

Audit Committee Report

DATE: Monday, May 29, 2023

WARD(S): ALL

TITLE: 2022 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: DECISION

Purpose

To obtain Council approval on the 2022 Draft Consolidated Corporation of the City of Vaughan Financial Statements, Vaughan Public Library Board Financial Statements, Tourism Vaughan Corporation Financial Statements, the Trust Fund Financial Statements, and the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events. The KPMG 2022 Audit Findings report is attached for Council review.

Report Highlights

- The statutory financial statements are a requirement prescribed by the Municipal Act, 2001 that shows the results of operations and the financial position at the end of the 2022 fiscal year.
- The City's statutory financial statements are presented in a different manner than the 2022 budget and 2023 plan, and these differences are explained in this report and in the notes to the financial statements.
- The City has received an "unqualified" audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB).
- KPMG has identified a grant receipt related to the 2021 year which requires a restatement to the 2021 Board of Management for the Kleinburg Business Improvement Area Financial Statements. The 2022 Kleinburg Business Improvement Area Financial Statements will be presented at the Audit Committee meeting on October 2nd, 2023.

Recommendations

1. That the 2022 Draft Consolidated Corporation of the City of Vaughan Financial Statements, Vaughan Public Library Board Financial Statements, Tourism Vaughan Corporation Financial Statements, the Trust Fund Financial Statements and the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events be approved. (Attachment 2);
2. That the KPMG Audit Findings Report for the year ended December 2022 be received. (Attachment 3); and
3. That the 2022 Draft City Consolidated Financial Statement Highlights be received. (Attachment 1).

Background

The City's Draft Consolidated Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

The City's Draft Consolidated Financial Statements incorporate the financial results of:

- The Corporation of the City of Vaughan
- Vaughan Public Library Board
- Kleinburg Business Improvement Area
- Tourism Vaughan Corporation
- Hydro Vaughan Corporations:
 - Alectra (20.5% ownership through Vaughan Holdings Inc.)
 - Vaughan Holdings Inc. (100% owned by the City of Vaughan)
 - Hydro Vaughan Energy Corporation (100% owned by Vaughan Holdings Inc.)
 - 1446631 Ontario Inc. (100% owned by the City of Vaughan)

The City's Trust Financial Statements are separate and are not included in the City's consolidated financial results. These statements are not part of the Consolidated Statements because they include assets held in trust by the City for other uses (ie: cemetery perpetual care).

Included are separate Financial Statements for the Vaughan Public Library Board, Tourism Vaughan Corporation, as well as a Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events.

The Mayor's Gala and Golf Event statements include funds raised and administered by the City of Vaughan for the Mayors Gala and Golf events.

The Board of Management for the Kleinburg Business Improvement Area Financial Statements are separate and are excluded in the package as a result of an audit finding where a \$5k grant was received and recorded in March 2022, but the related expenses were incurred in 2021. The grant receipt should have been disclosed in the 2021 year.

KPMG requires a restatement of the 2021 Board of Management for the Kleinburg Business Improvement Area Financial Statements. The entity is considered a non-significant component and has no bearing on the audit opinion to the City's consolidated Financial Statements. The 2022 Board of Management for the Kleinburg Business Improvement Area Financial Statements will be presented at the Audit Committee meeting on October 2nd, 2023.

Sports Village Acquisition

On November 30, 2022, the City acquired the Sports Village Facility from Mentana Group Inc. for \$9.4 million. The acquisition included its building and certain assets and assumed certain liabilities associated with the operations. The consolidated financial statements include the acquisition and results of operations of the Sports Village Facility for the month of December 2022. (Attachment 2 - Draft Consolidated Financial Statements note 18).

Unqualified Audit Opinion

The City has received an "unqualified" audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounts Board (PSAB). Our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2022 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2022 in accordance with public sector accounting standards.

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 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.

2022 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan's 2022 Consolidated Statement of Financial Position demonstrates a continued strong position, as the City is in a net financial asset position of \$627.3 million (2021 - \$658.7 million).

The Consolidated Statement of Financial Position is the City's balance sheet which outlines the City's financial assets, liabilities and non-financial assets. Major items such as Cash and cash equivalents, Investment in Hydro Vaughan Corporations, Accounts payable and accrued liabilities, Deferred revenue and other items are discussed in Attachment 1 – Highlights.

