

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF SEPTEMBER 25, 2012

Item 1, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on September 25, 2012.

1 2011 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Financial Services, dated September 10, 2012:

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Financial Services, in consultation with the Director of Budgeting and Long Range Planning recommends:

1. That the following Financial Review of the 2011 Draft Consolidated Financial Statements be received; and
2. That the 2011 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 2011 (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 2011 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 financial review of the City's 2011 Draft Consolidated Financial Statements, to approve the City's 2011 Draft Consolidated Financial Statements, Vaughan Public Library Financial Statements, Kleinburg Business Improvement Area Financial Statements, the Trust Fund Statements and to receive the City's external Auditor's Findings Report for 2011.

Background - Analysis and Options

The City's Draft 2011 Consolidated Financial Statements have been prepared under the Public Sector Accounting Board Standards 3150 and 1200. The financial overview of the City of Vaughan's Draft Consolidated Statement of Financial Position as of December 31st, 2011 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.

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Changes in Accounting Standards

The City implemented the new Public Sector Accounting Board (PSAB) standard 3150 tangible capital assets and standard 1200 financial statement presentation in 2009. These new 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 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".

2011 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan's 2011 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 below.

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

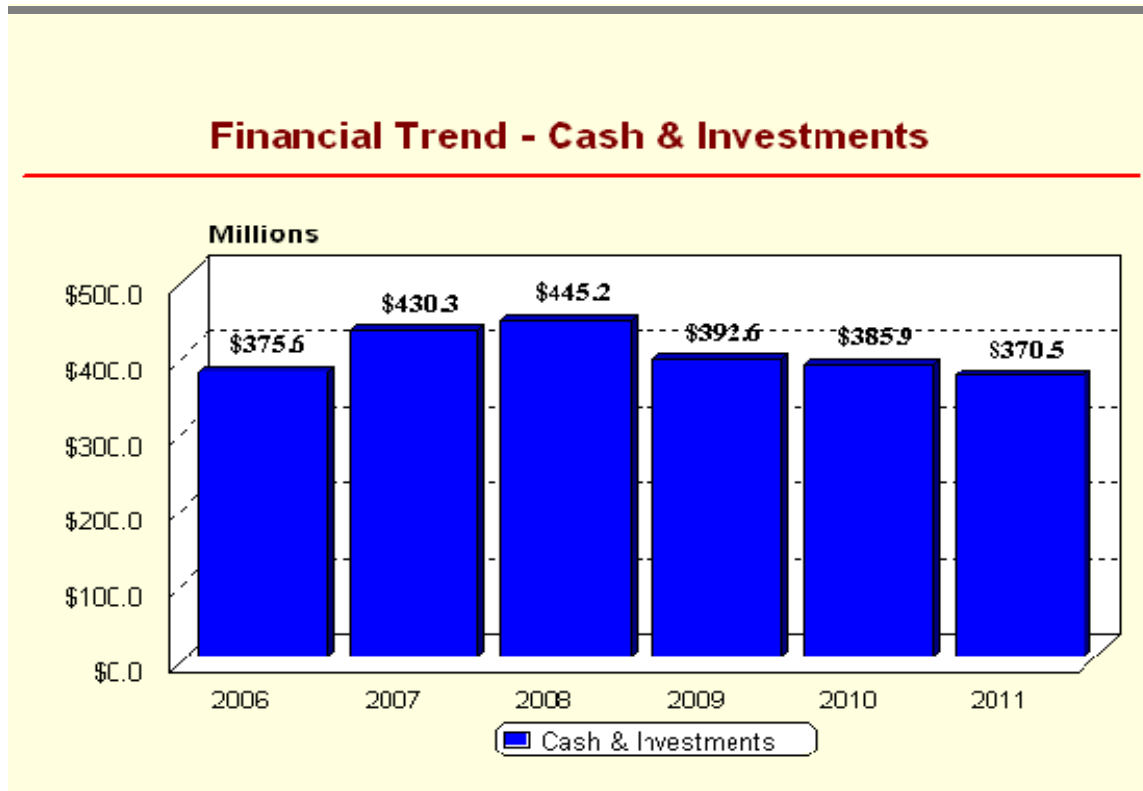
The cash balance totals \$270.8m (2010, \$259.4m) at the end of 2011. Investments over 90 days total \$99.7m (2010, \$126.5m). These investments have an effective interest rate range of 2.19% to 5.03%. The following graph (Exhibit 1) illustrates the continued strength in the City's cash and investment position.

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EXHIBIT 1



Taxes Receivable

In 2011, taxes receivable totalled \$43.1m (2010, \$48.8m) a decrease of \$5.7 million. This decrease in receivables is partially attributable to a smaller supplemental tax billing at the end of 2011 and particularly strong collections throughout the year. The collection process includes various approaches: regular arrears notice mailings at strategic points during the year; Business accounts not only receive collection letters but are also contacted directly by phone. In addition, emphasis is placed on properties that enter the tax sale process. This approach limits the number of property owners that enter into the final phase of the tax sale regime. As a result, the owner is provided with the opportunity of reducing or eliminating the arrears situation.

