

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 1, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted, as amended, by the Council of the City of Vaughan on June 24, 2014, as follows:

By approving the administrative corrections as set out in Communication C1 from the Commissioner of Finance & City Treasurer and Director of Financial Services, dated May 27, 2014, as follows:

- ***In the paragraph entitled “Investments in Hydro Vaughan Corporations” – amend the VHI proportionate share to read “\$2.9m” not “\$2.5m”;***
- ***In Attachment 1 – Page 16 “City of Vaughan Consolidated Financial Statement Note 4”, amend the last paragraph to read “after the share issuance” not “after the share insurance”; and***
- ***In Attachment 1 – Page 38 “City of Vaughan Consolidated Financial Statement Note 15(e)” amend the title to read “Vaughan Hospital Precinct Development Plan” not Vaughan Hospital”.***

1 2013 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Financial Services, dated May 26, 2014, be approved;
- 2) That the presentation by the Accounting Manager and C1, presentation material entitled “2013 Consolidated Financial Statements” dated May 26, 2014, be received; and
- 3) That the deputation by Mr. Kevin M. Travers, Partner, KPMG, North York, Toronto, be received.

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Financial Services in consultation with the Accounting Manager and the Manager of Capital and Reserves recommends:

1. That the following Financial Review of the 2013 Draft Consolidated Financial Statements be received; and
2. That the 2013 Draft City Consolidated Financial Statements, the Vaughan Public Library Board, the Statement of Revenues and Expenditures and the Fund Balance of the Mayor's Golf and Gala Events, the Kleinburg and Business Improvement Area, Trust Fund Financial Statements (Attachment #1) be approved; and
3. That the KPMG Audit Findings Report for the year ended December 2013 (Attachment #2) be received.

Contribution to Sustainability

This is not applicable to this report.

Economic Impact

There is no economic impact as this is an information item.

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Communications Plan

An advertisement will be placed in the local paper when the financial statements are approved by Council. The advertisement will indicate that the 2013 Consolidated Financial Statements and Trust Fund Statement are available for pick up at the City and in addition the financial statements will be published on the City's web page <https://www.vaughan.ca/cityhall/accounting>.

Purpose

To receive the financial review of the City's 2013 Draft Consolidated Statement of Financial Position below, to approve the City's 2013 Draft Consolidated Financial Statements, Vaughan Public Library Financial Statements, Kleinberg Business Improvement Area Financial Statements, and The Statement of Revenue and Expenditures and Fund Balance of the Mayor's Golf and Gala Events, the Trust Fund Financial Statements and to receive KPMG's Audit Findings Report for 2013.

Background - Analysis and Options

The City's Draft Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31st, 2013 is provided below.

The City's Consolidated Financial Statements incorporate the financial results of the City, Vaughan Public Library Board, Kleinburg Business Improvement Area and the Hydro Vaughan Corporations. The City's Trust Fund Financial Statements are separate and are not included in the City's consolidated financial results.

Changes in Accounting Standards

The City prepares its financial statements using the Public Sector Accounting Board standard 3150 tangible capital assets, standard 1200 financial statement presentation and new for 2013 standard 3510 Tax Revenue. The City has always followed the 3510 tax revenue standard when preparing financial statements.

2013 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan's 2013 Consolidated Statement of Financial Position demonstrates a continued strong position in many key financial areas which supports the Vaughan Vision 2020 strategic initiative to ensure financially sustainable and to manage corporate assets. These key financial areas include the City's cash and cash investment levels as seen in Exhibit #1, deferred revenues Exhibit #2, reserve balances in Exhibit #3 and the Hydro Vaughan Corporations investment.

This strong financial position is a result of Council's commitment to sound fiscal policies, including the adoption of fiscally responsible operating and capital budgets, the long range financial planning targets, and the establishment of new reserves and financial policies. As a result the City of Vaughan is well positioned to serve the needs of our community.

Financial Assets

Cash and Cash Investments

The cash balance totals \$368.6m (2012, \$360.6m) at the end of 2013. Investments over 90 days total \$57.1m (2012, \$76.5m). Cash and investments combined total is \$425.7m (2012, \$437.1m).

