

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013**

Item 1, Report No. 8, of the Finance and Administration Committee, which was adopted, as amended, by the Council of the City of Vaughan on June 25, 2013, as follows:

***By receiving Communication C11 from the Director of Financial Services, dated June 21, 2013.***

**1                      2012 DRAFT CONSOLIDATED FINANCIAL STATEMENTS**

**The Finance and Administration Committee recommends:**

- 1)        That the recommendation contained in the following report of the Acting Commissioner of Finance & City Treasurer and the Director of Financial Services, dated June 10, 2013, be approved; and**
- 2)        That Communication C1, Presentation Material, entitled, “2012 Consolidated Financial Statements”, be received.**

**Recommendation**

The Acting Commissioner of Finance & City Treasurer and the Director of Financial Services recommends:

1.        That the report “2012 Draft Consolidated Financial Statements” be received; and
2.        That the 2012 Draft Consolidated Financial Statements and Trust Fund Statements (Attachment #1) be approved; and
3.        That the KPMG Audit Findings Report for the year ended December 2012 (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.

**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 2012 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.

**Purpose**

To receive the report 2012 Draft Consolidated Financial Statements, to approve the City's 2012 Draft Consolidated Financial Statements, Vaughan Public Library (VPL) Financial Statements, Kleinberg Business Improvement Area Financial Statements, the Trust Fund Statements and to receive the City's external Auditor's Findings Report for 2012. The VPL financial statements will be presented to the Library Board for approval on June 20, 2013.

**Background - Analysis and Options**

The City's Draft Consolidated Financial Statements have been prepared under the Public Sector

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Accounting Board Standards 3150 and 1200. An audit of the statements was conducted by KPMG. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31<sup>st</sup>, 2012 is provided below. The 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 Trust Fund Financial Statements are not included in the City's consolidated financial results because the assets do not belong to the City but are held in trust only.

#### **Changes in Accounting Standards**

The City implemented the Public Sector Accounting Board (PSAB) standard 3150 tangible capital assets and standard 1200 financial statement presentation in 2009. These accounting standards are described below:

##### **Accounting for Tangible Capital Assets – PSAB Standard 3150**

The City of Vaughan implemented in 2009 the accounting and reporting recommendations of the Public Sector Accounting Board section 3150 regarding the accounting for municipal tangible capital assets. Tangible capital assets consist of land, parks, buildings, bridges, sidewalks, vehicles, equipment, streetlights, roads, water and wastewater/storm infrastructure.

The asset historical cost, asset service life, annual amortization and disposals were determined for all the City's assets. These assets are classified on the financial statements under "Non-Financial Assets".

##### **Financial Statement Presentation - PSAB Standard 1200**

This standard moves municipal financial statements away from fund accounting, the current process for developing the tax rate and the City budget. The statement of financial position and financial activities are no longer reported by fund, i.e. Operating Fund, Capital Fund and Reserve Funds. The statement of operations is on a consolidated basis and is compared to a budget that has been revised from the traditional "fund" budgets approved by Council to a format in compliance with the new standards (see Note 13). The municipal position which previously presented the various funds and amounts to be recovered is now replaced with a single line titled "Accumulated Surplus/Deficit" which includes the City's investment in tangible capital assets, investment in Hydro Vaughan Corporations, reserves set aside for specific purposes by Council, amounts to be recovered in future years to fund debt and post-employment benefits and unused operating/capital fund balances.

##### **International Financial Reporting Standards (IFRS) – PowerStream Inc.**

In 2012 PowerStream Inc. adopted the international financial reporting standards. These standards were developed for the private sector to harmonize accounting standards around the world and to provide a common and understandable language for financial reporting.

#### **2012 Draft Consolidated Statement of Financial Position Overview**

The City of Vaughan's 2012 Consolidated Statement of Financial Position demonstrates a continued strong position in many key financial areas which supports the Vaughan Vision 2020 strategic initiative for a financially sustainable future. 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 Hydro Vaughan Corporations investment as described further in the review.

