

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 19, 2018

Item 1, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 19, 2018.

1 2017 DRAFT CONSOLIDATED FINANCIAL STATEMENTS

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer and City Treasurer, dated June 6, 2018:

Recommendations

1. That the 2017 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management for The 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 be approved. (Attachment 1)
2. That the KPMG Audit Findings Report for the year ended December 2017 be received. (Attachment 2)

Item:



Finance, Administration and Audit Committee Report

DATE: Wednesday, June 06, 2018

WARD(S): ALL

TITLE: 2017 Draft Consolidated Financial Statements

FROM:

Laura Mirabella, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

Council's approval is requested on the 2017 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 2017 Audit Findings report is attached for Council review.

Report Highlights

- The statutory financial statements are a requirement prescribed by the *Municipal Act, 2001* that show 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 2017 budget and 2018-19 plan, and these differences are explained in this report and in the notes to the financial statements.

Recommendations

1. That the 2017 Draft Consolidated Financial Statements, Vaughan Public Library Board Financial Statements, Board of Management For The 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 be approved. (Attachment 1)
2. That the KPMG Audit Findings Report for the year ended December 2017 be received. (Attachment 2)

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 2017 Mayor's Gala and Golf events. The audited statement does not include \$350,000 in additional funds raised through the Live Auction at the Mayor's Gala on June 8, 2017 on behalf of the MacKenzie Health Care Foundation. Those funds were directed to and administered by the MacKenzie Health Care Foundation.

Unqualified Audit Opinion

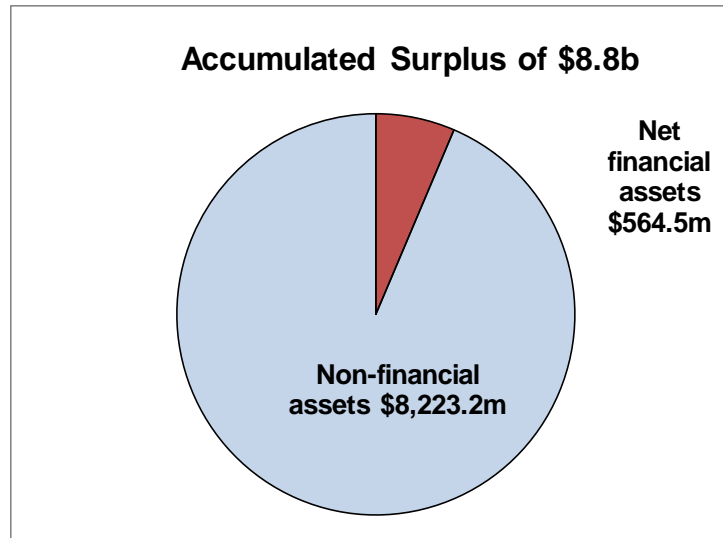
The City has received an “unqualified” audit opinion from KPMG on all of the statutory financial statements. This means that the City is in compliance with Generally Accepted Accounting Principles for governments as recommended by the Public Sector Account Board (PSAB). Our financial statements present fairly, in all material respects, the financial position of the entity audited as at December 31, 2017 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for 2017 in accordance with public sector accounting standards.

2017 Draft Financial Statements

Consolidated Statement of Financial Position:

The statement of financial position highlights four key figures that describe the financial position of the City at the financial statement date, December 31, 2017:

1. The cash resources of the City are its cash and cash equivalents ended 2017 at \$495.7 m (2016 - \$539.5m).
2. The net financial resources/net debt position of the City is calculated as the difference between financial assets and financial liabilities. Unlike many governments, the City is in a positive and stable net financial resource position at December 31 of \$564.5 m (2016 - \$344.3m).
3. The non-financial assets of the City are assets that are, by nature, normally held for use in the provision of services and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies and prepaid expenses. At the end of 2017, the City has non-financial assets totaling \$8.2b (2016 - \$7.8b) The change in 2017 from the prior year is mainly due to an increase in contributed assets.
4. The total net assets is the sum of the City’s net financial resources and the total non-financial assets and is also called the accumulated surplus (explained below).



