

**2005 CONSOLIDATED FINANCIAL STATEMENTS,
TRUST FUND STATEMENTS, AUDITORS REPORT AND
FOURTH QUARTER OPERATING VARIANCE REPORT**

Recommendation

The Commissioner of Finance & Corporate Services and the Director of Financial Services recommends:

1. That the following report be received; and
2. That the 2005 Consolidated Financial Statements and Trust Fund Statements (Attachment 1 and 1Aa) be received and;
3. That the confidential Audit Findings report to Audit Committee for the year ended December 31, 2005 from KPMG (Attachment 2) be received for information; and
4. That the Operating Variance Report for the Fourth Quarter of 2005 (Attachment 3) be received.

Economic Impact

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

Purpose

To present Council with the 2005 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Confidential Audit Findings Report for the year ended December 31, 2005 and the Operating Variance Report for the Fourth Quarter of 2005.

Background - Analysis and Options

For the year ending December 31, 2005, attacheded is the City of Vaughan Consolidated Financial Statements and related notes (Attachment 1).. These consolidated Financial Statements include the net operations, assets and liabilities of the various Vaughan Hydro corporations, the Current Fund Operations, including the Water and Wastewater Operations, Capital Fund Expenditures, the Schedule of Reserves and Reserve Funds, the Board approved Vaughan Public Libraries Financial Statements, the Trust Fund Financial Statements. The Trust Fund statements are not consolidated with the City Financial Statements.

Also attached is the Audit Findings Report (Attachment 2) and the year-end operating variance analysis (Attachment 3) comparing actual operating results to the 2005 annual operating budget. This report provides the current status of both departmental and corporate expenses and revenues for the year ended December 31, 2005. The Financial Information Return was submitted to the Province on schedule and the Municipal Performance Measurement Program which forms part of the FIR was also submitted. (Attachment 1aA).

Financial Reporting for 2005

Municipalities have been required since 2000 to adopt the applicable local government sections of the accounting and reporting recommendations set out in the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA). The City's annual audited financial statements and the provincial financial information return (FIR) reflect these reporting requirements.

2005 Financial Overview

The City of Vaughan's 2005 Financial Statements demonstrate a continued strong position in many key financial areas. These areas include the City's Reserves, investments in the Hydro Corporations, permit fees and user fees which continue to be a strong revenue base for the City, and the City's significant cash and investment levels as seen in Exhibit 1. This strong position is a result of Council's commitment to sound fiscal policies, including the adoption of fiscally responsible operating and capital budgets, the development charges net deficit reduction plan, the long range financial planning targets, establishment of new reserves and financial policies as required. Only through Council's ongoing 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.

The following will provide a financial overview with respect to:

- The Corporation's Consolidated Balance Sheet as at December 31, 2005. The Consolidated Balance Sheet includes the results of the operations of the City, water and wastewater operations, capital fund, reserves and reserve funds, the Kleinburg Business Improvement Area, Hydro Vaughan Corporations.
- Also included is the review of the City's 2005 Departmental Operating Variance Report, Attachment 3.

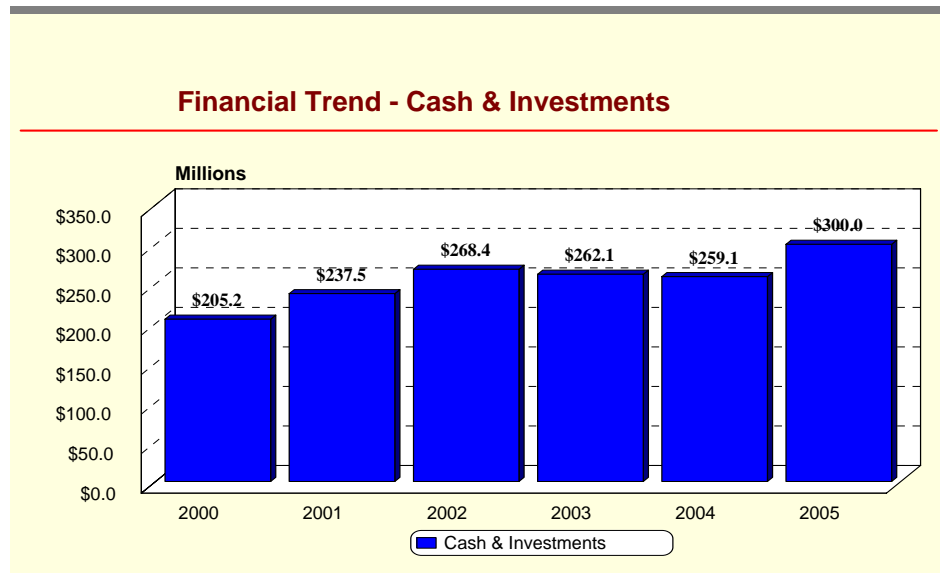
2005 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Cash and Investments

The cash balance, including outstanding investments is \$300.0 million (2004 \$259.1m) at the end of 2005. The following graph (Exhibit 1) illustrates the significant improvement and strength in the City's cash and investments positions over the past number of years.