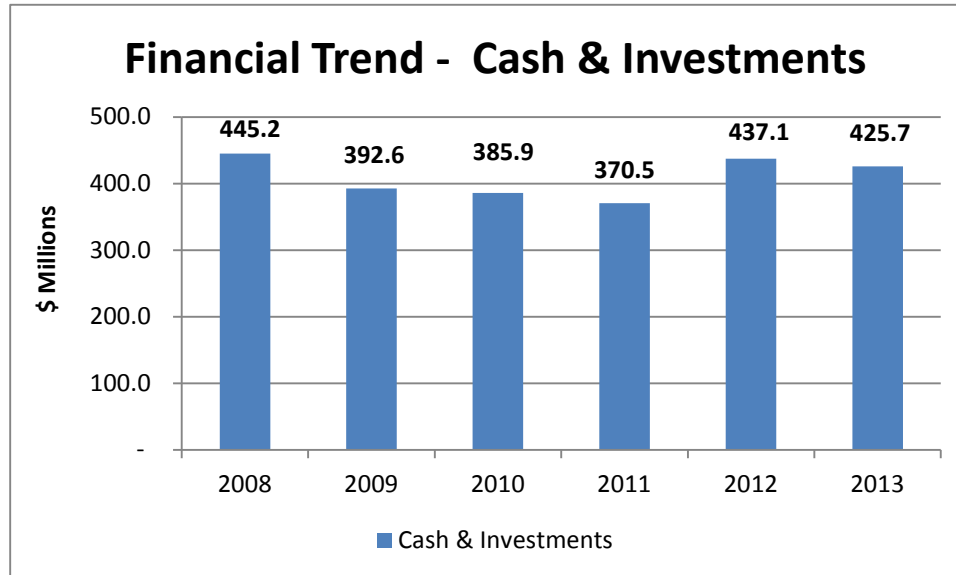
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The investment component has an effective interest rate range of 2.78% to 5.03%. The following graph (Exhibit 1) illustrates the continued strength in the City's cash and cash investment position.

EXHIBIT 1



Taxes Receivable

In 2013, taxes receivable totalled \$54.3m (2012, \$36.0m) an increase of \$18.3 million. Taxes receivable are monies owing from property owners as at December 31st, 2013 and include the City's portion, Regional portion and the Provincial portion for education. This increase in receivables is primarily due to a year-end billing accrual relating to a significant assessment appeal decision that was in the City's favour. As a result the actual property tax billing will be issued in 2014. In addition the accounts receivable balance will increase to some extent as a result the growth in the number property tax accounts. The City's tax receivable outstanding compared to the annual amount levied stands at 5.7% which compares well to the municipal benchmark average of 7%. This favourable position is the result of a multifaceted collection approach. The process includes six arrears notices mailed at strategic points during the year for residential accounts, business accounts are also contacted directly by phone. In addition, emphasis is placed on those properties nearing the tax sale time frame of three years. This added collection effort provides the owner with the opportunity to pay in full or enter into a payment plan thereby avoiding the possible tax sale of their property.

Water and Wastewater Receivable

The water and wastewater receivables totalled \$18.0m (2012, \$17.0m) an increase of \$1.0m over 2012. The increase is largely due to a year- end billing accrual and to small extent growth in the customer base in both residential and commercial accounts. Collections continued to be strong throughout the year as a result of both the collection efforts of our billing agent and the City which includes arrears notices and phone calls.

Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling \$22.2m (2012, \$15.7m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable

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includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. The increase this year is primarily due to a Vaughan Holdings Inc. dividend declaration of \$5.1m that was paid in January 2014. Local improvement receivable at \$0.2m (2012, \$0.5m) is reducing each year as property owners make annual payments over time for capital improvement works on their street.

