

ATTACHMENT 3

AUDIT COMMITTEE – MAY 28, 2024

Statutory financial statements and budget presentation differences

The City's statutory financial statements are presented in a different manner from the 2023 Budget and 2024-2026 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 2023 Budget and 2024-2026 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 2023 budget and 2024-2026 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 2023 Budget and 2024 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 2023 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

5. Assets Retirement Obligations

On January 1, 2023, the City adopted 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. The associated expenses are reported in the statutory financial statements which the City's 2023 budget and 2024-2026 Plan excludes as these are non-cash operations items.

A reconciliation of the major differences between the Fiscal Health Report for the year ending December 31, 2023 (presented to Council in June 24) and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

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

2023 City of Vaughan Operating Surplus on Fund Basis December 31, 2023	\$	-
(\$ in millions)		
Add:		
Water and Wastewater Revenues		192.83
Contributed Tangible Capital Assets		338.74
Share Of Net Earnings In Hydro Vaughan Corporations		31.82
PSAB Adjustments		104.40
Net Sports Village Operations		1.28
Contributions From Developers		195.22
Debt Principal Payments		2.21
Less:		
Investment In Hydro Vaughan Corporations		(1.02)
Amortization		(84.22)
Water and Wastewater Expenditures		(186.65)
Post Employment Benefits		(14.93)
Hydro Dividends Received		(12.29)
PSAB Adjustments-TCA and asset retirement obligations		(20.57)
Annual Surplus Per Consolidated Financial Statements	\$	<u>546.82</u>