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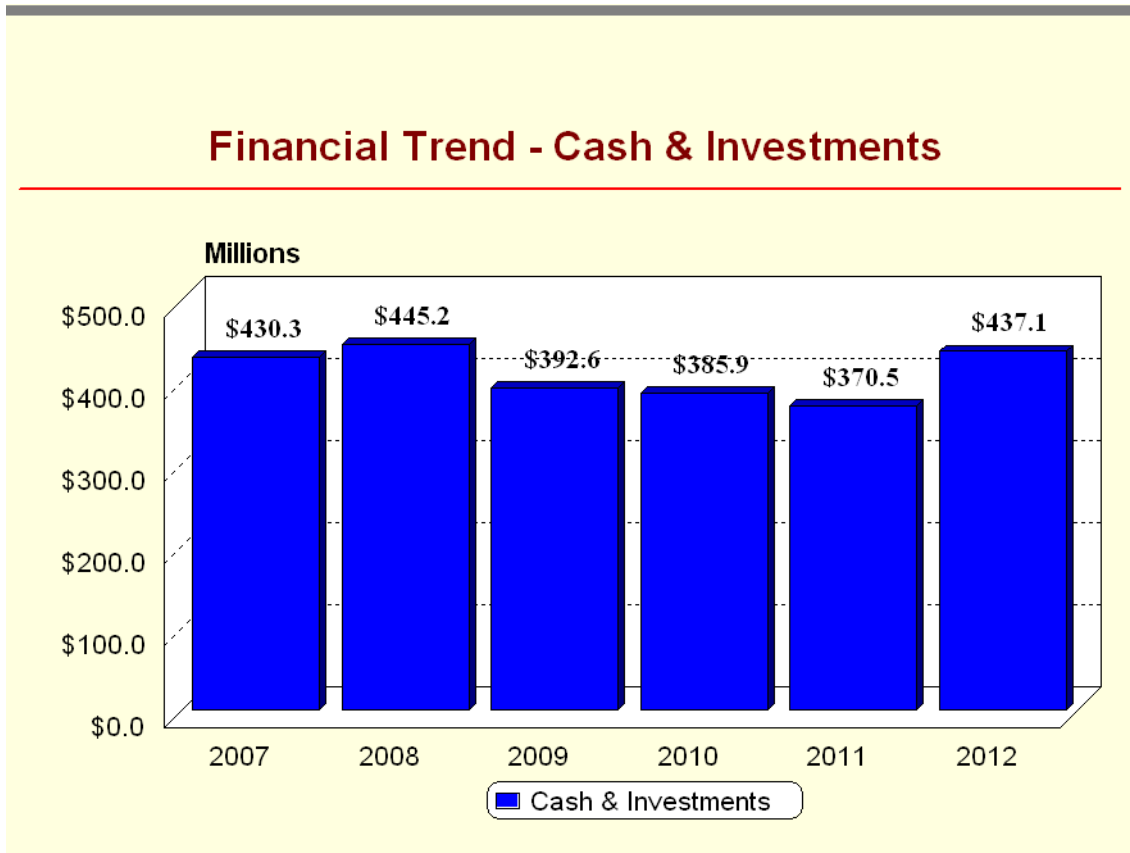
This strong financial position is a result of Council's commitment to sound fiscal policies, including the adoption of fiscally responsible operating and capital budgets, the long range financial planning targets, and establishment of new reserves and financial policies as required. Only through Council's on-going support for these financial policies has the City been able to achieve this increased financial flexibility. This approach provides Council more control over increases in the municipal portion of the property tax rate, the timing and funding of capital projects now and into the future.

