ATTACHMENT 1

AUDIT COMMITTEE – JUNE 13, 2022

2021 DRAFT CITY CONSOLIDATED FINANCIAL STATEMENT HIGHLIGHTS

Financial Assets

Cash and Cash Investments

- Cash balance totals $941.5M (2020, $795.0M)
- Net increase cash $146.5M (2020, increase of $15.3M)
- Net increase in cash from operating activities $227.1M (2020, $77.4M)
- Significant items not involving cash
    - Amortization $79.5M (2020, $79.0M)
    - Contributed tangible capital assets $184.8M (2020, $174.5M)
        - Assumed assets increased in 2021
            - Assumption of assets related to development applications is developer driven
            - Developers cannot approach the city for assumption until the maintenance stage set out in their respective agreement
            - Market related factors such as sales of residential, commercial and industrial units affect the request by developers for assumption
            - Once a request is made, multiple city and external departments need to inspect and provide clearance for assumption
            - The restrictions of the COVID-19 pandemic resulted in construction and inspection delays in 2020 thereby increasing the requested assumptions by developers and the approval of assumptions by the City in 2021
        - Assumed assets include:
            - Land $165.3M
            - Land Improvements 1.3M
            - Buildings and Facilities 4.4M
            - Roads Infrastructure 4.6M
            - Water & Sewer Infrastructure 9.2M
    - Share of net earnings of Hydro Vaughan Corps $23.5M (2020, $16.1M)
        - Increase resulting from higher income from Alectra $112.0M (2020, $75.0M) due to:
            - Higher other revenue generated by Holland Power Services (HPS) (acquired in 2021) and Conservation & Demand Management (CDM) revenue, offset by the winding down of LED projects
            - Higher distribution revenue as a result of higher distribution rates and greater recovery from customers through Ontario Energy Board (OEB) approved rate riders
            - Savings from decrease in the cost of power as a result of lower wholesale electricity prices
            - Gains from the derecognition of Plant, Property & Equipment due to gain on sale and lease back, and on fair value remeasurement of contingent consideration
        - Offset by:
            - Decrease in electricity sales driven by lower electricity prices
            - Higher operating expenses mainly attributable to the acquisition of HPS
            - Higher income taxes due to higher 2022 income
            - Higher amortization costs due to new additions in 2022

    - Increase in deferred revenues – obligatory reserve funds $101.1M (2020, $0.8M)
        - Revenues received increased by $165.3M and interest increased by $4.7M offset by expenditures of $68.9M
        - Increased revenues due to strengthening development application related revenues (development charges and recreation land) offset with increasing development charge related capital expenditures
        - Recreation Land revenues increased over 2020 due to increased development in intensification areas
- Net decrease in cash from capital activities $88.5M (2020, $83.1M)
    - Cash used to acquire tangible capital assets $88.6M (2020, $83.1M)
- Decrease in cash from financing activities $5.7M (2020, $0.0M)
    - Debenture and other debt repaid $5.7M (2020, $5.7M)
- Net increase in cash from investing activities $13.6M (2020, $21.1M)
    - $1.1M decrease (2020, $6.2M increase) in cash due to increase (decrease) in investments
    - Increase in cash from Investment in Hydro Vaughan Corporations is $14.8M (2020, $14.8M) made up of operating dividends on solar and common shares, $13.7M, a capital dividend on solar shares of $1.1M from Alectra to Vaughan Holdings Inc.
        - In 2020, the increase is made up of operating dividends on solar and common shares $13.1M and a capital dividend of $1.7M on solar shares from Vaughan Holdings Inc.

<u>Taxes Receivable</u>

- Taxes receivable are monies owing from property owners as at December 31st, 2021 and include the City's portion, Regional portion and the Provincial portion for education
- Taxes receivable totals $72.6M (2020, $58.8M)
    - Increase of $13.8M primarily due to the stabilization of the new tax software (TXM) that led to arrears notices issued only at the end of the year
    - There were no heavy collection efforts throughout the year due to the pandemic
    - MPAC and assessment processes were delayed due to the pandemic, so increase in production of MPAC in 2021 resulted in increased billing onto the City

<u>Water and Wastewater Receivable</u>

- The water and wastewater receivables total $24.4M (2020, $25.3M)
    - Decrease of $0.9M due to decrease in commercial consumption offset by an increase in residential consumption during the pandemic

<u>Investments</u>

- Investments total $83.5M (2020, $82.4M)
    - Increase of $1.1M primarily related to
        - a decrease in municipal bonds of $1.0M
        - a decrease in provincial bonds of $2.0M
        - a decrease in investment in various banks of $6.0M, offset by
        - an increase in investment with CIBC Mellon of $10.3M

