

**2007 CONSOLIDATED FINANCIAL STATEMENTS,
TRUST FUND STATEMENTS, AUDITORS REPORTS AND
FOURTH QUARTER OPERATING VARIANCE REPORT**

Recommendation

The Deputy City Manager/Commissioner of Finance & Corporate Services and the Director of Financial Services recommends:

1. That the following 2007 Financial Overview report be received; and
2. That the 2007 Consolidated Financial Statements and Trust Fund Statements, (Attachment 1 and 1A) be received; and
3. That the confidential Audit Findings report to Audit Committee for the year ended December 31, 2007 from KPMG (Attachment 2) be received; and
4. That the confidential management letter from KPMG, (Attachment 3) be received; and
5. That the Fourth Quarter Operating Variance Report for 2007 (Attachment 4) be received.

Economic Impact

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

Communications Plan

As required by the Municipal Act the 2007 Consolidated Financial Statements and Trust Funds Statement will be placed on the City's web page.

Purpose

To present Council with the 2007 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Audit Findings Report and a confidential management letter for the year ended December 31, 2007 and the Operating Variance Report for the Fourth Quarter of 2007.

Background - Analysis and Options

For the year ending December 31, 2007, attached 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 KPMG Audit Findings Report (Attachment 2) the year-end operating variance report (Attachment 3) comparing actual operating results to the 2007 annual operating budget. This report provides the current status of both departmental and corporate expenses and revenues for the year ended December 31, 2007. The Financial Information Return will be submitted to the Province on time including the MPMP schedules which forms part of the FIR (Attachment 1A)

Accounting for Tangible Capital Assets – Update

Municipalities will be required to adopt the accounting and reporting recommendations of Public Sector Accounting Board (PSAB) regarding the accounting for municipal tangible capital assets. Capital assets consists of land, buildings, vehicles, equipment and infrastructure such as roads and water and wastewater assets. PSAB section 3150 requires municipalities to inventory and value all assets at their acquisition date, and amortize these assets over their useful life effective January 1, 2009. Currently, municipalities expense tangible capital assets in the year of acquisition. The City will need to adopt section 3150 in order to continue receiving an unqualified audit opinion on the Annual Financial Statements.

This 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. Reserves and Investments will co-ordinate the PSAB 3150 project and assist departments. To date, a draft tangible capital asset policy has been developed and distributed to departments. Departmental staff, are in the process of gathering inventory, developing valuation models and making decisions on the useful life of assets.

2007 Financial Overview

The City of Vaughan's 2007 Financial Statements demonstrate a continued strong position in many key financial areas. These key areas include the City's Reserve balances, 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 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, 2007. 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 2007 Departmental Operating Variance Report, Attachment 3.

2007 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

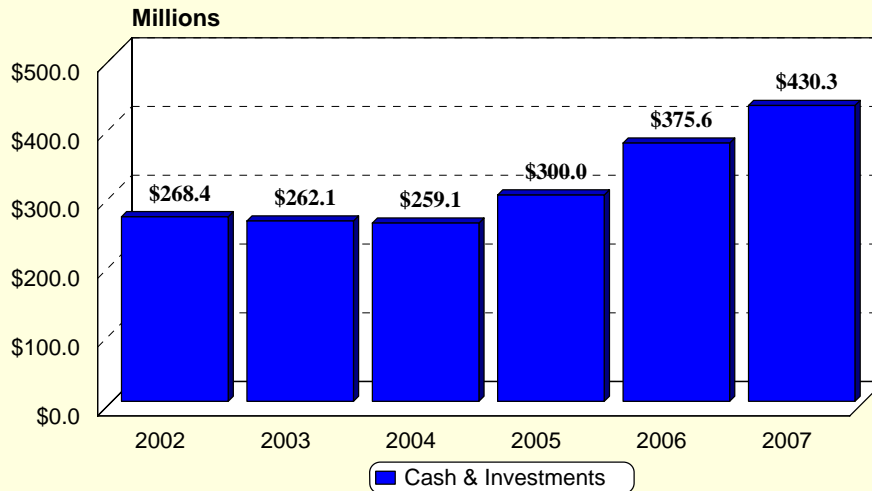
ASSETS

Cash and Investments

The cash balance, including outstanding investments is \$430.3 million (2006 \$375.0m) at the end of 2007. 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

Financial Trend - Cash & Investments



Taxes Receivable

In 2007, taxes receivable totalled \$37.8m (\$33.0m 2006) an increase of \$4.8 million. This large increase is attributable to a number of factors: supplemental billings were higher, and the amount of annual property tax billing increased due to growth. On a percent to levy basis the tax receivable balance is slightly higher than last year at 6.8% (6.3% 2006), still indicating that collections continue to be strong.

