

# Audit Committee Report

---

**DATE:** Tuesday, May 28, 2024

**WARD(S):** ALL

**TITLE:** 2023 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 2023 Draft Consolidated Financial Statements of The Corporation of the City of Vaughan, Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area. Tourism Vaughan Corporation, Trust Fund, and the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events.

**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 2023 fiscal year.
- The City has received an “unqualified” audit opinion from KPMG LLP on all of the statutory financial statements that the statements present fairly, in all material respects, the financial position and results of the entities for the year ended December 31, 2023, and are in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB).
- The City's statutory financial statements are presented in a different manner than the 2023 budget and 2024-2026 financial plan, and these differences are explained in Attachment 3.

## **Recommendations**

1. That the 2023 Draft Consolidated Financial Statements of The Corporation of the City of Vaughan, Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, Tourism Vaughan Corporation, the Trust Fund, the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events be approved. (Attachment 1);
2. That the KPMG LLP Audit Findings Report for the year ended December 2023 be received. (Attachment 2); and
3. That the 2023 Annual surplus reconciliation to PSAB basis be received. (Attachment 3).

## **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 Statements are prepared to meet the legislated requirements in accordance with Section 286(1), 294.1, 295(1) and 296 (1) of the Municipal Act, 2001.

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 Inc. (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 not included in the City's consolidated financial results as 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, the Board of Management of the Kleinburg Business Improvement Area, Tourism Vaughan Corporation, and 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.

### **KPMG LLP have issued an unqualified opinion on the 2023 Consolidated Financial Statements**

KPMG LLP has conducted the annual audit in accordance with Canadian generally accepted auditing standards. KPMG LLP has issued an unqualified audit opinion on all of the statutory financial statements that the Statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2023, and its consolidated results of operations, change in net financial assets, cash flows and remeasurement gains and losses for the year then ended in accordance with public sector accounting standards.

### **New Accounting Standards Adopted in 2023**

On January 1, 2023, the City adopted the new accounting standards PS1201, *Financial Statement Presentation*, PS3450, *Financial Instruments*, PS2601, *Foreign Currency Translation* and PS 3041, *Portfolio Investments* and PS3280, *Asset Retirement Obligations*. These standards were adopted prospectively with no adjustments made to comparative figures. The major changes for the City resulting from these standards are:

- The introduction of a new Consolidated Statement of Remeasurement of Gains and Losses. This statement includes unrealized gains and losses arising from the fair value measurement of a structured note investment and the City's share of other comprehensive loss from investment in Alectra Inc. Further information is disclosed in note 1 (s), (z) and 20 in the Consolidated Financial Statements.
- Under PS 3280 Asset Retirement Obligations, the City recognized the estimated legal obligations associated with the retirement of certain tangible capital assets, such as the retirement and remediation of City-owned landfill, building facilities and land, leasehold improvement, other tangible capital assets, and underground fuel tanks. On January 1, 2023, the City recognized an asset retirement obligation liability of \$8.1M, an increase to tangible capital asset of \$2.8M, and an expense of \$5.3M. Refer to Attachment 1- Consolidated Financial Statements note 10 for further details.

## **Analysis and Options**

### **2023 Draft Consolidated Statement of Financial Position Overview**

The City of Vaughan's 2023 Consolidated Statement of Financial Position is the City's balance sheet which outlines the City's financial assets, liabilities and non-financial assets. The Statement of Financial Position shows the City's net financial position remains strong, as the Accumulated Surplus and the Accumulated Remeasurement of Gains as of December 31, 2023 was \$10,953.3M (2022, \$10,406.5M).

**Consolidated Statement of Financial Position**

<b>(\$ millions)</b>	<b>2023</b>	<b>2022</b>	<b>Change</b>
Financial Assets	1,884.3	1,894.2	(9.9)
Financial Liabilities	1,265.8	1,266.9	(1.1)
<b>Net Financial Assets</b>	<b>618.5</b>	<b>627.3</b>	<b>(8.8)</b>
Non-Financial Assets	10,334.8	9,779.2	555.6
	<b>10,953.3</b>	<b>10,406.5</b>	<b>546.8</b>
<b>Accumulated surplus</b>	10,953.2	10,406.5	546.7
<b>Accumulated remeasurement gains</b>	0.1	-	0.1
	<b>10,953.3</b>	<b>10,406.5</b>	<b>546.8</b>

**Financial Assets**

Financial assets are economic resources which include cash and cash equivalents, accounts receivables, investments and other assets which can be converted to cash in a short period of time.

Financial assets totalled \$1,884.3M at the end of 2023, a decrease of \$9.9M from \$1,894.2M in 2022.