<u>Accounts Receivable</u>

- The City's accounts receivable totals $22.8M (2020, $19.8M)
- Comprise a wide range of monies owing from various levels of government, outside agencies, and businesses
    - Increase of $3.0M mainly due the following:
        - an increase of $1.7M in miscellaneous accounts receivable
        - an increase due to the Region of $1.8M

    - an increase in by-law fines receivable of $0.2M, offset by
    - a decrease in HST receivables of $0.8M

Investment in Hydro Vaughan Corporations

- Investment is increased by share of cash invested and Alectra's net income but is decreased by receipt of dividends
- Vaughan Holdings Inc. (VHI) – owns 20.5% share of Alectra
- Hydro Vaughan Energy Corporation – 100% subsidiary of VHI
- 1446631 Ontario Inc. – inactive – 100% owned by the City of Vaughan (COV)
- Investment in Hydro Vaughan Corporations is $636.6M (2020, $628.9M)
  - Share of net earnings Hydro Vaughan Corporations of $23.5M (2020, $16.1M)
  - Reduction of dividends paid from VHI to the City of Vaughan (COV) of $13.7M (2020, $13.1M)
  - Return of capital on solar shares from Alectra to VHI of $1.1M (2020, $1.7M)
  - Return of capital on solar shares form VHI to the COV of $1.1M (2020, $1.7M)

LIABILITIES

Accounts Payable and Accrued Liabilities

- 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 York Region and School Boards
- Balance at December 31, 2021 was $131.1M (2020, $123.2M)
  - Increase of $7.9M is primarily due to
    - an increase of $5.2M in the year-end amount owing to the School Boards
    - an increase of $9.2M in capital accruals and $6.5M in year-end accruals
    - an increase of $1.0M in payroll accruals
    - an increase of $0.5M in federal and miscellaneous payables, offset by
    - a decrease of $6.2M in trade payables
    - a decrease of $8.3M in York Region payables

Employee Future Benefit Liability

- Employee Future Benefit Liability totals $166.8M (2020, $155.0M)
- Includes:
  - Post retirement non-pension benefits $147.9M (2020, $139.3M)
  - Accrued Vacation Pay $11.5M (2020, $9.4M)
  - Workplace Safety and Insurance Board (WSIB) $7.4M (2020, $6.3M)
- Post retirement non-pension benefits are based on a new 3-year actuarial study beginning in 2020
- Represents the retirement benefits that have accrued over the service life of city employees to-date but not yet paid (i.e. medical and dental)
- Costs of these benefits are recognized annually in the financial statements as the employees render their service
- A portion of these liabilities that are not funded annually are netted against the accumulated surplus
- To fund this liability, Council approved the creation of a reserve for post employee's retirement benefits, which now totals $44.7M (2020, $33.1M)
- Vacation entitlement is earned during the course of employment and this liability represents the unused portion
- The WSIB valuation is based on a 2020 actuarial study
- WSIB liability represents the future expected claims and the liability is $7.4M (2020, $6.3M) due to an increased number of firefighters on WSIB for post-traumatic stress which is now fully funded by WSIB
- The WSIB reserve is $1.5M (2020, $1.4M)

- ➢ $75,000 is budgeted annually as the transfer to the WSIB reserve
- The City has an insurance policy for single WSIB claims up to $1.0M

Deposits and Deferred Revenue

- Deposits and Deferred Revenue represent pre-paid funds from developers, builders and other parties held by the City for capital projects to be constructed or various City services to be rendered in the future
- Deposits and deferred revenue total $41.6M (2020, $33.4M)
- Increase of $8.2M primarily due to increase of $2.2M in deferred Recreation revenue from virtual programs and increased program registration, increase of $3.5M in building standard permits, and increase of $2.9M in long term deposits due to increase development and permit activity, offset by a decrease of $0.5M from recognition of development planning application revenues.

Deferred Revenue – Obligatory Reserve Fund

- Development Revenue – Obligatory Reserve Fund includes
  - ➢ Development charges
  - ➢ Cash in-lieu of parkland
  - ➢ Sub-divider contributions
  - ➢ Funds set aside from building permits under the Building Standards Act
  - ➢ Unused gas tax funds and other Provincial and Federal grants
- Funds 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

	2021	2020
Recreational land (The Planning Act)	$ 140,642,489	$ 87,581,337
Development Charges Act	507,326,081	469,585,159
Sub-divider contributions	20,736,354	17,648,814
Federal gas tax	31,245,510	27,431,163
Building Standards Act	19,582,751	16,028,358
Ontario grants	1,527,965	1,713,680
	$ 721,061,150	$ 619,988,511

