

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2005

Item 1, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.

1 POST EMPLOYMENT BENEFITS – ACTUARIAL UPDATE

The Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance and Corporate Services and the Director of Finance, dated June 27, 2005:

Recommendation

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

That staff be authorized to retain an actuarial firm to provide an updated two year valuation of employee future benefits so as to comply with accounting standards issued by the Public Sector Accounting Board.

Economic Impact

The actuarial assessment of the projected non-pension retirement benefit obligation is required by the Public Sector Accounting Board (PSAB). The cost of the two year actuarial assessment is estimated to be \$10,000 to \$15,000. Funds have been provided in the 2005 Operating Budget.

Purpose

To receive authorization to retain an actuarial firm to update the valuation of employees future benefits so as to comply with the PSAB accounting standards.

Background - Analysis and Options

The Public Sector Accounting Board (PSAB) has established standards for the recognition, measurement and disclosure of the cost of employee future benefits (i.e. non pension retirement benefits). Under the PSAB standard, retirement benefits that vest or accumulate are to be accrued and included as part of the liabilities in the financial statements of municipal governments.

The adoption of this standard by the City in 2002 changes the accounting for post-retirement benefits from a cash basis to an accrued basis accounting. The City's obligations for post-retirement benefits are now recorded in the accounts in the period in which the employees render the services. The expense in the year is booked and the outstanding accumulated liability is recognized. The determination of the projected benefit obligation at any point in time requires the involvement of an actuary.

Council recognized the future unfunded benefit obligation of approximately \$23.6m for active employees and retirees by establishing a reserve. This reserve balance of \$2.8m will form part of a funding strategy so that the City can meet this financial obligation. The financial strategy to appropriately fund this liability will encompass both contributions to the above referenced reserve over time and to provide appropriate funding through the operating budget process.

Relationship to Vaughan Vision 2007

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

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Conclusion

Staff recommend updating the current actuarial assessment on the projected non-pension retirement benefit obligation and recommend the funding be from the reserve “Employee Benefits” that was originally created for this type of expenditure. The cost of the actuarial assessment is estimated to be \$10,000 to \$15,000.

Attachments

None

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Item 2, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.

2 **2004 CONSOLIDATED FINANCIAL STATEMENTS, TRUST FUND STATEMENTS AND ANNUAL OPERATING REPORT FOR THE CORPORATION OF THE CITY OF VAUGHAN AND AUDITOR'S REPORT**

The Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance and Corporate Services, dated June 27, 2005:

Recommendation

The Commissioner of Finance & Corporate Services in consultation with the Director of Finance recommends:

1. That the following report be received; and
2. That the 2004 Consolidated Financial Statements and Trust Fund Statements (Attachment 1) be received and;
3. That the confidential report to Audit Committee for the year ended December 31, 2004 from KPMG (Attachment 2) be received for information; and
4. That the Operating Variance Report for the Fourth Quarter of 2004 (Attachment 3) be received.

Economic Impact

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

Purpose

To present Council with the 2004 Consolidated Financial Statements and Trust Funds, the City's Auditors (KPMG) Confidential Report for the year ended December 31, 2004 and the Operating Variance Report for the Fourth Quarter of 2004.

Background - Analysis and Options

For the year ending December 31, 2004, attached is the City of Vaughan Consolidated Financial Statements and related notes. 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 Trust Fund Financial Statements. The Trust Fund statements are not consolidated with the City Financial Statements.

Also attached is the Auditors Report and the year-end operating variance analysis (Attachment 3) comparing actual operating results to the 2004 annual operating budget. This report provides the current status of both departmental and corporate expenses and revenues for the year ended December 31, 2004.

Financial Reporting for 2004

Municipalities have been required since 2000 to adopt the applicable local government sections

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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.

2004 Financial Overview

The City of Vaughan's 2004 Financial Statements demonstrate a continued strong position in many key financial areas. The City's Reserves have increased. Part of the increase is a result of the significant dividend received from Hydro. The reserve balances in the financial statements are not net of commitments. Reserve balances are expected to decline as these commitments are fulfilled. Permit fees and user fees provide a continuing revenue base for the City, and the City's cash and investment levels continue to be significant 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, 2004. 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, and PowerStream Inc.
- Also included is the review of the City's 2004 Departmental Operating Variance Report, Attachment 4.