Investment in Hydro Vaughan Corporations

Initially the Hydro Vaughan Corporations consisted of: Vaughan Holdings Inc. (45.3% share of PowerStream), Hydro Vaughan Holdings Inc., Hydro Vaughan Energy Corporation and 1446631 Ontario Inc. Mid-year Vaughan Holdings Inc. (VHI) was dissolved (June 30th, 2013) and on the same date VHI transferred the rights to its assets and liabilities to Hydro Vaughan Holdings Inc.(HVHI) which was subsequently renamed Vaughan Holdings Inc.(VHI). The City also transferred 100% of its shareholdings in Hydro Energy Corporation to the new VHI. The City retained 100% ownership in 1446631 Ontario Inc. On a consolidated basis no adjustment in value was required to the investment in the Hydro Vaughan Corporation as a result of this reorganization.

The consolidation is based on the modified equity basis and is consistent with the generally accepted accounting treatment for government business enterprises. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform to those of the City, and inter-organizational transactions and balances are not eliminated.

The City recognizes its equity interest in the annual income or loss of the Hydro Vaughan Corporations in its Consolidated Statement of Operations and Accumulated Surplus with a corresponding increase or decrease in its investment asset account.

The City has established corporations under the provisions of the Ontario Business Corporation Act and the City's ownership is as follows:

- | | |
|---|---------------------------------------|
| • Vaughan Holdings Inc. (formerly HVHI) | 100% (45.3% share of PowerStream Inc) |
| • 1446631 Ontario Inc. | 100% |
| • Hydro Vaughan Energy Corporation | 0% (100% owned by new VHI) |
| • Vaughan Holdings Inc. | 0% (Dissolved June 30th, 2013) |

Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals \$322.1m (2012 restated, \$296.6m, due to error in Capital assets \$6.4m, VHI proportionate share \$2.5m) and is comprised of share capital of \$123.6m consisting of common and common A shares, notes receivable from PowerStream Inc. of \$84.1m, accrued interest note receivable of \$9.9m, IFRS adjustment for \$21.9m, accumulated earnings as at December 31, 2013 of \$59.6m and \$23.0m in dividends/interest received from PowerStream Inc. retained by Vaughan Holdings Inc.

Equity Change in Hydro Vaughan Corporations

The annual net increase of \$25.4m in the equity share of the Hydro Corporations is comprised of the following transactions; earnings from the Hydro Vaughan Corporations of \$12.6m, equity investment common shares class A \$17.9m, interest earned on the PowerStream note receivable \$4.8m and reductions of equity due to dividend receivable (\$5.1m) and accrued interest on the note receivable of (\$4.8m).

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LIABILITIES

Accounts Payable and Accrued Liabilities

In 2013 the total current liability balance was \$85.2m (2012, \$68.0m) an increase of \$17.2m. This increase is primarily due to the year-end billing accrual for property taxes as it relates to the region and school board portion. In addition accounts payable balance is impacted due to the timing of the receipt of supplier's invoices and the amount of operational or capital works activity. These City liabilities represent accrued and general liabilities to suppliers and contractors, outside agencies, other governments, as a result of operating fund activity, capital fund activity and legislative financial obligations to the region and school boards.

Employee Future Benefit Liability

These liabilities total \$85.9m (2012, \$75.5m) consisting of post-employment retirement benefits of \$80.6m (2012, \$70.4m), vacation pay entitlements \$4.6m (2011, \$4.6m), and Workers Safety Insurance Board (WSIB) obligations \$0.7m (2012, \$0.5m).

Post retirement employee benefits are based on a 2011 actuarial study and the valuation represents the retirement benefits that have accrued over the service life of the city employees' to-date but not yet paid. The costs of these benefits are recognized annually in the financial statements as the employees render their service. A portion of these liabilities that are not funded annually are netted against the accumulated surplus. As a financial strategy for the future, Council approved the creation of a reserve for post employee's retirement benefits, which now totals \$22.7m.

Vacation entitlement is earned during the course of employment and the fully funded liability represents the unused portion. WSIB liability represents the future expected claims and is fully funded. The WSIB valuation is based on a 2013 actuarial study.