Water and Wastewater Receivable

In 2011, the water and wastewater receivables totalled \$15.7m (2010, \$14.1m) an increase of \$1.6m over 2010. The increase is due to a larger than normal year-end billing accrual and annual customer growth.

Accounts Receivable /Local Improvement Receivable

The City's accounts receivable totalling \$17.5m (2010, \$16.3m) 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 receivables at \$0.8m (2010, \$1.1m) are reducing each year as property owners make annual payments over time for capital improvement works on their street.

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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. 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%) |

Investment in Hydro Vaughan Corporations

The City's investment in the Hydro Vaughan Corporations totals \$256.2m (2010, \$244.0m) and is comprised of share capital of \$92.8m consisting of common and common A shares, notes receivable from PowerStream Inc. of \$84.1m, accrued interest receivable of \$9.9m, accumulated earnings as at December 31, 2010 of \$49.9m and \$19.5m in dividends/interest received from PowerStream Inc. which is retained by Vaughan Holdings Inc.

Equity Change in Hydro Vaughan Corporations

The annual net increase of \$12.2m in the equity share of the Hydro Corporations is comprised of the following transactions: earnings from the Hydro Vaughan Corporations of \$13.7m, equity investment common shares class A \$3.2m, interest earned on the PowerStream note receivable \$4.8m and reductions of equity due to cash received for dividends (\$4.7m) and accrued interest on the note receivable of (\$4.8m).

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2011 the total current liability balance was \$77.4m (2010, \$113.4m) a decrease of \$36.0m. 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 \$65.2m and consist of post-employment retirement benefits of \$60.5m (2010, \$48.4m), vacation pay entitlements \$4.2m (2010, \$3.9m), and Workers Safety Insurance Board (WSIB) \$0.4m (2010, \$0.4m).

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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 \$11.1m.

Vacation entitlement is earned during the course of employment and the liability represents the unused portion and this liability is fully funded. The 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 \$20.5m (2010, \$18.4m). 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 2011, Exhibit #2, totals \$234.8m (2010, \$249.1m) a decrease of \$14.3m over 2010 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.

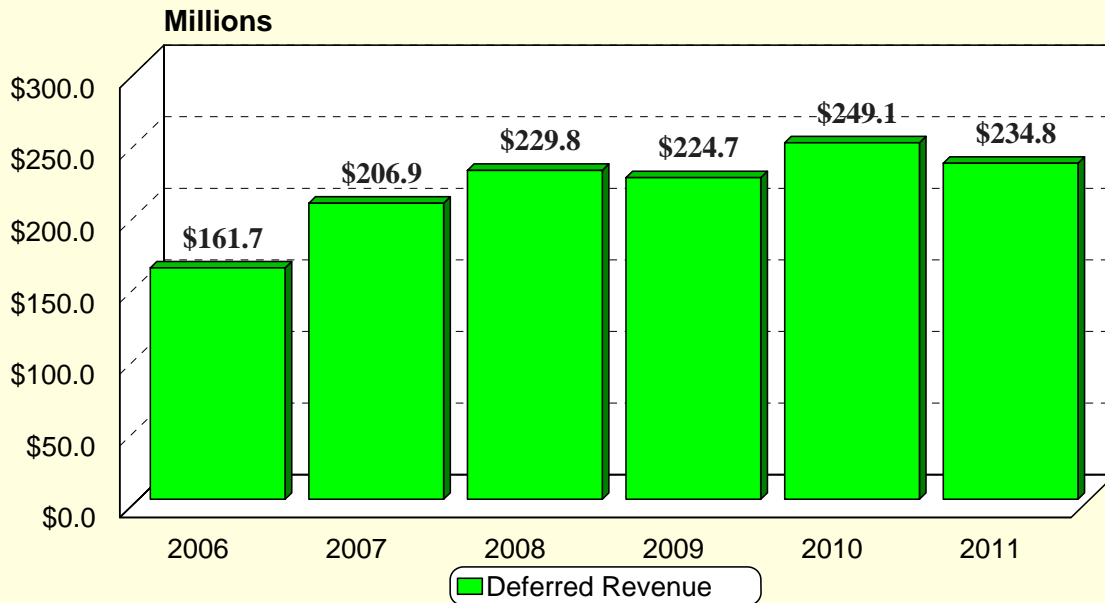
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EXHIBIT 2

Financial Trend - Deferred Revenue



Deferred Revenue is made up of Development Charges and Sub Divider Contributions

Debenture and Other Debt

Long-term liabilities consisting of sinking funds, serial debentures and other debt totals \$62.9m (2010 \$55.1m). The net increase is mainly the result of acquiring additional serial debenture debt for capital works in 2011. The annual principal and interest payments required to service these liabilities 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 2011 City Debt stands at 4.3% (2010, 4.4%) 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.

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The City's net tangible capital assets as at December 31, 2011 total \$6,868,427,436 (2010, \$6,793,633,069). 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 2011 amortization expense was \$62.0m (2010, \$56.7m). Assets under construction totalling \$64.9m (2010, \$177.7m) are not amortized until the assets are brought into service.