Water and Wastewater Receivable

In 2007, the water and wastewater receivables total \$16.7m (2006 \$14.3m) an increase of \$2.4m over 2006. The increase is due to the continuing growth in the Residential, Commercial sectors and or dryer summer thereby increasing the demand for water and wastewater services.

Accounts Receivable / Other Current Assets

The City's accounts receivable totalling \$16.2m (2006 \$13.8m) 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, local improvements \$2.0m (2005 \$2.3m) for various road or water works charged to property owners and other assets.

Investment in Hydro Vaughan Corporations

The Hydro Vaughan corporations consist of the Hydro Vaughan Holdings Inc., Vaughan Holdings Inc. (57% share of PowerStream), 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.

The City's investment in the Hydro Vaughan Corporations totals \$233.7m and is comprised of share capital of \$88.4m, notes receivable of \$95.5m, interest receivable of \$5.5m, accumulated earnings as at December 31, 2007 of \$33.3m and dividends/interest retained by Vaughan Holdings Inc. of \$11.0m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2007, the total current liability balance of \$85.0m (2006 \$74.2m) increased by \$10.8 million over 2006. 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.

Employee Future Benefit Liability

These liabilities consist of post employment retirement benefits of \$33.6m (2006 \$30.1m) and vacation pay entitlements \$2.5m (2006 \$2.2m), and WSIB an actuarial based amount of \$0.2m. Post employee retirement benefits of \$33.6m are based on an actuarial study and represent the retirement benefits that have accrued over the service life of the employees to-date but not yet paid. This liability will be paid out as the work force retires. Council created a reserve as part of a financial strategy in 2002 and this reserve totals \$5.3m.

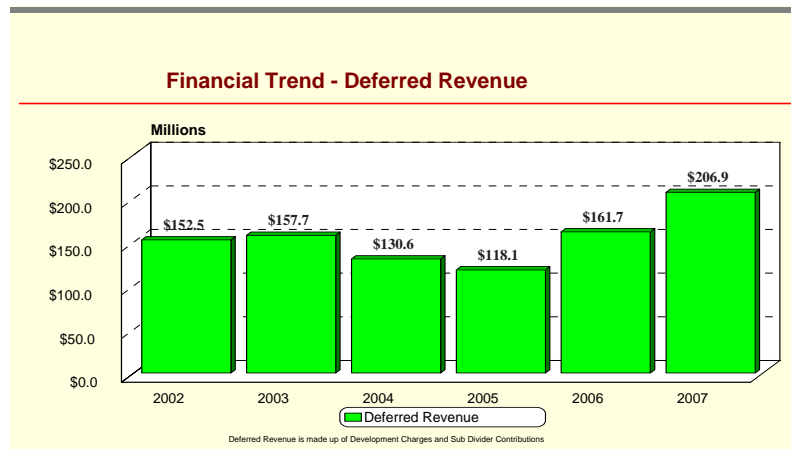
Deposits and Deferred Revenue

Deposits and deferred revenue total \$13.1m (2006 \$11.9m). This amount represents pre-paid funds held by the City for capital projects or various City services to be rendered in the future.

Deferred Revenue

Development charges and obligatory reserves are now classified according to PSAB as deferred revenue and are shown on the balance sheet as a liability and totals \$206.9m (2006 \$161.7m). Deferred Revenues in 2007 shows a significant increase of \$45.2 million over 2006 as a result of revenues from development charges, cash in-lieu receipts and contributions due to the Building Standards Act related to building permits. This increase is attributable to significant development in the City. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments.

EXHIBIT 2



Debenture and Other Debt

Long-term liabilities consist of outstanding debenture debt and other debt which totals \$58.5m (2006 \$53.7m). The 2007 increase in debt is attributable to the issuance of debentures for various Capital infrastructure projects including road 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 made up of future financial obligations, fund balances for Operating, Capital, Reserves and 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 the current and future financial needs of the community.

Amounts to be Recovered

These financial obligations are to be recovered in the future and total \$84.0 million (2006 \$72.2m). The majority of the increase is attributable to the receipt of debentures as recorded in the Capital Fund totalling \$11.8m.

| | |
|---|----------------|
| Municipal Long Term Debt and Debentures | \$49.9 million |
| Post Employment Benefits | \$33.7 million |
| Other | \$ 0.4 million |

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

Current Fund

The current fund balance includes a carry forward for next year in the amount of \$2.5m as per the 2008 operating budget. Unpaid interest on a note receivable from PowerStream reduces the balance by \$5.5m leaving a fund deficit of (\$3.0m). Under the PSAB standard, government business enterprises book dividend/interest on a cash basis.

