 in principal repayments and $533,084 of interest repayments. This projected shortfall between the debt retirement reserve fund and the Town's external long-term debt repayments is planned to be covered from the Town's Capital Asset Replacement Reserve Fund.

(c) For the 2010 debt issuance, the Town is contributing $95,949 annually to a sinking fund held at the Region of Peel. It is anticipated that the principal will be fully funded by maturity in 2040 of $5,381,277 with the combined sinking fund contributions and investment income. The balance in the restricted fund is $654,882 (2015 - $536,451).

(d) For the 2011 debt issuance, the Town is contributing $25,096 annually to a sinking fund held at the Region of Peel. It is anticipated that the principal will be fully funded by maturity in 2021 of $641,088 with the combined sinking fund contributions and investment income. The balance in the restricted sinking fund is $135,787 (2015 - $107,155).

9. ACCUMULATED SURPLUS

Accumulated surplus is comprised of the following amounts:

	2016	2015
General purposes (Includes Caledon Library Board)	(442,351)	(5,047,862)
Caledon Business Improvement Area (Operations)	31,519	36,532
Invested in Tangible Capital Assets	297,155,489	270,702,307
Reserves and Reserve Funds (Note 11)	32,051,718	28,325,592
	328,796,375	294,016,569

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10. TANGIBLE CAPITAL ASSETS

	Land and Land Improvements	Buildings and Building Improvements	Furniture and Fixtures	Machinery, Equipment, Information Technology	Vehicles	Bridges, Culverts and Storm Ponds	Roads	Construction in Progress	Total 2016	Total 2015
Cost										
Balance, beginning of year	64,749,535	123,506,424	9,870,908	11,809,026	20,842,705	25,841,643	295,510,236	21,918,768	574,049,245	542,048,216
Additions during the year	10,813,651	985,071	366,824	1,462,380	1,612,310	2,431,408	22,693,691	441,987	40,807,322	35,769,525
Disposals during the year	(32,158)	-	(2,951,596)	(347,458)	(634,271)	(194,828)	(1,615,122)	-	(5,775,433)	(3,768,496)
Balance, end of year	75,531,028	124,491,495	7,286,136	12,923,948	21,820,744	28,078,223	316,588,805	22,360,755	609,081,134	574,049,245
Accumulated Amortization										
Balance, beginning of year	4,958,722	55,549,104	8,142,604	5,941,975	11,989,871	12,369,510	204,395,152	-	303,346,938	292,396,405
Amortization during the year	778,849	5,058,316	369,776	1,358,127	1,314,076	492,574	4,544,067	-	13,915,785	13,249,052
Accumulated amortization on disposal	(22,428)	-	(2,951,596)	(101,547)	(620,614)	(194,828)	(1,446,065)	-	(5,337,078)	(2,298,519)
Balance, end of year	5,715,143	60,607,420	5,560,784	7,198,555	12,683,333	12,667,256	207,493,154	-	311,925,645	303,346,938
Net Book Value of Tangible Capital Assets	69,815,885	63,884,075	1,725,352	5,725,393	9,137,411	15,410,967	109,095,651	22,360,755	297,155,489	270,702,307

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10 TANGIBLE CAPITAL ASSETS (Continued)

a) Assets under construction:
Assets under construction having a value of $22,360,755 (2015 - $21,918,768) have not been amortized. Amortization of these assets will commence when the asset is put into service.

b) Contributed tangible capital assets:
Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year was $22,645,385 (2015 - $7,156,421). These assets consist of storm water management ponds, storm sewers, parklands, street lights, roads, sidewalks and curbs.