Debenture and Other Debt

- Debenture and other debt total $58.8M (2020, $64.6M)
- Consists of sinking fund debentures, serial debentures and other development related debt.
- 2021 debt ratio is 1.3%, well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%
  - ➢ Debt repayment of $5.7M with no new debt issued in 2021 for debt payable to the YMCA for construction of the city library and recreation space in the Vaughan Metropolitan Centre

Non–Financial Assets

- Non-financial assets are the City's tangible capital assets and prepaid expenses
- Tangible capital assets comprise the land and capital assets that are available and used to provide the necessary services to the citizens of Vaughan
- The tangible capital assets net book value as at December 31, 2021 total $9.4B (2020, $9.2B)
- 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 2021 amortization expense was $79.5M (2020, $79.0M)
- Assets under construction totalling $179.0M (2020, $205.8M) will not be amortized until the assets are brought into service
- Refer to Note 9 of the Draft Consolidated Financial Statements for a breakdown of tangible capital assets

Accumulated Surplus

- Consists of:
  - Investment in tangible capital assets
  - Investment in Hydro Vaughan Corporations
  - Discretionary reserves
  - Amounts to be recovered in future years – debt and employee future benefits
  - Opening operating and capital fund balances
- The accumulated surplus at December 31, 2021 is $10.0B (2020, $9.8B)
- Discretionary reserves increased to $403.1M (2020, $357.3M)
- Refer to Note 10 of the Draft Consolidated Financial Statements for a further breakdown of the Accumulated Surplus

Annual Surplus

- The Annual Surplus is a result of the accrual basis of accounting as required under Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB). The cash basis of accounting used in the preparation of the budget (management reporting) will not yield the same result.
  - Statutory financial statements present an annual surplus that for the year end December 31, 2021 is $229.0M (2020, $179.1M) versus breakeven results in 4th quarter Fiscal Health Report
- Significant differences between Statutory financial statements versus from 4th quarter Fiscal Health Report due to statutory reporting requirements include:
  - Contributed assets $184.8M (2020, $174.5M) included in statutory reporting revenue not in Fiscal Health Report
  - Statutory reporting for all Vaughan Hydro Corporations are done on an equity pick up basis, which includes 20.5% of Alectra income less dividends received from Alectra, 100% of VHI net income and 100% of HVEC net loss while 4th quarter results include 75% of Alectra dividends from VHI and do not include the net income or loss of VHI and HVEC
  - Statutory reporting expenses includes amortization of tangible capital assets of $79.5M (2020, $79.0M) versus reserve contributions of $60.1M in 4th quarter Fiscal Health Report
  - Statutory reporting includes an adjustment for the decrease in the City's equity interest in the net assets of Alectra of $1.1M (2020, decrease $1.7M) not included in 4th quarter Fiscal Health Report

Audit of Tourism Vaughan Corporation

- On March 19th, 2019, Council approved a Bylaw allowing the City to levy a four per cent Municipal Accommodation Tax (MAT) on the purchase of transient accommodations including hotels, motels and bed and breakfasts in Vaughan effective April 1, 2019. Pursuant to Ontario Regulation 435/17, at least 50 percent of the MAT revenue must be shared with a Tourism promotion entity
- The Corporation of the City of Vaughan established a municipal service corporation, Tourism Vaughan Corporation (TVC), to serve as the City's tourism promotion entity. TVC was incorporated on May 15th, 2019

- The Financial Statements of TVC are included in the attached financial statement package and are also included in the City of Vaughan Consolidated Financial Statements
- 2021 Revenue from the MAT was $0.7M (2020, $0.3M), 50% of total MAT collected by the City. The significant reduction in 2020 was a result of reduced demand in the hospitality industry due to the COVID-19 pandemic.
- TVC received a grant from the Tourism Association of Ontario Regional Relief and Recovery Fund of $0.4M in 2020 to enable recovery from economic disruption associated with the COVID-19 pandemic. TVC did not receive any new grants for 2021 but recognized $0.2M from the above TIAO grant that was deferred to 2021 based on actual grant spending.
- 2021 Expenses were $0.9M (2020, $0.5M) and included professional fees and salary for 3 staff
- 2021 Net Profit was $0.0M (2020, $0.1M)

<u>Audit of the Mayor's Gala and Golf Events Statement of Revenue/Expenses and Fund Balance</u>

- All Gala and Golf revenue and expenses through the City of Vaughan books have always been included in the City's consolidated financial statements
- The 2021 Gala and Golf events were cancelled due to the COVID-19 pandemic
- Any sponsorship revenue raised has been either returned or treated as deferred revenue for future Gala and Golf events
- Some expenditures paid in 2020 and 2021 will be applied to future Gala and Golf events and have been treated as prepaid expenditures in 2020 and 2021