#### **Financial Assets**

##### Cash and Cash Investments

The cash balance totals \$360.6m (2011, \$270.8m) at the end of 2012. Investments over 90 days total \$76.5m (2011, \$99.7m). Cash and cash investments combined total \$437.1m (2011, \$370.5m) as shown below. The investments have an effective interest rate range of 2.31% 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 2012, taxes receivable totalled \$36.0m (2011, \$43.1m) a decrease of \$7.1 million. This decrease in receivables is partially attributable to a smaller supplemental tax billing at the end of 2012 compared to last year's (2011) supplemental billing. In addition collections were strong

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throughout the year. The collection process includes six arrears notices mailed at strategic points during the year. Business accounts not only receive a collection letter but are also contacted directly by phone. Emphasis is also placed on those properties nearing the tax sale time frame of three years. This approach provides the owner with the opportunity to enter into a payment plan thereby avoiding the tax sale process.

#### Water and Wastewater Receivable

In 2012, the water and wastewater receivables totalled \$17.0m (2011, \$15.8m) an increase of \$1.2m over 2011. The increase is due to a larger than normal year end billing accrual (revenue earned but not yet billed) this is the result of increased consumption in 2012 and the annual growth in the customer base.

#### Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling \$15.7m (2011, \$17.5m) comprise a wide range of monies owing from various levels of government, outside agencies, businesses, etc. This receivable includes monies owing to the City from the Canadian Revenue Agency re: HST rebates, other governments, local improvements, fire call outs and other charges. Local improvement receivable at \$0.5m (2011, \$0.8m) is reducing each year as property owners make annual payments over time for capital improvement works on their street.

#### Investment in Hydro Vaughan Corporations

The Hydro Vaughan Corporations consist of: Vaughan Holdings Inc. (which owns 45.3% share of PowerStream), Hydro Vaughan Holdings Inc., Hydro Vaughan Energy Corporation and 1446631 Ontario Inc. 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. In 2012 PowerStream Inc. adopted the international financial reporting standard IFRS. As a result the 2011 financial results for PowerStream have been restated in the new reporting standard.

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:

- |                                     |                               |
|-------------------------------------|-------------------------------|
| • Hydro Vaughan Energy Corporation; | 100%                          |
| • Hydro Vaughan Holdings Inc.       | 100%                          |
| • 1446631 Ontario Inc.              | 100%                          |
| • Vaughan Holdings Inc              | 100% (PowerStream Inc. 45.3%) |

In 2013, a slight restructuring of the Hydro corporations is planned.

#### Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals \$299.5m (2011 restated, \$275.7m) and is comprised of share capital of \$105.7m 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, 2012 of \$56.6m and \$21.3m in dividends received from PowerStream Inc. retained by Vaughan Holdings Inc.

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##### **Equity Change in Hydro Vaughan Corporations**

The annual net increase of \$23.8m in the equity share of the Hydro Corporations is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of \$16.5m, equity investment common shares class A \$12.8m, interest earned on the PowerStream note receivable \$4.8m and reductions of equity due to cash received for dividends (\$5.5m) and accrued interest on the note receivable of (\$4.8m).

##### **LIABILITIES**

##### **Accounts Payable and Accrued Liabilities**

In 2012 the total current liability balance was \$67.9m (2011, \$77.4m) a decrease of \$9.5m. The change in accounts payable is generally 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 \$75.5m (2011, \$65.2m) consisting of post-employment retirement benefits of \$70.4m (2011, \$60.5m), vacation pay entitlements \$4.6m (2011, \$4.2m), and Workers Safety Insurance Board (WSIB) obligations \$0.5m (2011, \$0.4m).

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 in the financial statements each year as the employees render their service. The 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 \$21.7m.

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 2010 actuarial study.