EXHIBIT 1



Taxes Receivable

In 2005, taxes receivable totalled \$32.7 million (\$30.4m 2004) an increase of \$2.3 million. This increase is attributable to a number of factors: supplemental billings were slightly higher, and the amount of annual property tax billing increased due to growth and volume of billings, on a percent to levy basis the tax receivable balance remains the same as last year at 6.6%, indicating collections continue to be strong.

Water and Wastewater Receivable

In 2005, the water and wastewater receivables total \$13.5m (2003 \$11.9m) an increase of \$1.6 million over 2005. The increase is due to the continuing growth in the Residential, Commercial sectors thereby increasing the demand for water and wastewater services.

Accounts Receivable / Other Current Assets

The City's accounts receivable totalling \$11.4m comprise a wide range of monies owing from various levels of government, outside agencies, ratepayers, etc. More specifically, included in this figure are monies owing to the City for GST refunds, miscellaneous receivables, Metro Toronto, Region, and other governments or agencies.

Investment in Hydro Vaughan Corporations

The Hydro Vaughan corporations consist of the Hydro Vaughan Holdings Inc., Vaughan Holdings Inc., and Hydro Vaughan Energy Corporation, 1446631 Ontario Inc. The consolidation is based on the modified equity basis as required by GAAP. Under the modified equity basis, the business enterprise's accounting principles are not adjusted to conform with 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 Statement of Financial Activities with a corresponding increase or decrease in its investment asset account.

At December 31, 2005, Hydro Vaughan Corporations are 100% owned by the City of Vaughan. The City's interest in the Hydro Vaughan Corporations is comprised of share capital of \$88.4m, notes receivable of \$95.4m, dividend and interest receivable of \$8.0m, and accumulated earnings as at December 31, 2005 of \$16.1m totalling \$207.9m.

The total investment in all corporations decreased to a net of \$207.9 million (\$226.3m 2004). The net change in investment is comprised of a decrease due to a 2004 declared dividend and interest paid in 2005, a net decrease of \$22.1m and retained earnings increased by \$2.7m and a share capital increase of \$1.0m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2005, the total current liability balance of \$79.1m (\$89.1m, 2004) decreased by \$10.0 million over 2004. These liabilities represent accrued and general liabilities owing by the City to suppliers and contractors, outside agencies, other governments, school boards, operating, capital expenditures and other financial obligations and the decrease is the result of a reduction in capital related expenditures.

Employee Future Benefit Liability

These liabilities consist of post employment retirement benefits of \$29.0m (\$25.2m 2004) which is based on an actuarial study and represents the retirement benefits that have accrued over the service life of the employees to-date but not yet paid. Council created a reserve as part of a financial strategy in 2002 and this reserve totals \$3.3 million (2.8m 2004). Other liabilities included under this caption are: Vacation pay \$2.2 million and WSIB \$36,800.

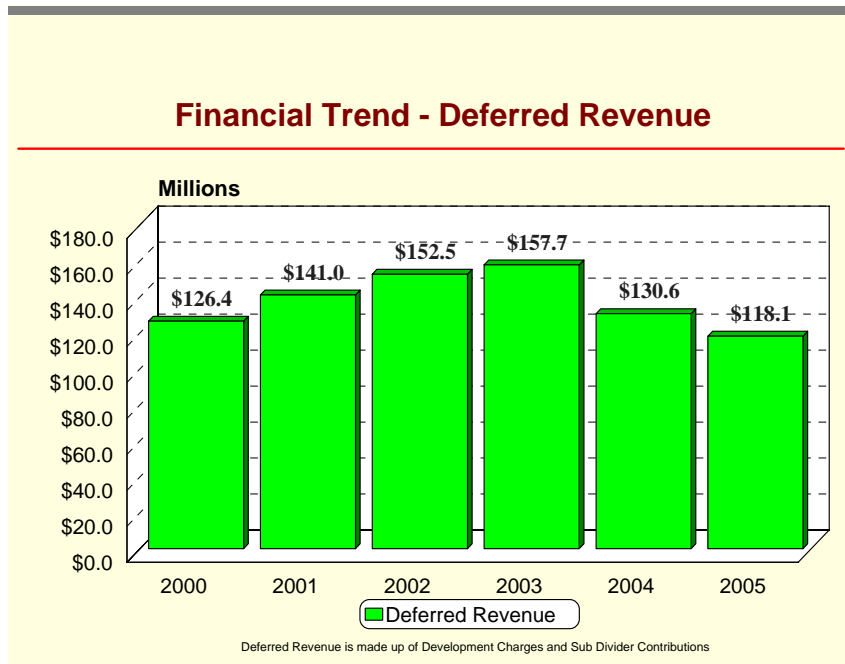
Deposits and Deferred Revenue

Deposits and deferred revenue of \$10.6m increased over 2004 (\$8.4m), by \$2.2 million. This amount represents pre-paid funds held by the City for capital project or various City services to be rendered in the future.