Deposits and Deferred Revenue

Deposits and deferred revenue total \$20.8m (2012, \$22.5m) down by a net of \$1.7m due mainly to a drawdown of funds for capital projects. This amount represents pre-paid funds from developers, builders and other parties that are held by the City for capital projects to be constructed or various City services to be rendered in the future.

Deferred Revenue – Obligatory Reserve Fund

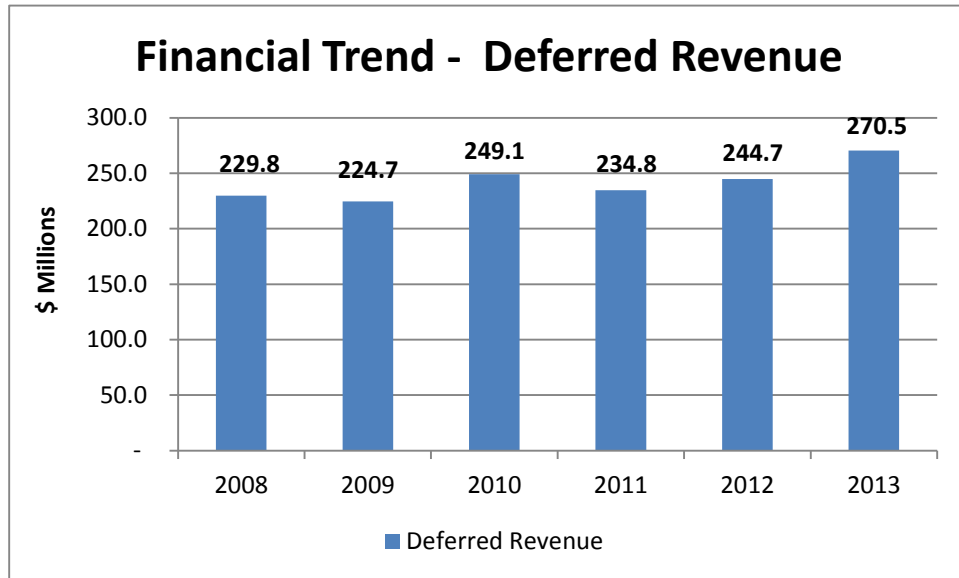
Development charges and obligatory reserves in 2013, Exhibit #2, totals \$270.5m (2012, \$244.8m) a net increase of \$25.7m over 2012. This net increase year over year is primarily due to a lower drawdown of funds for capital projects \$17.0m with the remainder attributable to development charge increases, cash in lieu of parkland and federal gas tax revenues. Funds included in this category are considered liabilities as they are non discretionary in terms of use and represent capital work obligations to be constructed by the City in the future. Deferred revenues are mainly derived from the receipt of development charges, cash in-lieu of parkland receipts, sub-divider contributions and funds received related to building permits per the Building Standards Act, Provincial and Federal grants. The grants applied for and received consist of the federal gas tax, Ontario roads and bridges grant and the Investing in Ontario Act. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

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EXHIBIT 2



Debenture and Other Debt

Long-term liabilities total \$72.3m (2012, \$77.3m) consisting of sinking fund debentures, serial debentures and other development related debt. The net decrease is mainly the result of the pay down of debenture debt. The annual 2013 principal and interest payments that service the debt totals \$13.2m (2012, \$11.1m) are well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10% as shown below. These limits are calculated based on the annual total Debt and Interest payment as a percentage of Own Source Revenues. The 2013 City Debt level stands at 6.2% including guarantees (2012, 4.9%, including guarantees) are well within the City's debt limit policy.

Audit of the Mayor's Golf and Gala Events Statement of Revenue/Expenses and Fund Balance

In an effort to continually improve transparency in all aspects of the City's finances, staff requested KPMG to provide an audit of the Mayor's Golf and Gala Events financials. All Golf and Gala financials have always been included in the City's financial statements. However, staff believed that a full disclosure accounting of event expenses and revenues and an independent audit review were justified based on the high profile nature of the events.