2004 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

Cash and Investments

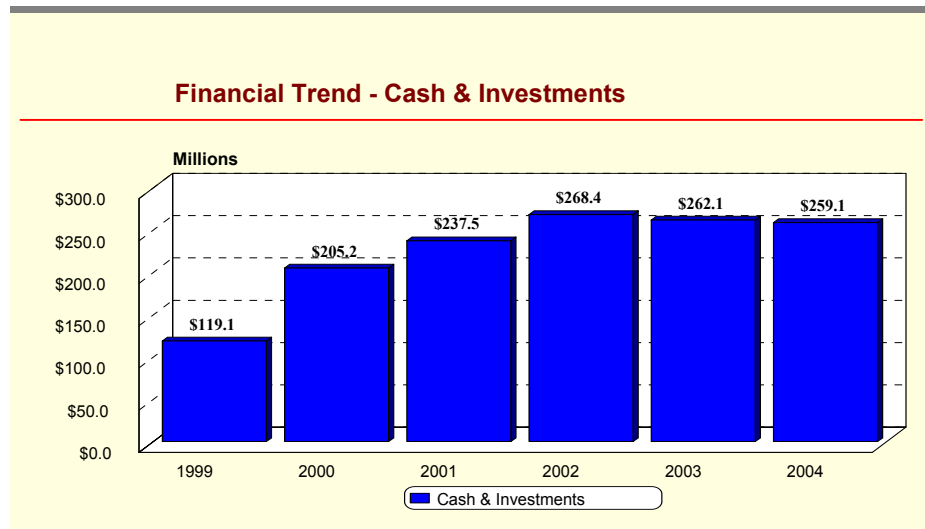
The cash balance, including outstanding investments is \$259.1 million (2003 \$262.1m) at the end of 2004. The following graph (Exhibit 1) illustrates the significant improvement and strength in the City's cash and investments positions over the past number of years.

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EXHIBIT 1



Taxes Receivable

In 2004, taxes receivable totalled \$30.4 million (\$28.8m 2003) an increase of \$1.6 million from 2003. This increase is attributable to a number of factors: supplemental billings were significantly higher, and the amount of annual property tax billing increased due to growth and volume of billings.

Water and Wastewater Receivable

In 2004, the water and wastewater receivables total \$11.9m (2002 \$9.5m) an increase of \$2.4 million over 2004. 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 \$17.7m 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 and PowerStream Inc.

The Hydro Vaughan corporations are: Hydro Vaughan Distribution Inc., up to May 2004, Hydro Vaughan Holdings Inc., Vaughan Holdings Inc., and Hydro Vaughan Energy Corporation, the numbered company, and PowerStream Inc. The consolidation is based on the modified equity basis as required by PSAB. That is the Hydro company's and PowerStream's net assets and net income are totalled and shown as an investment on the statement of financial position and net income is presented as a separate item on the statement of financial activity.

The total investment in all corporations increased to a net of \$226.3 million (\$221.9m 2003). The net change in investment is comprised of a decrease in share capital of \$36.2m due to a reallocation to notes receivable and an adjustment for the contribution of share capital to PowerStream totalling \$2.9m. The notes receivable increased by \$27.6m due to the above referenced reallocation and a partial payment of \$5.7m to the City. Dividends of \$26.9m were declared but were not paid in 2004. The investment increased as a result of the proportionate share of PowerStream contributed surplus, a net of \$8.6m. Interest was earned and partially paid with a net investment impact of \$1.5m.

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At December 31, 2004, Hydro Vaughan Corporations are 100% owned by the City of Vaughan. The City's interest in the Hydro Corporations and the City's share of PowerStream at 59% is comprised of share capital of \$87.4m, notes receivable of \$95.4m, dividend and interest receivable of \$30.1m, and accumulated earnings as at December 31, 2004 of \$13.3m totalling \$226.2m.

LIABILITIES

Accounts Payable and Accrued Liabilities

In 2004, the total current liability balance of \$89.1m (\$77.7m, 2003) increased by \$11.4 million over 2003. 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 increase is the result of increase in both growth and capital infrastructure expenditures.

Employee Future Benefit Liability

These liabilities consist of post employment retirement benefits of \$25.2m (\$23.2m 2003) million 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 \$2.8 million (2.8m 2003). Other liabilities included under this caption are: Vacation pay \$1.4 million and Sick Leave Benefit Plan \$31,208, and Worker Compensation Board Liabilities \$33,277. Generally these liabilities are employee benefits earned during the course of employment and will be paid out in the future.

Deposits and Deferred Revenue

Deposits and deferred revenue of \$8.4m increased over 2002 (7.9m), by \$0.5 million. This amount represents pre-paid funds held by the City for various services to be rendered in the future.