##### **Deposits and Deferred Revenue**

Deposits and deferred revenue total \$22.5m (2011, \$20.5m). This amount represents pre-paid funds that 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**

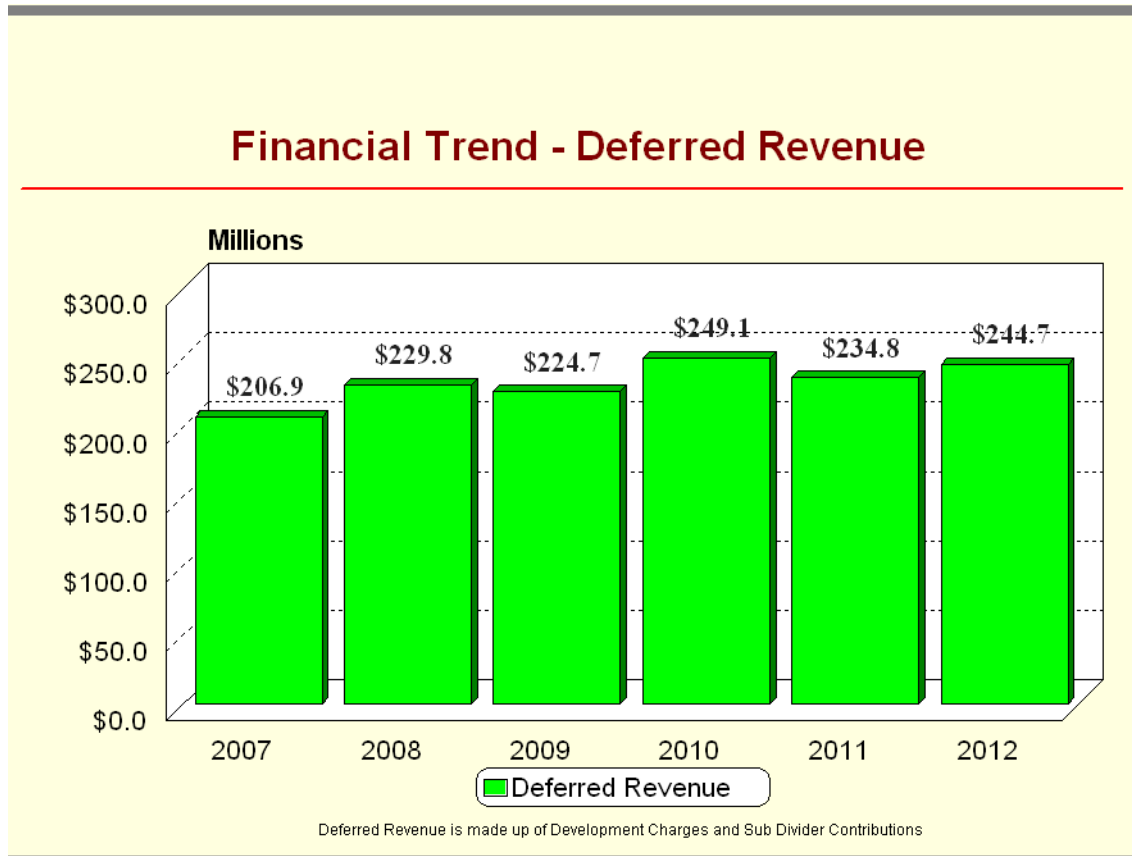
Development charges and obligatory reserves in 2012, Exhibit #2, totals \$244.7m (2011, \$234.8m) an increase of \$9.9m over 2011 as a result of increased funding for capital works. These funds are considered liabilities as they are non discretionary in terms of use and represent capital work obligations to be constructed by the City in the future. Deferred revenues are mainly derived from the receipt of development charges, recreational land cash in-lieu receipts and funds received related to building permits per the Building Standards Act, federal gas tax grants and other government grants. The grants applied for and received consist of the federal gas tax, provincial roads and bridge 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 consist of sinking fund debentures, serial debentures, other debt and totals \$77.2m (2011 \$62.9m). The net increase is mainly the result of acquiring additional serial debenture debt for capital works in 2012. The annual 2012 principal and interest payments that service the debt total \$11.0m (2011, \$10.0m) are well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%. These limits are calculated based on the annual total Debt and Interest payment as a percentage of Own Source Revenues. The 2012 City Debt stands at 4.9% (2011, 4.3%) well within the City's debt limit policy.