Deferred Revenue

Development Charges and Park funds are now classified according to PSAB as deferred revenue and are shown on the balance sheet as a liability totalling \$118.1m. The trend as shown in the graph below (Exhibit 2) indicates a decreasing balance as development charge funds are being used for growth related capital projects in the City. The Deferred Revenues in 2005 show a significant decrease of a net \$11.8 million over 2004. This change is attributable to a decrease in development in the City and the drawdown of these funds for capital projects in 2005. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

EXHIBIT 2



Long Term Liabilities (Municipal Debt)

Long-term liabilities represent the outstanding debenture debt of \$22.7m (2004 7.3m) at the end of 2005, and will be recovered in future years. The 2005 increase in debt is attributable to the issuance of debentures for various local improvement projects, road programs and bridge projects. The long term liability payments each year are well within the annual debt repayment limit as prescribed by the Ministry of Municipal Affairs and Housing.

MUNICIPAL POSITION

The Municipal Position represents the net financial position of the City and is comprised of future financial obligations, Fund balances for Operating, Capital, Reserves and includes the equity in the Hydro Corporations. The municipal position in terms of the Balance Sheet is the difference between assets and liabilities. This net figure represents a municipality's ability to meet future financial needs of the community.

Amounts to be Recovered

These obligations are to be recovered in the future and total \$38.5 million (2004 \$24.3m).

Municipal Long Term Debt and Debentures	\$11.7 million
Post Employment Benefits	\$26.7 million
Other	\$ 0.1 million

These amounts will be recovered from future revenues and the City's established reserves.

Current Fund

The fund balance includes an operating fund carry forward of \$2.5m as per the 2005 operating budget and a Hydro Company's dividend and accrue note interest of \$112,000. The interest was not paid in 2005 therefore the current fund balance is \$1.4m. Under the PSAB standard, government business enterprises dividend/interest is booked are on a cash basis.

Capital Fund

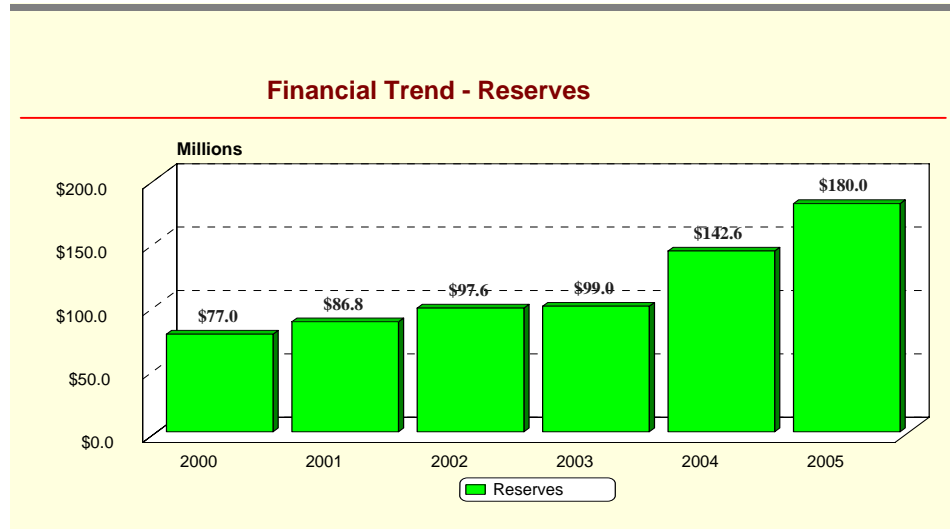
The Capital Fund balance represents a net position of those capital projects that are in progress or completed for which funding is pending, partially received or not in place at this point. This balance also includes those projects that have been pre-funded. At the end of 2005 the unfinanced balance totalled \$45.0m (\$36.5m 2004). The majority of the funding for the unfinanced balance will be from debentures. Debentures will be issued over the next few years.

City Reserves

In 2005 reserves total \$180.0 million (2004 \$142.6m) an increase of \$37.4m. This increase is attributed to the annual operating fund contributions and a reclassification of deferred liabilities. Reserve balances do not reflect commitments. Reserves are discretionary funds set up by Council and their use is not restricted. Without an adequate level of reserves, the municipality has limited alternatives but to raise the tax rate to fund unforeseen or extraordinary expenses, or when revenues decline. Reserves assist in moderating changes in the tax rate and are also established to provide adequate funding for the financial obligations that are known today but will be incurred in the future. |

Reserves continue to show steady growth 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.