The City's 2011 net book value of the City's tangible capital assets with 2010 comparables are as follows:

	2011	2010
<u>Assets</u>		
Land	\$ 4,729,102,109	\$ 4,652,523,984
Land Improvements	97,672,434	95,329,483
Buildings and Building Improvements	218,084,653	115,289,105
Machinery and Equipment	13,642,754	12,849,311
Vehicles	12,670,099	12,124,402
Furniture and Fixtures	5,533,925	1,833,329
Information Technology	1,487,477	1,301,804
Leasehold Improvements	1,467,499	837,786
Roads Infrastructure	508,918,695	514,086,364
Water & Sewer/Storm Infrastructure	1,214,922,329	1,209,720,969
Assets under Construction	64,925,462	177,736,532
Total	\$ 6,868,427,436	\$ 6,793,633,069

Accumulated Surplus

The accumulated surplus of \$7.1b (2010, \$7.0b) 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.

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	2011	2010
Investment in Tangible Capital Assets	\$6,868,427,436	\$6,793,633,069
*Other (Fund Balances)	(130,533,465)	(146,102,211)
*Amounts to be Recovered in Future Years		
From future revenues	(100,003,398)	(81,333,623)
From reserves & reserve funds	(11,198,981)	(10,526,956)
Total	(111,202,379)	(91,860,579)
Investment in Hydro Vaughan Corporations	256,227,338	244,052,993
Reserves set aside by Council (Exhibit #3)	225,119,360	211,816,485
Accumulated Surplus	<u>\$7,108,038,290</u>	<u>\$7,011,539,757</u>

*

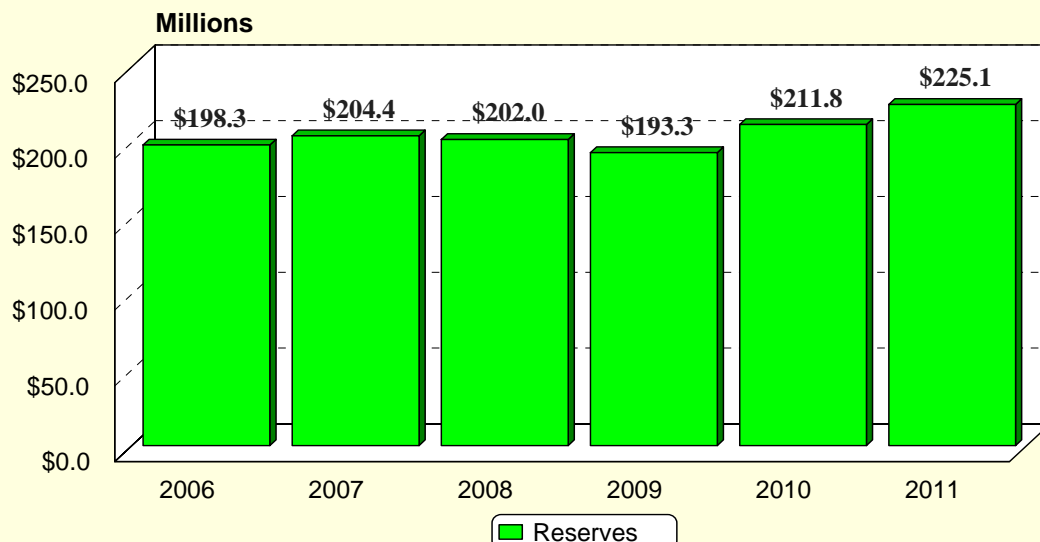
The Other Fund balances representing the Operating and Capital Funds total (\$130.5m). This amount consists of the operating fund surplus of \$2.9m less PowerStream unpaid note interest of (\$9.9m), purchase of Vaughan Holdings Inc shares (\$2.1m) and the capital fund unfinanced balance of (\$121.4m). 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

Financial Trend - Reserves



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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 2011 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 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 on page 33.

The Council approved 2011 Operating and Capital budgets are traditional balanced budgets with no budgeted surplus. 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 \$63,302,600.

The most significant differences in reviewing the 2011 revenues and expenses to the revised budget are:

- Revenues – Contributed assets total \$91.0m (2010, \$80.6m). This amount reflects the estimated cost of tangible capital assets assumed through development, e.g. roads and underground pipes built by developers in subdivisions. Although the \$91.0m is reflected as revenue in the financial statements, the assumed assets also represent an immediate financial impact through increased cost-based amortization expense, as well as future replacement cost to be considered in the City's Long Range Financial Plan.
- Expenses – Variance between budgeted expense of \$265.8m and reported expense of \$360.7m. The most significant difference here relates to amortization expense for 2011 of \$62.0m, which the City does not budget for, but must be reported under the new municipal reporting regime.
- Annual Surplus – The annual surplus of \$96.4m (2010, \$76.7m) reported in 2011 is primarily influenced by the unbudgeted Contributed Assets of \$91.0m.

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.

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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 - 2011 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 - 2011 Audit Findings Report KPMG

Report Prepared by:

Barry Jackson, CGA
Director of Financial Services, ext. 8272

Mr. Kevin M. Travers, CA, Partner, KPMG LLP, was in attendance.

(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.)