The independent audit indicated that all statement of expenses and revenues were in fact accounted for on an appropriate basis.

Non-Financial Assets

Non-financial assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan. Tangible capital assets, comprised of capital assets and capital work in progress were developed using actual or estimated historical costs. When historical cost records were not available, other methods were used to estimate the costs and the accumulated amortization of the assets.

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The City's net tangible capital assets as at December 31, 2013 total \$7,130,099,550. The net book value is comprised of the gross capital asset cost plus additions, less disposals, less the accumulated amortization and adjustments. Amortization is recorded on a straight line basis over the estimated useful life of the asset commencing the year the asset is put into service. The 2013 amortization expense was \$64.9m (2012, \$65.5m). Assets under construction totalling \$100.5m (2012, \$53.1m) are not amortized until the assets are brought into service.

The 2013 tangible capital assets net book value with 2012 comparable are as follows:

Assets	2013	2012
Land	\$4,959,449,414	\$4,869,609,691
Land Improvements	\$92,244,635	\$91,297,273
Buildings and Building Improvements	\$229,906,088	\$220,560,183
Machinery and Equipment	\$14,406,196	\$14,087,149
Vehicles	\$12,751,289	\$13,967,477
Furniture and Fixtures	\$4,838,648	\$5,289,941
Information Technology	\$1,350,876	\$1,254,016
Leasehold Improvements	\$1,147,535	\$1,293,463
Roads Infrastructure	\$502,670,775	\$508,583,182
Water & Sewer/Storm Infrastructure	\$1,210,868,138	\$1,210,433,661
Assets under Construction	\$100,465,956	\$53,122,877
Total	<u>\$7,130,099,550</u>	<u>\$6,989,498,913</u>

Accumulated Surplus

The accumulated surplus of \$7.4b (2012, \$7.3b) as shown below consists of tangible capital assets and net financial assets. The tangible capital assets are held for the use in the provision of City services and the net financial assets consist of amounts to be recovered in the future, operating and capital fund balances, City Hydro Investments and reserves. The net financial asset component represents a municipality's ability to meet current and future financial needs of the community.

Following is a breakdown of the City's net accumulated resources as at December 2013:

	2013	2012
Investment in Tangible Capital Assets	\$7,130,099,550	\$6,989,498,913
*Other (Fund Balances)	(97,839,095)	(76,838,399)
*Amounts to be Recovered in Future Years		
From future revenues	(114,519,194)	(114,784,543)
From reserves & reserve funds	(22,658,852)	(21,783,999)
Total	(137,178,046)	(136,568,542)
Investment in Hydro Vaughan Corporations	322,066,338	296,639,750
Reserves set aside by Council (Exhibit #3)	<u>217,284,121</u>	<u>228,283,206</u>
Accumulated Surplus	<u>\$7,434,432,868</u>	<u>\$7,301,014,928</u>

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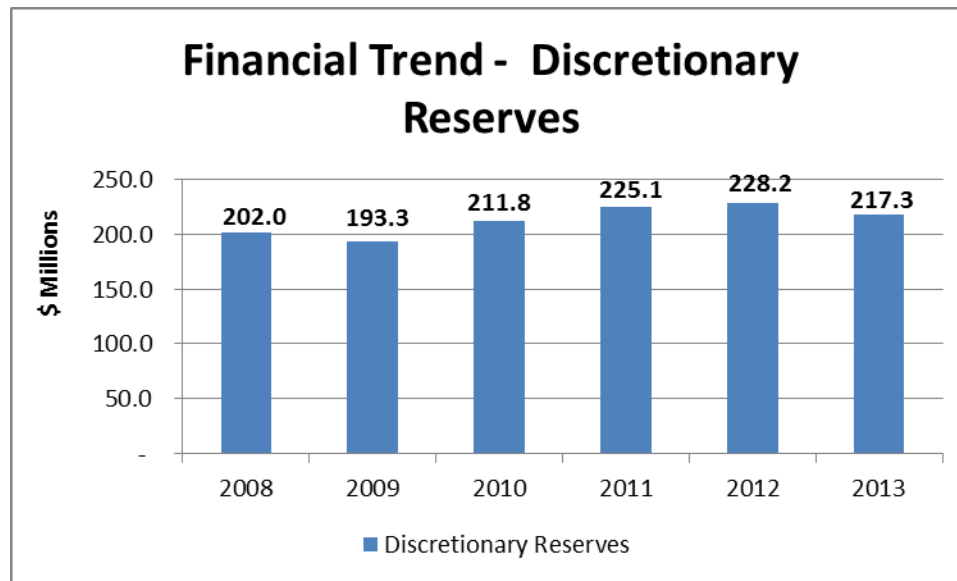
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*The Other Fund balances of \$97.8M represent the annual net Operating and Capital Fund balances at the end of the year. This amount consists of the operating fund surplus of \$2.9m less PowerStream unpaid note interest of (\$9.9m), purchase of Vaughan Holdings Inc. shares (\$17.5m) and the capital fund unfinanced balance of (\$73.3m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