11. RESERVES AND RESERVE FUNDS

	2016	2015
Reserves set aside by Council:		
Working funds	1,299,647	1,299,647
Contingencies	4,114,996	4,800,444
Current purposes	72,803	78,433
Capital purposes	5,102,166	2,461,219
	10,589,612	8,639,743
Reserve funds set aside by Council:		
Capital asset replacement fund (formerly Caledon Hydro Reserve)	16,373,496	14,353,328
Current purposes	4,236,110	1,851,313
Debt retirement	413,743	2,981,715
Bolton Community Improvement	438,757	499,493
	21,462,106	19,685,849
	32,051,718	28,325,592

12. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2016	2015
(Increase) Decrease in taxes receivable	(598,641)	1,696,233
(Increase) Decrease in trade and other receivables	(209,735)	(867,878)
(Increase) in inventories	(244,198)	(93,129)
Decrease (Increase) in prepaid expenses	119,044	(290,590)
(Decrease) Increase in accounts payable	(3,845,075)	2,090,664
Increase in deferred revenue	13,318,434	14,086,342
	8,539,829	16,621,642

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13. TAXATION

Property tax billings are prepared by the Town based on an assessment roll prepared by Municipal Property Assessment Corporation ("MPAC") based upon Current Value Assessment (CVA). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services and the requisition made by the Region of Peel in respect of regional services. The Town is required to collect education taxes on behalf of the Province of Ontario. A normal part of the assessment process is the issue of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the Town determines the taxes applicable and renders supplementary tax billings. Taxation revenues are recorded at the time tax billings are issued. Assessments and related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known.

The Town is entitled to collect interest and penalties on overdue taxes. These revenues are recorded in the period the interest and penalties are levied.

During the year, the following taxation revenue was raised and remitted to the Regional Municipality of Peel and the school boards:

	2016	2015
Taxation revenue	145,680,558	138,852,971
Amount levied and remitted to Regional Municipality of Peel	(46,478,783)	(44,555,543)
Amount levied and remitted to School Boards	(43,135,145)	(41,585,656)
Net taxation	56,066,630	52,711,772

14. FEES AND USER CHARGES

	2016 Budget	2016 Actual	2015 Actual
Recreation	4,524,198	4,817,155	4,788,519
Planning and development	2,385,141	4,298,267	917,829
Public works	692,255	1,008,088	284,413
Administration and general governance	779,784	812,282	743,714
Fire services	339,057	320,011	217,620
Library services	4,700	4,365	4,961
	8,725,135	11,260,168	6,957,056

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15. OTHER INCOME

	2016 Budget	2016 Actual	2015 Actual
Investment income	939,757	2,253,121	1,623,704
Donations, contributions and agreements	97,009	256,836	192,411
Recovery from other municipalities	2,404,276	2,825,611	2,178,431
Developer contributions	20,163,857	22,804,218	9,127,779
Other	259,500	1,355,970	1,210,564
	23,864,399	29,495,756	14,332,889

16. PENSION AGREEMENTS

Ontario Municipal Employees Retirement Fund (OMERS) provides pension services to more than 470,000 active and retired members and approximately 1,000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2016. The results of the valuation disclosed total actuarial liabilities of $86,959 million in respect of benefits accrued for service with actuarial assets at that date of $81,239 million indicating an actuarial funding deficit of $5,720 million. OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Town of Caledon does not recognize any share of the OMERS pension surplus or deficit. Contributions made by the Town to OMERS for 2016 were $2,732,467 (2015 - $2,589,706) on behalf of 419 employees. The contribution rate for 2016 was 9% to 15.8% depending on normal retirement age and income level (2015 - 9% to 15.8%).

17. BUDGET AMOUNTS

Under Public sector accounting standards, budget amounts are to be reported on the consolidated statements of operations and changes in net financial assets for comparative purposes.

The Town's 2016 budget was approved by council on January 19, 2016 on the fund basis of accounting where revenues balance to expenses. Also on January 19, 2016, council received and approved a report on the full accrual accounting impact of the 2016 budget based on assumptions such as the timing of capital expenses, recognition of deferred revenues, and projections on tangible capital asset amortization. The budget data included in the Town's financial statements incorporate the same assumptions to convert the Town's fund accounting budget to a full accrual accounting budget.