Deferred Revenue

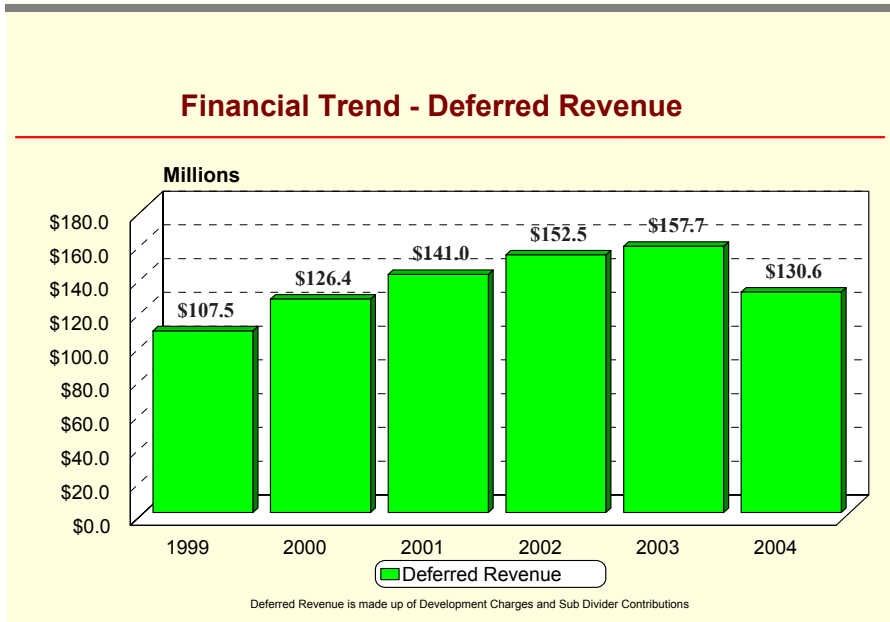
Development Charge and Park funds are now classified according to PSAB as deferred revenue and are shown on the balance sheet as a liability \$130.6m previously they were shown as reserve funds. The trend as shown in the graph below (Exhibit 2) has been positive indicating a strong deferred revenue balance. The Deferred Revenues in 2004 show a significant decrease of a net \$27.1 million over 2003. This change can be attributed to a decrease development in the City thereby reducing development charges revenue and the drawdown of these funds for capital projects in 2004. The year-end funds on hand have not been adjusted for outstanding capital budgetary commitments at the end of the year.

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EXHIBIT 2



Long Term Liabilities (Municipal Debt)

Long-term liabilities represent the outstanding debenture debt of \$7.3m (2003 0.9m) at the end of 2004, and will be recovered in future years from operating revenues. The municipal debt balance increased by \$5.1m as a result of a long term agreement with Ivanhoe Cambridge.

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 \$24.3 million (2003 \$23.3m).

Municipal Long Term Debt and Debentures	\$ 0.6 million
Post Employment Benefits	\$23.7 million

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

Current Fund

The fund balance includes a carry forward of \$3.4m and a reduction to the fund as a result of a Hydro declared dividend and interest totalling \$26.7m. The dividend was not paid therefore the current fund balance is (\$26.6m). Under the PSAB standard, government business enterprises are on a cash basis.

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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 2004 the unfinanced balance totalled \$36.5m (\$28.9m 2002). The majority of the funding for the unfinanced balance will be from debentures totalling \$35.4m to be issued over the next few years.

City Reserves

Reserves total \$142.6 million (2003 \$99.0m). This increase is largely attributable to a declared dividend from the former Hydro Vaughan Distribution Inc. and the annual operating fund contributions. 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, and 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. In addition, with low levels of reserves, any temporary financing that a municipality requires would be through a financial institution thereby incurring additional interest costs. Therefore the preferable method of financing is self-financing through reserves.

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

EXHIBIT 3



For 2004 Reserves totalled \$142.6 million (2002 \$99.0m) an increase over 2003, of \$43.6 million. As stated previously the year-end funds on hand have not been adjusted for outstanding budgetary commitments.

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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 2004 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. A new Hydro company, Vaughan Holdings Inc., was incorporated and established in 2004. 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.

The new hydro company, Vaughan Holdings Inc. was established to hold the shares of the new amalgamated utility PowerStream Inc. noted below.