**Cash and cash equivalents** totalled \$139.7M, a decrease of \$122.6M (2022, \$262.3M)

The City maintains a healthy cash position at December 31, 2023 to ensure that sufficient cash funds are available for the operating, capital, investing and financing activities. The Consolidated Statement of Cash Flows summarizes the sources and uses of cash in 2023. (Attachment 1- Draft 2023 Consolidated City's Financial Statements).

The City's cash balance decrease was mainly due to:

- Increased spending in capital activities of \$305.0M related to acquisition of tangible capital assets and net investing activities of \$52.1M.

- The cash outflow was offset by \$41.4M increase in financing activities related to net debenture to finance capital projects and \$193.1M increase in cash from operating activities.

The net increase in cash from operating activities was \$193.1M (2022, \$268.8M).

The City's annual surplus was \$546.8M (2022, \$358.7M). It was mainly due to higher investment income related to an increase in interest rates by the Bank of Canada, increased contributions from developers and grants from other levels of government.

Significant items not involving cash include:

- Amortization \$84.2M (2022, \$82.0M)
- Contributed tangible capital assets of \$338.7M (2022, \$285.4M). This is comprised of land improvements of \$287.6M, roads infrastructure of \$18.1M and water, wastewater, and stormwater infrastructure of \$33.0M. These are assumed assets related to development applications. Developers cannot approach the city for assumption until the maintenance stage is set out in their respective agreements. 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.
- Share of net earnings of Hydro Vaughan Corporations of \$31.8M (2022, \$14.3M). The increase was driven by the equity in income, where Alectra reported a higher 2023 net income of \$142.0M (2022, \$62.0M).

Significant changes in non-cash assets and liabilities include:

- Employee future benefits \$14.9M (2022, \$10.9M)- A new actuarial valuation was completed on the non-vested sick leave benefits.
- Asset retirement obligation liability \$8.1M (2022, \$0)- Adoption of PS3280, *Asset Retirement Obligations* as of Jan 1, 2023.
- Deferred revenues – obligatory reserve funds of \$87.7M (2022, \$110.2M). Revenues received increased by \$97.0M for development applications related revenues (development charges, recreation land and Section 37), and investment income increased by \$32.0M due to increase in interest rates. This was offset by \$216.7M increased development charges and parkland acquisition related capital expenditures.

**Taxes receivable** totalled \$77.6M, an increase of \$6.7M (2022, \$70.9M)

Increase was mainly due to the impact of the pandemic. Collection policies were put on

hold, resulting in a backlog. Staff are getting back on track with regular collection processes where Notices of Outstanding taxes (Arrears Notices) are issued on a more regular basis, and collection practices, including Tax Sale Registrations are getting back to post-pandemic level.

**Water & sewer billings receivable** totalled \$27.9M, an increase of \$2.2M (2022, \$25.7M)

Increase was mainly due to a 3.3% increase in the water and wastewater rates, commercial consumption and increase in the number of the billing accounts.

**Accounts Receivable** totalled \$55.6M, an increase of \$21.0M (2022, \$34.6M)

Increase was mainly due to a \$14.4M increase in investment interest accrual. The fourth quarter investment yield was ranged between 5%-6% in 2023, relative to the range of 1%-5% in 2022. Other increases were due to \$2.8M in Region of York receivables for shared projects, \$1.1M in by-law fines receivables, \$1.0M in HST receivables, \$0.9M in Recreation receivables, and \$0.8M in Tourism Vaughan Corporation's receivables.

**Investments** totalled \$932.5M, an increase of \$65.7M (2022, \$866.8M)

Increase was mainly due to a \$57.5M increase in short-term investments with yields ranged from 4.91% to 6.70% and a long-term investment structured note carried at fair value of \$7.7M.

**Investment in Hydro Vaughan Corporations** totalled \$651.1M, an increase of \$17.3M (2022, \$633.8M)

Increase was due to the share of net earnings in Hydro Vaughan Corporations of \$31.8M, which was offset by dividends payments from VHI to the City of \$12.3M, return of capital on solar shares from Alectra to VHI of \$1.0M, return of capital on solar shares from VHI to the City of \$1.0M, and share of other comprehensive loss (OCI) from investment in government business enterprise of \$0.2M.

### **Financial Liabilities**

The accrued and general liabilities are financial obligations to suppliers and contractors, other governments and outside agencies, as a result of operating and capital fund activities incurred.

Financial liabilities totalled \$1,265.8M at the end of 2023, a decrease of \$1.1M from \$1,266.9M in 2022.

**Accounts payable & accrued liabilities** totalled \$160.6M, an increase of \$12.4M (2022, \$148.2 M)

Increase was mainly due to \$17.9M of capital contracts and other related payables, \$0.8M in York Region payable, offset by \$3.4M decrease in general accounts payable, \$3.0M decrease in accrued liabilities related payroll, contingent liability, and other payables.