Consolidated Statement of Financial Activities:

The statement of operations reports the surplus or deficit from operations in the accounting period. The statement displays the revenues that it has recognized in the period, the cost of City services provided and the difference between them. Our annual surplus for 2017 for statutory purposes was \$688.7m (2016 – 126.0m). This is an increase of \$562.7m over 2016 primarily due to an increase of \$312.5m in contributed assets assumed from developers and a gain on the merger of PowerStream to form Alectra of \$209.2m.

This statement also presents the City's accumulated surplus which is equal to the total net assets on the Statement of Financial Position. The accumulated surplus or deficit of the City is calculated as the sum of the net financial assets (debt) of the City and its non-financial assets and is also calculated by adding the 2017 annual surplus to the 2016 accumulated surplus. The City's Net Asset/Accumulated Surplus position at the end of 2017 is \$8.8b (2016 \$8.1b) itemized as follows:

	2017 (\$b)	2016 (\$b)
Investment in tangible capital assets	8.2	7.7
Investment in Hydro Vaughan Corporations	0.6	0.4
Discretionary Reserves	0.3	0.2
Amounts to be recovered in future years	(0.1)	(0.1)
Other	(0.2)	(0.1)
	8.8	8.1

Consolidated Statement of Change in Net Financial Assets:

The statement of change in net financial assets reports information that is important in understanding changes in the financial assets and liabilities of the City. This measure is displayed by reporting the items that explain the difference between the operating surplus or deficit and the change in net financial assets for the period.

Cash Flow:

The statement of cash flow reports the change in cash and cash equivalents in the accounting period, and how the City financed its activities in the period and met its cash requirements. The City cash and cash equivalent position continues to be strong as illustrated below:

	2017	2016
	(\$m)	(\$m)
Cash provided by (used in):		
Operating Activities	141.4	147.0
Capital Activities (acquisition & disposal of tangible capital assets)	(101.0)	(67.8)
Financing Activities (debt incurred and repaid)	4.7	(2.6)
Investment Activities (changes in investment portfolio and hydro)	(88.9)	(14.2)
Net Change in Cash	-43.8	62.4
Cash, Beginning of the Year	539.5	477.1
Cash, End of the Year	495.7	539.5

The increased cash flow used for capital activities was mainly related to land acquisition and development of new infrastructure in the VMC. The increase in investment activities was mainly related to increased investments in the City's long bond portfolio as interest rates increased and the equity contribution related to the Alectra merger.

Budget Presentation vs. Statutory Presentation

The City's statutory financial statements are presented in a different manner from the 2017 Budget and 2018-19 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.

The major differences between the two presentations are:

1. The City's 2017 Budget and 2018-19 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. 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. The City's 2017 budget and 2018-19 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. The City's 2017 Budget and 2018-19 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 2017 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Consolidated 4th Quarter Report ending December 31, 2017 and the Consolidated Statement of Operations and Accumulated Surplus is provided below:

2017 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements	\$	-
Add:		
Water and Wastewater revenues		133.83
Contributed tangible capital assets		440.79
Share of net earnings in Hydro Vaughan Corporations		12.76
Gain on Alectra merger		209.20
Capital fund and other revenues		73.01
Contributions from developers		52.31
Investment in Hydro Vaughan Corporations (Solar Capital Dividend)		(1.81)
Less:		
Amortization		(71.75)
Water and Wastewater expenditures		(121.63)
Post Employment Benefits		(19.51)
PSAB adjustments		(11.72)
Other: financing and transfers		(6.79)
	\$	<u>688.69</u>

Key Transactions

Employee future benefits liability:

Employee future benefits provided by the City include post retirement non-pension benefits and WSIB benefits. The City pays certain health, dental and life insurance benefits on behalf of its retired employees. The City must recognize these costs in the period in which the employee renders the service. The City is currently a self-insured Schedule 2 employer for WSIB obligations. The liability for both of these future benefits has been determined by two separate actuarial valuations.