In June 2004, having received the necessary regulatory approval from the Ontario Energy Board, the City of Vaughan entered into a Shareholder's Agreement with the Town of Markham for the purpose of merging their Hydro utility companies under the Electricity Act. Once the merger agreement was executed a new Hydro utility was established, jointly owned by the City of Vaughan with 59% equity share and the Town of Markham at 41% equity share.

Following is the investment in the established corporations:

	2004 (Million)	2003 (Million)
ASSETS		
Current Assets	\$ 195.1	\$ 121.2
Capital Assets	350.6	201.0
Regulatory and Other Assets	5.3	4.5
Goodwill	33.0	16.3
<hr/>		
Total Assets	584.0	343.0
LIABILITIES		
Current Liabilities	157.0	50.8
Consumer Deposits	11.5	13.4
Debenture Payable	100.0	52.5
Other Liabilities	21.0	4.3
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Total Liabilities	289.5	121.0

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Town of Markham's Proportionate Share - PowerStream	(68.2)	----
	226.3	
Net Assets	\$ M	\$ 222.0M

2004 Consolidated Statement of Financial Activities

The Consolidated Statement of Financial Activities includes the City's Operations, Hydro Vaughan Corporations, PowerStream Inc., Water and Wastewater Operations and the Kleinburg Business Improvement Area.

Consolidated Financial Activities

The following is a brief review of the consolidated statement of Financial Activity, a more detailed analysis is provided under the Departmental Annual Operating Variance report. The overall consolidated revenues total of \$246.9m (2003 \$209.7m), this amount includes revenues of the Hydro Corporations totalling \$12.6m and Water/Wastewater revenue of \$39.1m, the Capital fund totalling \$46.6m and property taxation \$85.2m and user charges \$35.0m.

Total expenditures for the Current fund is \$159.8m (2003 \$150.3m) including water and wastewater, Employee Post Retirement expense and other PSAB financial entries as required. The Capital fund actual expenditures came in at \$76.0m (2003 \$60.3m).

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 healthy 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. Staff are currently undertaking a long-range financial planning exercise to review the City's financial objectives, targets and policies to achieve Councils' goals.

Attachments

No. 1 – 2004 Consolidated Financial Statements and Trust Fund Statements

No. 2 – KPMG Confidential Report to Audit Committee for the year ended December 31, 2004

No. 3 – 2004 Annual Operating Variance Report

(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.)

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Item 3, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.

3 AUDIT PLAN FOR 2005, 2006, 2007 AND AUDIT CHARTER

The Audit Committee recommends approval of the recommendation contained in the following report of the City Auditor, dated June 27, 2005:

Recommendation

The City Auditor recommends that the following be received:

- 1) Audit Plan for 2005, 2006 and 2007

Economic Impact

Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The value added by Audit has economic impact, some of which will be measurable while others will not be. Audit should have a positive impact on all areas of City activity which are audited.

Purpose

To present the Audit Plan for 2005, 2006 and 2007 to the Audit Committee.

Background - Analysis and Options

For the year ending December 31, 2005, attached is the Audit Department's work plan, and proposal for year 2006 and 2007, primarily but not necessarily based on Risk Assessment. The work plan will be reviewed and updated annually.

In the performance of Audit work, the scope (below) generally underlines the work that is performed.

The **scope** of Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Auditors are concerned with any phase of City activity. The scope of Auditing includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Appraising the economy and efficiency with which resources are employed.

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- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Making recommendations to the City Manager and the Audit Committee regarding improvement in management practices.
- Other examination and evaluation at the discretion of the auditor.

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.

Conclusion

The annual audit plan provides a plan of Audit work to be done. It is not cast in stone as it may be superceded by special projects as requested by the City Manager or Audit Committee. The discovery of information during audits, may also impact the length of time to complete audits. This will have a bearing on how many audits will be completed for the year.

Attachments

Attachment 1 – Audit Plan for 2005, 2006, 2007

Attachment 2 – Audit Charter

Report prepared by:

Michael Tupchong, City Auditor

(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.)

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Item 4, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.



4

AUDIT ON: WINTER CONTROL

The Audit Committee recommends approval of the confidential recommendation contained in the confidential report of the City Auditor, dated June 27, 2005.

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Item 5, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.

5 MUNICIPAL PERFORMANCE MEASUREMENT PROGRAM

The Audit Committee recommends:

- 1) That the confidential recommendation contained in the confidential report of the Commissioner of Finance and Corporate Services and the Director of Financial Services, dated June 27, 2005, be approved; and**
- 2) That the performance measurements be graphed for a year to year comparison.**