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18. TRUST FUNDS

The trust funds administered by the municipality amounting to $5,733,850 (2015 - $5,475,703) have not been included in the consolidated statement of financial position nor have the operations been included in the consolidated statement of operations. At December 31, 2016, the trust fund balances are as follows:

	2016	2015
Cemetery Perpetual Care	6,031	6,028
Developer Deposits	5,721,405	5,463,261
Heritage	6,414	6,414
	5,733,850	5,475,703

19. CONTRACTUAL COMMITMENTS

The Town of Caledon has entered into the following contracts:

a) The lease of photocopiers at all Town locations at an approximate cost of $44,979 per year. The lease will expire January 2018 and there is an option to renew for three years.

b The annual lease cost for the OPP portion of the Orangeville Courthouse is $10,195 which expires December 2017.

c The Town entered into an agreement with the Caledon Professional Firefighters Association in 2015 to award pre-65 post retirement employment benefits effective December 31, 2018. Currently the total estimated cost for 2019 is $83,100. For subsequent years the total estimated annual cost is $11,200.

The Town of Caledon has entered into contracts worth approximately $18,050,552 as of December 31, 2016 for capital project spending in 2017 and beyond on various transportation services, protection services, and recreation and cultural services capital projects.

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20. CONTINGENCIES

A number of claims relating to properties expropriated by the Town are pending. It is not possible, at this time, for the Town to predict with certainty the outcome of such litigation. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for, would be material in relation to the Town's financial position.

Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against the Town. In the opinion of management, the amounts of these claims would not have a significant effect on the financial position or results of operations of the Town if disposed of unfavourably.

A number of appeals of the current value assessment of properties in the municipality are currently in process. The impact on taxation revenue as a result of settlement of these appeals is not determinable at this time. The effect on taxation of the settlement of these appeals will be recorded in the fiscal year in which they can be determined.

The Town has been served with various claims as a result of accidents and other incidents. The Town is not aware of any possible settlements in excess of its liability insurance coverage. The outcomes of these claims are not determinable at this time. Should any liability be determined and not covered by insurance, it will be recognized in the period when determined.

21. GOVERNMENT TRANSFERS

Government transfers include monetary transfers based on cost-sharing agreements between the three levels of government. Some funds are transferred when the Town provides evidence that the qualifying expenditures have been incurred. The Town also receives government transfers once certain criteria have been met or with conditions that the funds are used for specific programs or expenses (entitlements with conditions). Any transfers received where the transfer conditions have not been met by year-end are recorded as deferred revenue (see Note 7).

The following kinds of transfers were included in revenue:

	2016	2015
Grants with conditions	3,283,007	5,603,060
Other grants	1,147,400	1,121,800
	4,430,407	6,724,860

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22. PROVINCIAL OFFENCES ADMINISTRATION

Effective March 29, 1999, the Corporation of the Town of Caledon assumed the responsibilities of the Provincial Offences Act (POA) from the Ministry of the Attorney General.

The POA is a procedural law for administering and prosecuting provincial offences, including those committed under the Highway Traffic Act, Compulsory Automobiles Insurance Act, Trespass to Property Act, Liquor Licence Act, Municipal by-laws and other minor offences.

The revenues of the operations of the Caledon East POA administration facility and revenues collected on behalf of the Town at other POA court locations in the Province of Ontario consisting of fines and charges amount to $3,044,290 for the year ended December 31, 2016 (2015 - $2,979,450).

Pursuant to a Memorandum of Understanding, the Town of Caledon also provides administration and court support for the serviced municipalities within the County of Dufferin. A cost recovery fee is deducted from revenue transferred to the serviced municipalities. For the year ended December 31, 2016, cost recovery fees of $553,572 (2015 - $530,700) were collected from serviced municipalities within the County of Dufferin.

23. COMPARATIVE AMOUNTS

The comparative amounts presented in the financial statements have been reclassified to conform to the current year's presentation.

