

**2006 CONSOLIDATED FINANCIAL STATEMENTS,
TRUST FUND STATEMENTS, AUDITORS REPORTS AND
FOURTH QUARTER OPERATING VARIANCE REPORT**

Recommendation

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

1. That the following 2006 Financial Overview report be received; and
2. That the 2006 Consolidated Financial Statements and Trust Fund Statements, (Attachment 1) be received; and
3. That the confidential Audit Findings report to Audit Committee for the year ended December 31, 2006 from KPMG (Attachment 2) be received; and
4. That the confidential Management letter from KPMG (Attachment 3) be received; and
5. That the Annual Operating Variance Report for the Fourth Quarter of 2006 (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 2006 Consolidated Financial Statements and Trust Funds Statement will be placed on the City's web page.

Purpose

To present Council with the 2006 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Audit Findings Report and confidential management letter for the year ended December 31, 2006 and the Operating Variance Report for the Fourth Quarter of 2006.

Background - Analysis and Options

For the year ending December 31, 2006, 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 2006 confidential management letter, the year-end operating variance report (Attachment 4) comparing actual operating results to the 2006 annual operating budget. This report provides the current status of both departmental and corporate expenses and revenues for the year ended December 31, 2006. The Financial Information Return was submitted to the Province on schedule.

Accounting for Tangible Capital Assets

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. The cost of capital assets will be required to be recorded and depreciated in the financial statements over their estimated useful life starting in 2009.

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. Staff are currently reviewing, ascertaining the complexities and the implications of this requirement from a systems and departmental perspective. Staffing has been approved in both the 2007 Operating and Water & Wastewater budgets.

2006 Financial Overview

The City of Vaughan's 2006 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, 2006. 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 2006 Departmental Operating Variance Report, Attachment 3.

2006 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

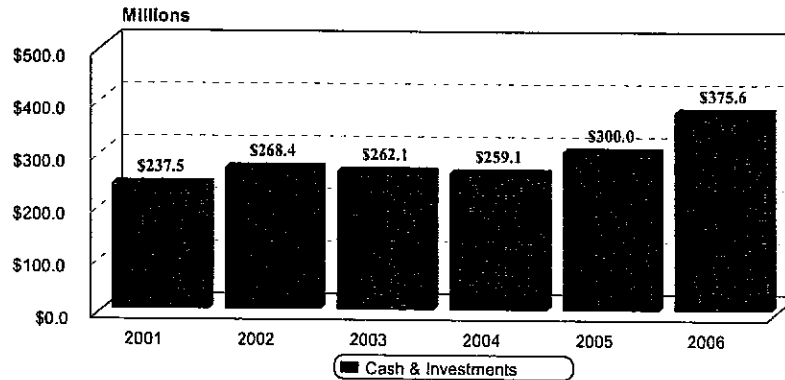
ASSETS

Cash and Investments

The cash balance, including outstanding investments is \$375.6 million (2005 \$300.0m) at the end of 2006. 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 2006, taxes receivable totalled \$33.0m (\$32.7m 2005) an increase of \$0.3 million. This small 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. On a percent to levy basis the tax receivable balance is slightly lower than last year at 6.3% (6.6% 2005), indicating collections continue to be strong.

Water and Wastewater Receivable

In 2006, the water and wastewater receivables total \$14.3m (2005 \$13.5m) an increase of \$0.8m 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 \$13.8m (2005 \$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, Toronto and Region. Other receivables include local improvements \$2.3m (2005 \$2.6m) for various road or water works charged to property owners.

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 \$216.7m and is comprised of share capital of \$88.4m, notes receivable of \$95.5m, interest receivable of \$1.1m, accumulated earnings as at December 31, 2006 of \$23.4m and dividends/interest retained by Vaughan Holdings Inc. of \$8.3m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2006, the total current liability balance of \$74.2m (2005 \$75.5m) decreased by \$1.3 million over 2005. 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 \$30.1m (2005 \$26.7m) and vacation pay entitlements \$2.2m (2005 \$2.2m). Post employee retirement benefits 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 \$4.9m.

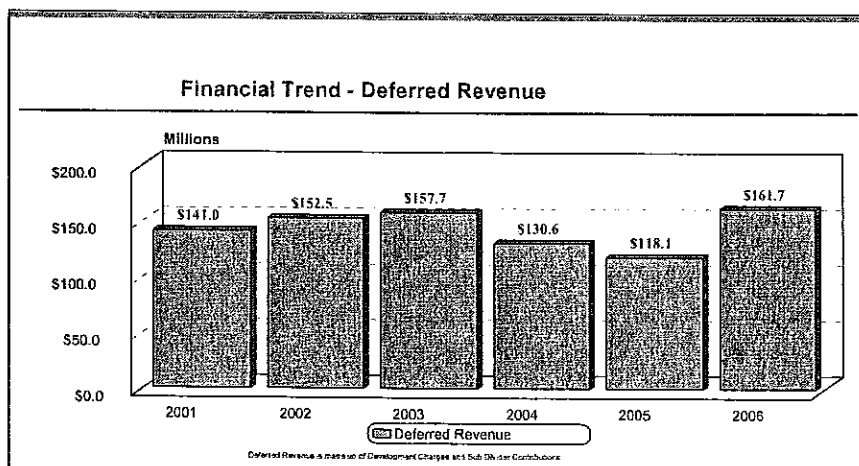
Deposits and Deferred Revenue

Deposits and deferred revenue total \$11.9m (2005 \$10.6m). 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 \$161.7m (2005 \$118.1m) The trend up to 2005 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. However Deferred Revenues in 2006 shows a significant increase of \$43.6 million over 2005 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 change 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