#### 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.

The City's net tangible capital assets as at December 31, 2012 total \$6,989,498,913 (2011, \$6,868,427,436). 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 2012 amortization expense was \$65.5m (2011, \$62.0m). Assets under construction totalling \$53.1m (2011, \$64.9m) are not amortized until the assets are brought into service.

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The 2012 tangible capital assets net book value with 2011 comparable are as follows:

	2012	2011
<u>Assets</u>		
Land	\$ 4,869,609,691	\$ 4,729,102,109
Land Improvements	91,297,273	97,672,434
Buildings and Building Improvements	220,560,183	218,084,653
Machinery and Equipment	14,087,149	13,642,754
Vehicles	13,967,477	12,670,099
Furniture and Fixtures	5,289,941	5,533,925
Information Technology	1,254,016	1,487,477
Leasehold Improvements	1,293,463	1,467,499
Roads Infrastructure	508,583,182	508,918,695
Water & Sewer/Storm Infrastructure	1,210,433,661	1,214,922,329
Assets under Construction	53,122,877	64,925,462
Total	<u>\$ 6,989,498,913</u>	<u>\$ 6,868,427,436</u>

**Accumulated Surplus**

The accumulated surplus of \$7.3b (2011, \$7.1b) as shown below consists of tangible capital assets, investment in Hydro Vaughan Corporations, accumulated fund balances, reserve balances less the amounts to be recovered in the future. The tangible capital assets are held for the use in the provision of City services however the net balance consisting of future liabilities, future capital works funding, Hydro Investments and reserves represents a municipality's ability to meet the current and future financial needs of the community.

	2011	2010
Investment in Tangible Capital Assets	\$6,989,498,913	\$6,868,427,436
*Other (Fund Balances)	(76,838,399)	(130,533,465)
*Amounts to be Recovered in Future Years		
From future revenues	(114,784,543)	(100,003,398)
From reserves & reserve funds	<u>(21,783,999)</u>	<u>(11,198,981)</u>
Total	(136,568,542)	(111,202,379)
Investment in Hydro Vaughan Corporations	299,574,803	275,700,834
Reserves set aside by Council (Exhibit #3)	<u>228,283,206</u>	<u>225,119,360</u>
Accumulated Surplus	<u>\$7,303,949,981</u>	<u>\$7,127,511,786</u>

\* The Other Fund balances representing the Operating and Capital Funds total (\$76.8m). 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 (\$2.2m) and the