**Employee future benefit liability** totalled \$192.5M, an increase of \$14.8M (2022, \$177.7M)

(\$ millions)	2023	2022
Post-retirement non-pension benefits	160.2	156.5
Sick Leave liability	12.5	-
Vacation entitlements	12.6	12.7
WSIB	7.2	8.5
	192.5	177.7

The liability consists of post-retirement non-pension benefits, non-vested sick leave benefits, accrued vacation pay and Workplace Safety and Insurance Board (WSIB).

A new actuarial valuation of the non-vested sick leave benefits was completed as at April 2024, for the 2021 to 2025 period in accordance with the financial reporting guidelines established by PSAB. The projected non-vested sick leave liability for active employees was \$12.5M.

A 3-year actuarial valuation of the post-retirement non-pension benefit obligation and the WSIB obligation was completed as at January 1, 2023. The post-retirement non-pension benefits 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.

WSIB liability represents the future expected claims. Decrease was due to the removal of liability amounts between \$500K and \$1.0M for future 2023-2025 new claimants under the assumption outlines in the City's Excess of Loss worker's compensation indemnity agreement.

**Deposits & deferred revenue** totalled \$51.3M, an increase of \$8.2M (2022, \$43.1M)

This represents 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.

Increase was due to the \$3.8M deferred recreation revenue from the increased program registrations, \$4.7M in block planning permits and long-term deposits for development and permit activities and \$0.2M related to the Mayor's Gala event. This was offset by \$0.5M decrease in Sports Village deferred revenues.

**Deferred Revenue – Obligatory Reserve Fund** totalled \$743.6M, a decrease of \$87.7M (2022, \$831.3 M)

Decrease was due to reduced development charge and recreation land reserve collections, with continued spending from these same reserves. The revenues from these reserves are well below the expenditures in 2023.

**Debenture & other debt** totalled \$104.7M, an increase of \$41.4M (2022, \$63.4 M)

This consists of sinking fund debentures, serial debentures, and other development related debt.

Increase was due to the new debenture issued by York Region for the City at \$45.5M, offset by the debt principal repayment of \$4.1M related to the serial debt and debt payable to the YMCA for construction of the city library and recreation space in the Vaughan Metropolitan Centre.

The 2023 debt ratio is 1.2%, which is well within the Provincial Debt limit of 25% and the City's Debt policy limit of 10%.

**Asset retirement obligation** totalled \$8.1M (2022, \$0)

Under PS3280, this is a new requirement adopted in 2023 estimating the costs to retire specific assets for which there is a legal obligation to incur retirement costs. The total obligation of \$8.1M is comprised of an estimate of \$5.0M to monitor for 62 years and retire the closed landfill site, \$2.3M for asbestos removal in various City buildings and \$0.8M other asset retirement obligations.

**Liability for contaminated sites** totalled \$1.6M (2022, \$0)

A liability for the estimated cost of remediation of a contaminated site purchased in 2023 has been established. The contamination exceeds environmental standards and future economic benefits are expected to be given up as the site will be converted to parkland.

### **Non-Financial Assets**

Non-financial assets are the City's tangible capital assets and prepaid expenses. Tangible capital assets (TCA) include land, buildings and other capital assets.



TCA totalled \$10,333.5M (2022, \$9,774.3M). Included in the TCA are \$2.8M assets related to estimated asset retirement obligations. Refer to Attachment 1-Draft Consolidated Financial Statements note 9 for further details.

### **Accumulated surplus**

The accumulated surplus as of December 31, 2023 was \$10,953.3M (2022, \$10,406.5M). This consists of investment in tangible capital assets, Hydro Vaughan Corporations, discretionary reserves, asset retirement obligations, and amounts to be recovered in future years – debt and future employee benefits and operating, and capital fund balances. Refer to Attachment 1--Draft Consolidated Financial Statements note 12 for further details.

### **Annual surplus**

The Annual Surplus is a result of the accrual basis of accounting as required under Canadian Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board. The accrual cash basis of accounting used in the preparation of the budget (management reporting) will not yield the same result.

Statutory financial statements showed an annual surplus of \$546.8M (2022, \$359.7M) at December 31, 2023, compared to a breakeven results after contribution to reserves in the 4<sup>th</sup> quarter Fiscal Health Report.

Refer to Attachment 3 which outlines the differences between the two financial reporting presentations, and an annual surplus reconciliation to PSAB basis.

### **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 2023 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, 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, 2023 and the results of operations and accumulated surplus, the change in net financial assets, remeasurement gains and losses and the cash flows for each entity for the year ended December 31, 2023 in accordance with public sector accounting standards.

**For more information**, please contact:

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

## **Attachments**

1. 2023 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Board of Management of the Kleinburg Business Improvement Area, 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.
2. 2023 Audit Findings Report – KPMG LLP.
3. 2023 Annual surplus reconciliation to PSAB basis.

## **Prepared by**

Marie Chan, Controller, Ext. 8313.