Long Term Liabilities (Municipal Debt)

Long-term liabilities consist of outstanding debenture debt and other debt which totals \$53.7m (2005 \$26.2m). This represents an annual debt payment of 0.8% when compared to total revenues at the end of 2006. The 2006 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 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 \$72.2 million (2005 \$38.5m). The majority of the increase is attributable to the receipt of debentures as recorded in the Capital Fund totalling \$31.3m.

Municipal Long Term Debt and Debentures	\$41.7 million
Post Employment Benefits	\$30.1 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 2007 operating budget. Unpaid interest on a note receivable from PowerStream reduces the balance by \$1.1m leaving a fund balance of \$1.4m. Under the PSAB standard, government business enterprises dividend/interest is booked on a cash basis.

Capital Fund

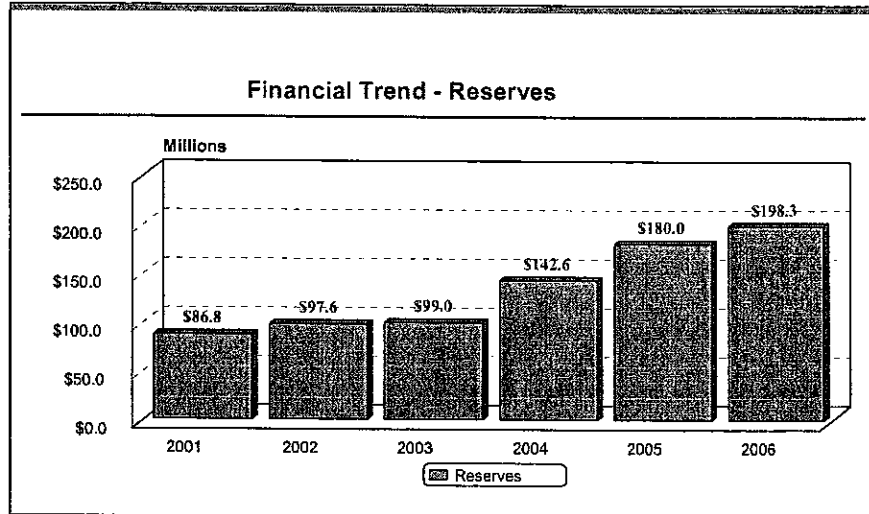
The Capital Fund balance represents a net position of those capital projects that are in progress or completed for which funding is pending, partially received or not in place at this point. This balance also includes those projects that have been pre-funded. At the end of 2006 the unfinanced balance totalled \$25.9m (\$45.0m 2005). This decrease is attributable to revenues from development charges \$27.0m, subdivider contributions \$4.4m and transfers of \$51.2m including debenture receipts of \$31.3m. 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 2006 reserves total \$198.3 million (2005 \$180.0m) an increase of \$18.3m. This increase is attributed to the annual operating fund contributions based on the operating budget, various reserve policies and funds received for sale of land. 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 requirement in the future as demonstrated below

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 2006 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; and 100%
- Vaughan Holdings Inc. 100%
- PowerStream 57%

Following is the investment in the above established corporations:

	2006 (Million)	2005 (Million)
ASSETS		
Current Assets	\$ 167.1	\$ 171.7
Capital Assets	404.8	376.8
Regulatory and Other Assets	20.5	21.4
Goodwill	33.0	33.0
Total Assets	625.4	602.9
LIABILITIES		
Current Liabilities	121.5	115.0
Consumer Deposits	12.7	13.3
Debenture Payable	100.0	100.0
Promissory Note - Markham	68.8	67.8
Other Liabilities	23.0	21.7
Total Liabilities	326.0	317.8
Town of Markham's Proportionate Share - PowerStream	(82.7)	(77.1)
Net Assets	\$ 216.7	\$ 208.0

The City's increase in equity share \$8.7m includes net earnings from the Hydro Corporations of \$11.1m, interest earned on the PowerStream note receivable of \$4.3m and a reduction due to cash received for dividend and interest paid in 2006 totalling \$6.7m.

Financial Information Return

The Financial Information Return (FIR) was submitted on schedule May 31, 2006 including the Municipal Performance Measurement Program (MPMP). The comparative 2005 MPMP figures are on Attachment 1A.

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 2005 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.

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 and meet our long term goals.

Attachments

No. 1 - 2006 Consolidated Financial Statements and Trust Fund Statements (Available in Clerk's Department)

No. 2 - Confidential KPMG Audit Findings Report (Members of Council only)

No. 3 - Confidential KPMG Management Letter (Members of Council only)

No. 4 - 2006 Annual Operating Variance Report (Available in the Clerk's Department)

Report Prepared by:

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Respectfully submitted,

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Deputy City Manager/Commissioner of Finance & Corporate Services

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Director of Financial Services