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24. SEGMENTED INFORMATION

The Town of Caledon is a diversified municipal government that provides a wide range of services to its citizens such as fire, recreation, library and planning. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Infrastructure Services
Infrastructure Services is responsible for the design, construction and maintenance of Town roads, storm sewers, storm water management, sidewalks, streetscapes, streetlights and development design standards,

Fire and Emergency Services
As one of the largest volunteer Fire Services in Ontario, this department prides itself on protecting life, property and the environment.

Parks and Recreation
Offers barrier-free, accessible structured and non-structured active living and leisure activities for all ages and abilities and oversees the design, construction and maintenance of Town parks, trails, paths and sports fields.

Library Services
Caledon Public Library offers seven branches across Caledon to meet the informational and educational needs of residents and to promote lifelong learning, literacy and the love of reading.

Corporate Services
As the liaison between Council and staff, the CAO and Clerk ensure Council directives are carried out. Corporate Services includes Customer Service, Information Technology, Legal Services including Planning Law, Legislative Services, the Provincial Offences Court, enforcement of bylaws and the administration of animal services.

Human Resources
Provides human resource advice, counsel and solutions to meet the goals and challenges facing Town staff.

Other
Other includes:

- Development Approval and Planning Policy which is responsible for official plan policy, the Town's zoning bylaw, development applications, the heritage resource office, and the office of environmental progress.
- Building Services which is responsible for the administration and enforcement of the Building Code Act and the Ontario Building Code.
- Finance which is responsible for the Town's operating and capital budgets; billing and collection of municipal, regional and local school board property taxes and development charges; includes Purchasing and Risk Management Division.
- Strategic Initiatives which includes Communications, Corporate initiatives and Economic Development which enhances and promotes the corporate reputation of the Town, attracts and retains business and investments and provides support to tourism, promotion and investments.

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THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION

For the year ended December 31, 2016

	Infrastructure Services	Fire and Emergency Services	Parks and Recreation	Library Services	Corporate Services	Human Resources	Other	Total 2016
Revenue								
Taxation	18,454,203	7,615,337	11,282,145	2,978,711	8,531,476	523,351	6,681,407	56,066,630
Fees and user charges	1,008,088	320,011	4,817,155	4,365	780,785	-	4,329,764	11,260,168
Specific grants	2,879,077	-	236,907	80,745	57,630	-	1,176,048	4,430,407
Other revenue	24,173,227	235,773	600,511	34,893	3,597,861	-	9,724,620	38,366,885
Development charges and other fees	895,568	476,066	669,372	42,363	-	-	133,255	2,216,624
	47,410,163	8,647,187	17,606,090	3,141,077	12,967,752	523,351	22,045,094	112,340,714
Expenses								
Salaries and benefits	6,929,242	6,840,074	8,203,890	2,432,225	6,689,700	757,307	8,985,303	40,837,741
Interest on debt	334,781	23,097	-	-	599,697	-	-	957,575
Materials and supplies	6,253,207	1,191,056	3,381,904	285,435	2,553,273	125,863	1,346,264	15,137,002
Contracted services	1,612,962	441,395	560,558	99,829	2,045,248	72,693	693,641	5,526,326
Other transfers	25,991	-	-	-	108,221	-	153,558	287,770
Rents and financial expenses	460,468	-	-	4,430	414,283	-	19,529	898,710
Amortization on tangible capital assets	6,287,149	1,575,404	4,310,262	244,254	1,057,632	-	441,083	13,915,784
	21,903,800	10,071,026	16,456,614	3,066,173	13,468,054	955,863	11,639,378	77,560,908
Net Surplus (Deficit)	25,506,363	(1,423,839)	1,149,476	74,904	(500,302)	(432,512)	10,405,716	34,779,806

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THE CORPORATION OF THE TOWN OF CALEDON