Target - Discretionary Reserve Funds

The overall increase in reserves was possible as a result of Council's adoption of financial policies, including those that were approved in the Long Range Financial Planning Working Sessions. These policies and others will continue to contribute to the financial well being of the City as shown in 2005 results. However the policies must be reviewed continually to ensure they address all relevant issues each year.

Investment in Hydro Vaughan Corporations and PowerStream Inc.

The City has incorporated corporations under the provisions of the Ontario Business Corporation Act. The corporations that were established and 100% owned and controlled by the City collectively referred to as Hydro Vaughan Corporations are as follows:

- Hydro Vaughan Energy Corporation;
- Hydro Vaughan Holdings Inc;
- 1446631 Ontario Inc; and
- Vaughan Holdings Inc.

Following is the investment in the established corporations:

	2005 (Million)	2004 (Million)
ASSETS		
Current Assets	\$ 171.7	\$ 177.7
Capital Assets	376.8	350.6
Regulatory and Other Assets	21.4	22.6
Goodwill	33.0	33.0
Total Assets	602.9	583.9
LIABILITIES		
Current Liabilities	115.0	89.1
Consumer Deposits	13.3	11.4
Debenture Payable	100.0	100.0
Promissory Note - Markham	67.8	67.8
Other Liabilities	21.7	21.1
Total Liabilities	317.8	289.4
Town of Markham's Proportionate Share - PowerStream	(77.1)	(68.2)
Net Assets	\$ 208.0M	\$ 226.3M

Financial Information Return

The Financial Information Return (FIR) was submitted on schedule May 30, 2006 including the Municipal Performance Measurement Program (MPMP). The comparative 2005 MPMP figures are on Attachment 4.

The MPMP process has evolved over the past few years with the continued refinement of the methodology and measurement indicators. This year the support methodology has been refined departmentally to better apportion costs between operations and the support of those operations. These changes better reflect the cost component of the performance measurement indicators and 2004 has also been changed for comparative purposes. The service areas are General Government, Fire, Police, Transportation, Water, Wastewater, Solid Waste Management, Land Use Planning, Social Services and/or Recreation and Library.

The cost component of the measurements or numerator is derived directly from the Financial Information Return (FIR). The statistical information or denominator for the measures was obtained from information available from the appropriate City department. This report will be made available to the Public via the City's website.

Increased Financial Reporting

Municipalities will be required to adopt the accounting and reporting recommendations of the Public Sector Accounting Board (PSAB) of the CICA regarding the accounting for municipal tangible Capital assets. Capital assets consist of buildings, vehicles, equipment and infrastructure such as roads, watermains, etc. Unlike the private sector municipalities are not required to report capital assets in their financial statements. Currently there is an exposure draft developed by PSAB requiring that the cost of capital assets be recorded and depreciated in the financial statements over their estimated useful lines starting in 2009, for all capital assets valued as of 2007.

This PSAB change will be significant in terms of the identification of municipal assets, determination of their value and the remaining useful life of all the City's tangible Capital assets. Staff are currently reviewing and ascertaining the complexities and the implications of the exposure draft from a systems and staffing perspective.

Conclusion

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

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

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

Notwithstanding the financial improvements that have been made, continued investment in the areas of buildings & facilities, roads, parks and other infrastructure must continue, to secure the City of Vaughan's financial future and meet our long term goals.

Future Accounting Changes

Municipalities will be required to adopt the applicable local government sections of the accounting and reporting recommendations of the Public Sector Accounting Board (PSAB) of the CICA regarding the accounting for municipal tangible Capital assets. Capital assets consist of buildings, vehicles, equipment and infrastructure such as roads, watermains, etc. Currently there is an exposure draft developed by PSAB requiring that the cost/acquired capital assets be recorded and amortized in the financial statements over their estimated useful lines starting in 2009, for capital assets valued as of 2007.

This PSAB change will be significant in terms of the recognition, determination of value and life of all the City's tangible Capital assets. Staff are currently reviewing and ascertaining the complexities and implications of the exposure draft.

Attachments

No. 1 - 2005 Consolidated Financial Statements and Trust Fund Statements (Available in the Clerk's Department)

No. 1A – FIR Comparative MPMP Figures (Available in the Clerk's Department)

No. 2 - KPMG Confidential Audit Findings Report to Audit Committee for the year ended December 31, 2005 (Members of Council on file)

No. 3 - 2005 Annual Operating Variance Report (Available in the Clerk's Department)

Report Prepared by:

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Respectfully submitted,

Clayton D. Harris, CA
Commissioner of Finance & Corporate Services

Barry Jackson, CGA
Director of Financial Services