A full actuarial valuation was performed January 1, 2017 for 3 years from 2017 to 2019 for post-retirement non-pension benefits. The projected liability increased from \$99.1m in 2016 to \$111.9m at December 31, 2017. This includes a prior services adjustment of \$3.6m. The City currently has a reserve of \$23.4m to fund these post retirement non-pension benefits. The current reserve is enough to fund nine years of benefits.

A full actuarial valuation was performed January 1, 2017 for 3 years from 2017 to 2019 for WSIB obligations. The estimated liability for WSIB at December 31, 2017 is \$6.3m, up \$5.2m from the prior year estimate of \$1.1m. The City has a reserve of \$1.2m to fund this liability.

Further details on the liability for employee future benefits can be found in Note 5 of the consolidated financial statements.

Alectra merger:

On February 1, 2017, PowerStream merged with Enersource and Horizon to form Alectra. In consideration for the disposition of 45.315% of PowerStream common shares, Vaughan Holdings Inc.(VHI) received a 21.49% ownership interest in Alectra's issued and outstanding common shares. The 21.49% ownership interest is valued at the fair value of the opening value of Alectra determined by an independent appraisal of each of the amalgamating entities resulting in a gain on merger in the Consolidated Statements of the City of Vaughan of \$209.2m.

Alectra also issued Class S shares to former PowerStream shareholders related to the Ring Fenced Solar Portfolio, now a division of Alectra. In accordance with the Solar Services and Indemnity Agreement between the former PowerStream shareholders and Alectra, the division is beneficially owned indirectly by the former PowerStream shareholders. VHI owns 45.315% of the Class S shares.

The transaction is described in Note 4 of the Consolidated Financial Statements.

YMCA Agreement:

In 2017, the City entered into an agreement with the YMCA of Greater Toronto to be a funding partner for the construction of a YMCA and City Library and Recreation Space as part of a mixed use development in the Vaughan Metropolitan Centre.

The YMCA entered into a financing agreement with Ontario Infrastructure and Lands Corporation to obtain a construction loan of \$66m for the project. In the event of default by the YMCA, the City is required to step in and assume all liabilities and take first right to ownership of all assets related to the project as part of the agreement.

As of December 31, 2017, the City has spent \$24.5m on the construction of the facilities including \$11m for land, \$1.5m for insurance, \$4.6m for the City's portion of the building and \$7.4m for the YMCA's portion of the building. The \$24.5m has been treated as Work in Progress in the tangible capital assets (see Note 9 to the consolidated financial statements) and \$13.2m represents debt outstanding at year-end as described in Note 7 to the consolidated financial statements.

Contributed Assets:

The non-financial assets of the City are assets that are, by nature, normally held for use in the provision of services and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies and prepaid expenses. At the end of 2017, the City has non-financial assets totaling \$8.2b (2016 - \$7.8b). 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. In 2017, approximately \$440.8m contributed assets were recognized compared to \$128.3m recognized in 2016, representing an increase of \$312.5m. Contributed assets are

valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs. The value of these contributed assets fluctuates based on the volume and the unit cost of the assets contributed in a given year. In 2017, the City assumed more assets in land, road network, stormwater and water assets. Land assets, in particular, saw an increase of approximately \$260m. This increase is mainly due to higher volume of the land assets assumed, and in part is attributable to land value appreciation across the City.

Previous Reports/Authority

Not applicable

Analysis and Options

Not applicable

Financial Impact

Not applicable

Broader Regional Impacts/Considerations

Not applicable

Conclusion

The City of Vaughan's 2017 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, 2017 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, 2017 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. 2017 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
2. 2017 Audit Findings Report – KPMG LLP

Prepared by

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