CONSOLIDATED SCHEDULE OF SEGMENTED INFORMATION

For the year ended December 31, 2015

	Infrastructure Services	Fire and Emergency Services	Parks and Recreation	Library Services	Corporate Services	Human Resources	Other	Total 2015
Revenue								
Taxation	18,340,060	6,038,721	11,014,477	2,482,088	8,104,959	469,662	6,261,805	52,711,772
Fees and user charges	284,413	217,620	4,788,519	4,961	511,856	-	1,149,687	6,957,056
Specific grants	3,801,211	-	1,547,297	98,962	106,124	-	1,171,267	6,724,861
Other revenue	10,632,289	154,258	1,264,935	30,958	3,511,917	-	6,960,001	22,554,358
Development charges and other fees	5,527,639	65,184	2,562,069	-	-	-	477,056	8,631,948
	38,585,612	6,475,783	21,177,297	2,616,969	12,234,856	469,662	16,019,816	97,579,995
Expenses								
Salaries and benefits	6,391,802	6,179,760	7,754,958	2,331,477	6,118,073	705,048	7,936,217	37,417,335
Interest on debt	277,037	23,097	-	-	727,444	-	-	1,027,578
Materials and supplies	6,823,989	1,139,815	3,152,626	234,295	3,098,213	117,884	1,661,934	16,228,756
Contracted services	2,004,426	429,141	555,900	104,650	1,471,604	79,059	732,285	5,377,065
Other transfers	18,968	-	-	-	66,382	-	112,646	197,996
Rents and financial expenses	1,490,124	-	-	7,118	502,775	-	704,658	2,704,675
Amortization on tangible capital assets	6,078,904	1,372,742	4,116,132	255,500	984,905	-	440,869	13,249,052
	23,085,250	9,144,555	15,579,616	2,933,040	12,969,396	901,991	11,588,609	76,202,457
Net Surplus (Deficit)	15,500,362	(2,668,772)	5,597,681	(316,071)	(734,540)	(432,329)	4,431,207	21,377,538

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The Corporation of the Town of Caledon

Report to the Members of the Audit Committee

December 31, 2016

Millards
Chartered Professional Accountants

Millards
Chartered Professional Accountants

P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

March 13, 2017

To the Members of the Audit Committee
The Corporation of the Town of Caledon

Our audit of the financial statements of The Corporation of the Town of Caledon (the Town) for the year ended December 31, 2016 is complete and we have issued an unqualified report on these financial statements.

This report to the members of the audit committee has been prepared in accordance with the assurance recommendations issued by the CPA Canada. This standard recommends we communicate with the audit committee 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 which may be of interest to the Audit committee.

We express our appreciation for the cooperation and assistance received from the management and the Finance Department of the Town during the course of our audit.

If you have any particular comments or concerns, please do not hesitate to contact me.

Yours very truly,

MILLARD, ROUSE & ROSEBRUGH LLP

H. Cameron Johnston, CPA, CA, LPA
Partner

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Introduction

This report summarizes significant matters that we believe should be brought to your attention for the Town. We emphasize that the audit and this report would not necessarily identify all matters that may be of interest to the board.

This report has been prepared solely for the purpose of assisting the Audit committee in the discharge of its oversight responsibility and should not be used for any other purpose. We disclaim any obligation to any other party that may rely upon this report.

Audit Scope and Responsibility

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of Corporation of the Town of Caledon which comprise the consolidated statement of financial position as at December 31, 2016, consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Independence

As external auditors of the Town, we are required to be independent in accordance with Provincial professional requirements. 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 management, which confirms our independence with respect to the Town.

We confirm that we are not aware of any relationship or non-audit services that would impair our independence for purposes of expressing an opinion on the financial statements.

Responsibility of Management

Preparation of financial statements
The preparation of the financial statements, including the accompanying notes, is the responsibility of management. This includes the preparation of the financial statements in accordance with Canadian public sector accounting standards.