Capital Fund

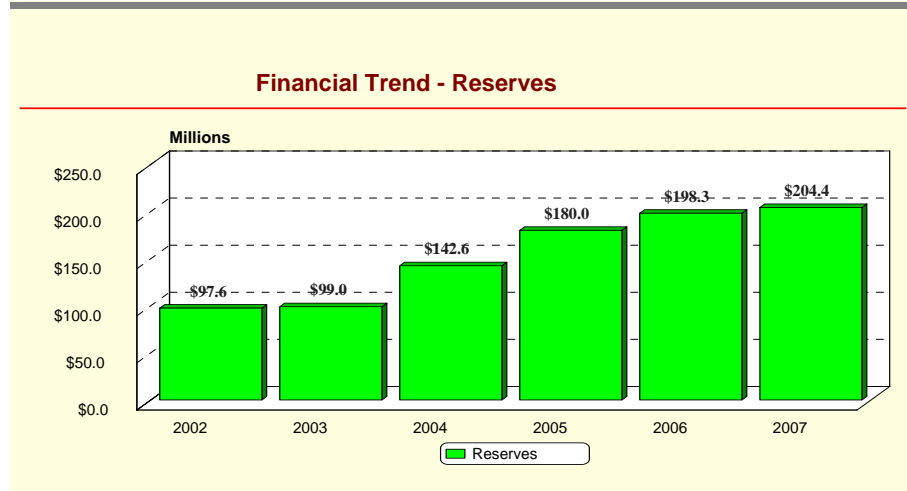
The Capital Fund balance represents a net position of those capital projects that are in progress or completed for which funding is pending, partially received or not in place at this point. This balance also includes those projects that have been pre-funded. At the end of 2007 the unfinanced balance totalled \$17.9m (\$25.9m 2006). This decrease is attributable to revenues from development charges \$15.1m, external partner contributions \$3.0m grants of \$2.1m and transfers of \$35.4m which includes debenture receipts of \$11.8m. Debentures will continue to be issued and received over the next few years which will further reduce the unfinanced portion.

City Reserves

Reserves are discretionary funds set up by Council and their use is not restricted. In 2007 reserves total \$204.4 million (2006 \$198.3m) an increase of \$6.1m. This increase is attributed to the annual operating fund contributions of \$14.2m and bank interest of \$7.5m. The City has in place various reserve policies that provide for the continued preservation of the City reserves for the future. Reserve balances do not reflect commitments.

Reserves continue to show steady growth as shown in Exhibit 3 below.

EXHIBIT 3



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 and infrastructure requirements in the future.

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 2007 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 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. 57%

Following is the investment in the above established corporations:

| | 2007 (Million) | 2006 (Million) |
|--|-------------------|-------------------|
| ASSETS | | |
| Current Assets | \$ 175.3 | \$ 154.4 |
| Capital Assets | 429.4 | 404.8 |
| Regulatory and Other Assets | 28.9 | 33.2 |
| Goodwill | 33.0 | 33.0 |
| Total Assets | 666.6 | 624.4 |
| LIABILITIES | | |
| Current Liabilities | 138.8 | 121.5 |
| Consumer Deposits | 11.7 | 12.7 |
| Debenture Payable | 96.9 | 100.0 |
| Promissory Note - Markham | 72.5 | 68.8 |
| Other Liabilities | 23.0 | 23.0 |
| Total Liabilities | 342.9 | 326.0 |
| Town of Markham's Proportionate Share - PowerStream | (90.0) | (82.7) |
| Net Assets | \$ 233.7 | \$ 216.7 |

The City's increase in equity share \$17.0m includes net earnings from the Hydro Corporations of \$12.3m, interest earned on the PowerStream note receivable net amount of \$4.4m and a pick up of \$0.3m due to an accounting policy change.

Financial Information Return

The Financial Information Return (FIR) will be submitted on time May 31, 2008 including the Municipal Performance Measurement Program schedules. The comparative 2007 MPMP schedules 91 and 92 are on Attachment 1A.

The MPMP process has evolved over the past few years with the continued refinement of the methodology and measurement indicators by the Province. As a result it makes the comparison of MPMP year over year difficult. 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.

Relationship to Vaughan Vision 2007

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

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 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 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 as outlined in Vaughan Vision 20/20.

Attachments

- No. 1 -2007 Consolidated Financial Statements and Trust Fund Statements (Available in Clerks Department)
- No. 1a -Comparative MPMP schedules 91 & 92 (Available in the Clerks Dept.)
- No. 2 -Confidential KPMG Audit Findings Report (Members of Council only)
- No. 3 -Confidential Management letter from KPMG (Members of Council only)
- No. 4 -Fourth Quarter Operating Variance Report for 2007 (Available in the Clerk's Department)

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Respectfully submitted,

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Deputy City Manager/Commissioner of Finance & Corporate Services

Barry Jackson, CGA
Director of Financial Services