Financial Statement Presentation Differences from Budget Presentation

The City's statutory financial statements are presented in a different manner from the 2022 Budget and 2023 Plan.

The statutory financial statements must comply with Provincial Statutory Reporting and use an accrual basis of accounting whereas, the tax supported, rate supported and Capital Budgets approved by Council are intended to set tax and utility rates and are prepared on a cash basis of accounting.

Statements	Budget Approved By Council	Statutory Financial Statements
Purpose	To set the tax rate in accordance with the Municipal Act	To comply with Provincial Statutory Reporting
Basis	Cash basis of accounting	Accrual basis of accounting
Differences	Presents a partial financial picture	Presents full financial picture
	Expense tangible capital assets	Capitalize tangible capital assets
	Reserve contributions / No amortization	Amortization over the useful life of tangible capital assets
	Excludes unfunded liabilities	Includes unfunded liabilities

The major differences between the two presentations are:

1. Amortization

The City's 2022 Budget and 2023 Plan is developed excluding amortization on tangible capital assets. The statutory financial statements present the net book value of the City's tangible capital assets on the Statement of Financial Position and includes annual amortization to recognize the use of tangible capital assets in the current year in the Statement of Operations and Accumulated Surplus. Council has chosen not to include amortization expense in the tax levy requirements in

accordance with *Regulation 284/09 of the Municipal Act, 2001*. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of these assets be raised through taxation each year to help smooth out potential large tax increases in the years of replacement.

2. Contributed Tangible Capital Assets

The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's statutory financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.

3. Post Employment Benefits

The City's 2022 budget and 2023 Plan excludes future post-employment costs except for actual post-employment benefit payments as they are funded from taxation. However, post-employment benefits on the statutory financial statements represent the retirement benefits that have accrued over the service life of the City's employees to date but not yet paid. These are expensed over the life of the employees as they render the service. The result is a difference between the budget and the statutory statements due to the gap between the current funding and the liability for post-employment benefits.

4. Share of net earnings in Hydro Vaughan Corporations/Dividends

The City's 2022 Budget and 2023 Plan includes dividends paid by the Hydro Corporations to the City. The statutory financial statements exclude dividends received, but include the equity pickup of the 2022 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Fiscal Health Report for the year ending December 31, 2022 (presented to Council in June) and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

Reconciliation of the City of Vaughan's Operating Surplus to PSAB Surplus

2022 City of Vaughan Operating Surplus on Fund Basis December 31 \$	-
(\$ in millions)	
Add:	
Water and Wastewater revenues	186.29
Contributed tangible capital assets	285.44
Share of net earnings in Hydro Vaughan Corporations	14.30
PSAB adjustments	89.35
Contributions from developers	92.49
Debt principal payments	5.22
Less:	
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)	(0.97)
Amortization	(81.96)
Water and Wastewater expenditures	(185.39)
Post Employment Benefits	(9.64)
Hydro dividends received	(15.07)
PSAB adjustments	(21.37)
Annual Surplus per Consolidated Financial Statements	\$ 358.68

Previous Reports/Authority

N/A

Analysis and Options

N/A

Financial Impact

N/A

Broader Regional Impacts/Considerations

N/A

Conclusion

The City of Vaughan's 2022 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, Tourism Vaughan Corporation, the Trust Fund and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Gala and Golf Events present fairly, in all material respects, the financial position of each entity as at December 31, 2022 and the results of operations and accumulated surplus, the change in net financial assets and the cash flows for each entity for the year ended December 31, 2022 in accordance with public sector accounting standards.

The 2022 Board of Management of the Kleinburg Business Improvement Area Financial Statements are excluded in the package and will be presented on the October 2nd, 2023 Audit Committee meeting.

For more information, please contact:

Nancy Yates, Director of Financial Services/Deputy City Treasurer Ext. 8984.

Attachments

1. 2022 Draft City Consolidated Financial Statement Highlights.
2. 2022 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, Tourism Vaughan Corporation and the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements.
3. 2022 Audit Findings Report – KPMG LLP.

Prepared by

Marie Chan, Controller, Ext. 8313

Approved by



Michael Coroneos
Deputy City Manager, Corporate
Services, City Treasurer & Chief
Financial Officer