Management is responsible for selecting the significant accounting policies used in the preparation of the financial statements, for applying judgement in preparing accounting estimates contained in the financial statements, and for preparing or obtaining documentation supporting amounts and disclosures in the financial statements. In addition, management is responsible for assessing the impact of any misstatements detected during the preparation and audit of the financial statements, individually and in aggregate, on the fair presentation of amounts and disclosures contained in the financial statements and determining if such adjustments should be recorded.

Management's representations
The transactions and estimates reflected in the accounts and in the financial statements are within the direct control of management. Accordingly, the fairness of the representations made through the financial statements is an implicit and integral part of management's responsibility.

Throughout the course of our audit, we obtain representations from management in the form of answers to our audit enquiries. Management will also be providing us with a signed formal letter of representation.

Reportable Matters

CPA Canada has specified matters that should be brought to the attention of Audit Committees. The following summarizes the matters to be communicated.

Significant accounting principles and polices
Significant accounting principles and policies are disclosed in the notes to the financial statements. For 2016, these policies include the reporting and policies related to tangible capital assets. Within the context of the audit, management has represented to us that there have not been any other material changes in the accounting principles and policies during the year.

During the course of the audit, we did not note any significant unusual transactions that may contravene any current polices.

Materiality
Millard, Rouse & Rosebrugh LLP planned the audit with the objective of having reasonable assurance of detecting misstatements that would be material to the financial statements taken as a whole. As required by audit standards, materiality was utilized during the conduct of the audit and the evaluation of any misstatements identified.

Misstatements and significant audit adjustments
Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.

A misstatement may arise from an error or from fraud and other irregularities. An error refers to an unintentional misstatement in financial statements, including an omission of amount or disclosure.

Fraud and other irregularities refer to an intentional misstatement in financial statements, including an omission of amount or disclosure, or to a misstatement arising from theft of the entity's assets.

In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management, who in consultation with us, determine if an adjustment should be recorded.

During the course of our audit, we did not discover any misstatements arising from fraud or other irregularities.

Internal controls
Management is responsible for the design and operation of an effective system of internal control that provides reasonable assurance that the accounting systems provide timely, accurate and reliable financial information, as well as safeguard the assets of the Town.

Through our role as auditors of your financial statements we possess an understanding of the Town and its operating 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 our audit, we did not discover any significant deficiencies in internal control.

Fraud and illegal acts
Our inquiries of management and our testing of financial records did not reveal any fraud, illegal or possible illegal acts. However, please be aware that improper conduct is usually carefully and often elaborately concealed and therefore, the probability of detecting such acts is not high. Management is also asked in the formal letter of representations to disclose if they are aware of any fraud, illegal or possible illegal acts that would impact the financial statements.

Difficulties
We did not encounter any difficulties in the performance of the audit. We have had no disagreements with management, and have resolved all auditing, accounting and presentation issues to our satisfaction.

Cooperation during the Audit
We report that we have received excellent cooperation from management of the Town. To our knowledge, we were provided with complete access to all necessary accounting records and other documentation. Issues identified as a result of our audit work, whether in amounts for the financial statements or disclosure, were discussed with management and issues have been resolved to our satisfaction. There were no limitations placed on the scope of our audit.

Current Accounting and Reporting Developments

We continually monitor the potential impact of new accounting pronouncements on the accounting practices of The Corporation of the Town of Caledon.

Financial Instruments
Public Sector Accounting Standards are changing for the disclosure related to financial instruments. This change will be effective for year ends beginning on or after April 1, 2019.

Post-implementation Review – PS 3410 Government Transfers
The post-implementation review of section PS 3410 – Government Transfers was issued April 2016 by the Public Sector Accounting Board. The feedback received related to this review allowed PSAB to assess:

a) Whether the standard resolved the issues that gave rise to the project and has been implemented, applied and interpreted as intended; and
b) Whether there are unexpected challenges in application or interpretation.

We recommend that management read this post-implementation review of this section to ensure that they are applying the standard consistently from period to period.