

Finance, Administration and Audit Committee Report

DATE: Wednesday, June 05, 2019

WARD(S): ALL

TITLE: 2018 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

FROM:

Michael Coroneos, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

Council's approval is requested on the 2018 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Kleinburg Business Improvement Area Financial statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements. The KPMG 2018 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 for the fiscal year and the financial position at the end of the fiscal year.
- These statements have been prepared in accordance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.
- The City's statutory financial statements are presented in a different manner than the 2018 budget and 2019-2021 plan, and these differences are explained in this report and in the notes to the financial statements.

Recommendations

1. That the 2018 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management for the Kleinburg Business

Improvement Area Financial Statements, the Statements of Revenue and Expenditures and Fund Balances of the Mayor's Gala and Golf Events and the Trust Fund Financial Statements be approved. (Attachment 2)

2. That the KPMG Audit Findings Report for the year ended December 2018 be received. (Attachment 3)
3. That the 2018 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 City of Vaughan
- Vaughan Public Library Board
- Kleinburg Business Improvement Area
- Hydro Vaughan Corporations:
 - Alectra (21.49% 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, the Board of Management for the Kleinburg Business Improvement Area 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 2018 Mayors Gala and Golf events held on June 21st and June 4th respectively. The audited statement does not include \$20 million in additional funds donated by the DeGasperis and Kohn families to the Mackenzie Health Care Foundation. Those funds were directed to and administered by the Mackenzie Health Care Foundation.

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, 2018 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2018 in accordance with public sector accounting standards.

2018 Draft Consolidated Statement of Financial Position Overview

The City of Vaughan’s 2018 Consolidated Statement of Financial Position demonstrates a continued strong position, as the City is in a net financial asset position of \$591.7 million (2017 - \$564.5 million).

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 2018 Budget and 2019-2021 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 2018 Budget and 2019-2021 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 2018 budget and 2019-2021 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 2018 Budget and 2019-2021 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 2018 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, 2018 (presented to Council in May) and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

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

2018 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements	\$ -
Add:	
Water, Wastewater & Stormwater revenues	150.40
Contributed tangible capital assets	316.24
Share of net earnings in Hydro Vaughan Corporations	25.22
Capital Fund and other revenues	72.00
Contributions from developers	64.59
Less:	
Water, Wastewater & Stormwater expenditures	(137.77)
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)	(2.21)
Amortization	(74.04)
Post Employment Benefits	(11.55)
PSAB adjustments	(45.09)
Annual surplus on a PSAB basis	357.79

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 2018 Consolidated Financial Statements, the Financial Statements of the Vaughan Public Library Board, the Board of Management of the Kleinburg Business Improvement Area, 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, 2018 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, 2018 in accordance with public sector accounting standards.

For more information, please contact: Dean Ferraro, Director of City Financial Services/Deputy Treasurer Ext. 8272 or Nancy Yates, Accounting Manager, Ext. 8984

Attachments

1. 2018 Draft City Consolidated Financial Statement Highlights
2. 2018 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Kleinburg Business Improvement Area Financial Statements 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. 2018 Audit Findings Report – KPMG LLP

Prepared by

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