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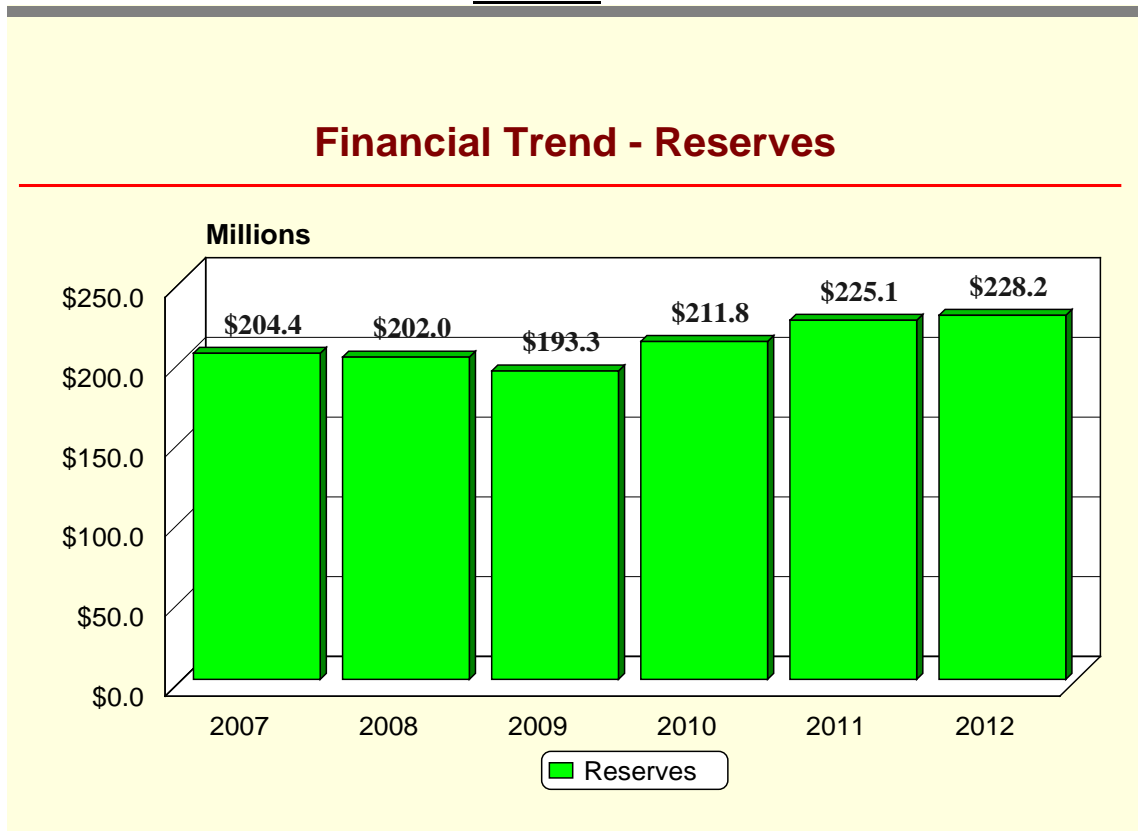
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capital fund unfinanced balance of (\$67.6m). The unfinanced capital works balance will be funded from various sources which include development charges, reserve funds, reserves, taxation and debenture financing.

Amounts to be recovered in future years are liabilities for post-retirement employee future benefits and debenture payments which have been expensed but have not been fully funded.

Reserve fund balance continues to be steady as shown in Exhibit #3 below.

#### EXHIBIT 3



The year-end funds on hand have not been adjusted for outstanding budgetary commitments. Reserve balances are expected to decline as these commitments are fulfilled.

Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund 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 2012 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

The "Consolidated Statement of Operations and Accumulated Surplus" now required under PSAB



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is a significant change from the pre-2009 budget-based “Consolidated Statement of Financial Activities”. The Consolidated Statement of Operations and Accumulated Surplus statement (page 2 of the Consolidated Financial Statements) begins with a revised budget which is reconciled to Council’s approved budget in Note 13 on page 35 of the Consolidated Financial Statements.

The Council approved 2012 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. The primary purpose of the Operating and Capital Budget process is to develop the levy requirement and associated tax rates. In the revised budget for financial statement purposes, internal transfers, capital expenses, debt proceeds and payments and the hospital levy are eliminated, resulting in a revised budgeted annual surplus of \$52.4. 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 most significant differences in reviewing the 2012 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total \$159.4m (2011, \$91.0m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. These items are not provided for in the City’s budget as they are controlled by the developer until transferred.
- Expenses – Variance between budgeted expense of \$280.3m and reported expense of \$360.2m. The most significant difference here relates to amortization expense for 2012 of \$65.5m, which must be reported under the new municipal reporting regime, but is only partially funded within the budget through established reserve contributions and financing arrangements. Given municipalities must balance their budget, budgeting for amortization would be treated as a significant increase in expenses that would require a funding source, most likely taxation.
- Annual Surplus – The annual surplus of \$176.4m (2011, \$94.0m, restated) reported in 2012 is primarily influenced by the unbudgeted Contributed Assets of \$159.5m.

#### **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.

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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 - 2012 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Financial Statements and the KBIA Financial Statements. Also included but not incorporated in the City's Financial Statements are the Trust Fund Financial Statements

Attachment 2 - 2012 Audit Findings Report KPMG

**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.)