Amounts to be recovered in future years consist of post-retirement employee benefit and debenture costs which have been expensed but have not been funded.

The discretionary reserve balance continues to be steady as shown in Exhibit #3 below.

EXHIBIT 3



In 2013 however, the discretionary reserve net balance was lower primarily as a result of a drawdown that was required due to a one time expenditure. The year-end funds on hand have not been adjusted for outstanding budgetary commitments. Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund business timing fluctuations, unforeseen or extraordinary expenses, infrastructure renewal or when revenues decline. Reserves can assist in moderating changes in the tax rate and are also established to provide adequate funding for the financial obligations and significant infrastructure replacement requirements in the future.

The increase in reserves over the past number of years was possible as a result of Council's adoption of financial policies. These policies and others will continue to contribute to the financial well-being of the City as shown in 2013 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Draft Consolidated Statement of Operations and Accumulated Surplus/ Audited Budget

The Council approved 2013 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus, as required under the Municipal Act. The primary purpose of the budget

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process is to develop the City's financial plan and determine the levy requirement and associated tax rates, which is more focused on funding requirements and does not include items like amortization and unfunded post-employment benefits.

The audited budget in the consolidated statement of operation and accumulated surplus is based on the Operating, Capital and Water and Wastewater budgets as approved by City Council. Adjustments to the Council approved budget to conform to the required financial statement presentation include transfers from other funds, proceeds on debt issue, hospital levy and hydro dividends on the revenue side and transfers to other funds, debt principal repayments, transfer of hospital levy on the expense side. The budget for 2013 included in the Consolidated Statement of Operations and Accumulated Surplus after all adjustments is a deficit of \$39,9M. The actual financial statements include revenues not budgeted, such as contributed assets and the share of the net income of the hydro companies and include expenditures not funded through the tax levy such as amortization and post-employment benefits. The differences are further illustrated in Note 13 of the financial statements.

Relationship to Vaughan Vision 2020

This report is consistent with and supports the Vaughan Vision 2020 strategic initiatives under Organizational Excellence that ensures financial sustainability and manages corporate assets.

Regional Implications

There are no Regional implications.

Conclusion

As a direct result of Council policies and Management's efforts, the financial resources of the municipality continue to be strong.

Financial stability and strong reserve balances assists in creating the following:

- Financial flexibility for the municipality;
- Increased control over the municipal portion of the property tax rate;
- Effective timing of capital projects;
- Generally sound municipal fiscal environment; and
- Provides a positive awareness amongst the private sector, government and the community.

Notwithstanding the on-going financial improvements that have been made, continued investment in the areas of buildings & facilities, roads, parks and water/wastewater/storm infrastructure must continue so as to secure the City of Vaughan's financial future as outlined in the Vaughan Vision 2020.

Attachments

Attachment 1 - 2013 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements, and The Statement of Revenue and Expenditures and Fund Balance of the Mayor's Golf and Gala Events and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements

Attachment 2 - 2013 Audit Findings Report - KPMG LLP

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Report Prepared by:

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)