

## CITY OF VAUGHAN

### EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

Item 1, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted, as amended, by the Council of the City of Vaughan on June 27, 2017, as follows:

***By approving the following in accordance with Communication C1 from the Chief Financial Officer and City Treasurer and Director of City Financial Services/Deputy Treasurer, dated June 12, 2017:***

1. ***That the Draft Consolidated Statement of Cash Flows (Page 1.13) be replaced with the updated version that changes the supplemental cash flow information for interest paid to \$2,753,846;***
2. ***That Note 15(b) (Page 1.41) be replaced with the updated version that provides more informative disclosure on loans guaranteed by the City.***

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### 2016 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 and the Director of City Financial Services/Deputy Treasurer, dated June 6, 2017:

#### Recommendation

The Chief Financial Officer and City Treasurer and the Director of City Financial Services/Deputy Treasurer recommend:

1. That the 2016 Draft Consolidated Financial Statements, Vaughan Public Library Board, Kleinburg Business Improvement Area, Trust Fund Financial Statements and the Statement of Revenues and Expenditures and Fund Balance of the Mayor's Golf and Gala Events (Attachment 1) be approved; and
2. That the KPMG Audit Findings Report for the year ended December 2016 (Attachment 2) be received.

#### Contribution to Sustainability

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.

The objective of the City's financial planning process is to develop a multi-year budget that balances the need to maintain existing services, accommodate growth requirements and undertake corporate initiatives against the City's capacity to fund them. The City's financial management policies and practices are based on best practices to maintain the City's strong financial position.

These statutory financial statements illustrate the success of the City of Vaughan in achieving their financial goals and maintaining the City's strong financial position.

#### Economic Impact

There is no incremental economic impact from this report. The financial statements are prepared on a different basis than the annual budget and the quarterly fiscal health report. Note 13 to the Consolidated Financial Statements provides a reconciliation of the approved Council budgets to the budget figures reported in the consolidated financial statements. The statutory financial statements are a requirement of the *Municipal Act, 2001*. These financial statements present the financial position of the City at the end of the 2016 fiscal year, the results of operations for the

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2016 fiscal year, the change in net financial assets and the change in the City's cash flow in 2016 with additional detail provided in the notes to the financial statements. Statutory financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

#### **Communications Plan**

An advertisement will be placed in the local paper when the financial statements are approved by Council. The advertisement will indicate that the 2016 Consolidated Financial Statements and Trust Fund Statement are available for pick up at City Hall. In addition the financial statements will be published on the City's web page at <https://www.vaughan.ca/cityhall/accounting>.

#### **Purpose**

The purpose of this report is to request Council approval of the City's 2016 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 Golf and Gala Events, and the Trust Fund Financial Statements and to provide an opportunity to review KPMG's Audit Findings Report for 2016.

#### **Background - Analysis and Options**

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
  - PowerStream Inc. (45.315% 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).

Also included are separate Financial Statements for the Library Board and 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 Events statement includes funds raised and administered by the City of Vaughan for the 2016 Mayor's Gala and Golf events. The audited statement does not include \$1.6 million in additional funds raised through the Live Auction at the Mayor's Gala on May 25, 2016 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 has followed all of the rules, and our financial statements

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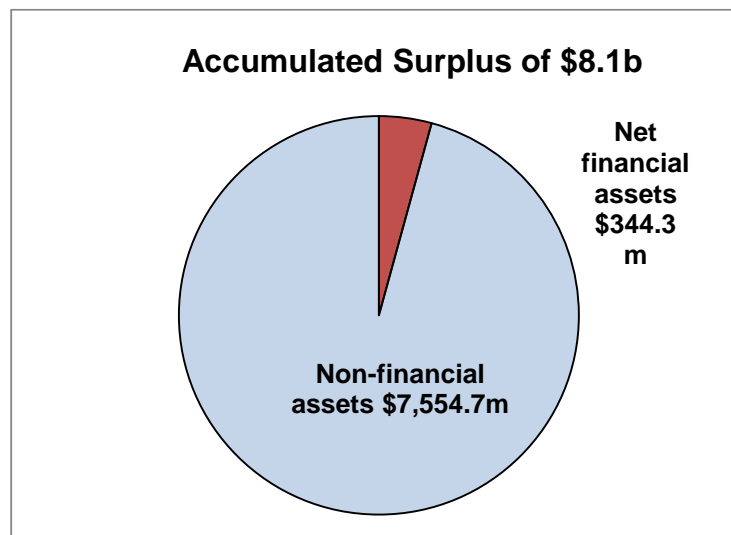
present fairly, in all material respects, the financial position of the entity audited as at December 31, 2016 and its results of operations and accumulated surplus, its change in net financial assets and its cash flows for the 2016 year in accordance with public sector accounting standards.

#### **2016 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:

- a) The cash resources of the City are its cash and cash equivalents ending 2016 at \$539.5m (2015 – \$477.1m). The increase relative to 2015 is primarily a result of increased cash flow from City operations.
- b) The net financial resources/net debt position of the City is calculated as the difference between its financial assets and financial liabilities. Unlike many governments, the City is in a positive and stable net financial resource position at December 31, 2016 of \$344.3m (2015 - \$343.3m).
- c) 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 2016, the City has non-financial assets totalling \$7.8b (2015 \$7.6b).
- d) 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 2016 for statutory purposes was \$126.0m (2015 - \$303.7m). This is almost \$178M lower than 2015 primarily due to receiving fewer contributed assets in 2016. In 2016, there were 17 assumptions valued at \$128.1m versus 26 assumptions in 2015 at \$319.6m.

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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 2016 annual surplus to the 2015 accumulated surplus. The City's Net Asset/Accumulated Surplus position at the end of 2016 is \$8.1b (2015 - \$8.0b) itemized as follows:

	2016 (\$b)	2015 (\$b)
Investment in tangible capital assets	7.7	7.6
Investment in Hydro Vaughan Corporations	0.4	0.4
Discretionary Reserves	0.2	0.2
Amounts to be recovered in future years	(0.1)	(0.1)
Other	(0.1)	(0.1)
	<u>8.1</u>	<u>8.0</u>

#### 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:

	2016 (\$m)	2015 (\$m)
Cash provided by (used in):		
Operating Activities	147.3	71.0
Capital Activities (acquisition & disposal of tangible capital assets)	(68.1)	(55.2)
Financing Activities (debt incurred and repaid)	(2.6)	(13.4)
Investment Activities (changes in investment portfolio and hydro)	(14.2)	5.9
Net Change in Cash	<u>62.4</u>	<u>8.3</u>
Cash, Beginning of the Year	<u>477.1</u>	<u>468.8</u>
Cash, End of the Year	<u>539.5</u>	<u>477.1</u>

#### Budget Presentation vs. Statutory Presentation

The City's statutory financial statements are presented in a different manner than the 2016 Budget and 2017-18 Plan.

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

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The major differences between the two presentations are:

1. The City's 2016 Budget and 2017-18 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.
2. 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.
3. The majority of the City's assets are initially funded by the development industry and treated as contributed assets on the City's financial statements. Contributed assets are valued based on construction costs and are recognized in the financial statements as revenue in the year assumption occurs.
4. The City's 2016 Budget and 2017-18 Plan excludes future post-employment benefit 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.
5. The City's 2016 Budget and 2017-18 Plan includes dividends paid by the Hydro Corporations to the City. The consolidated financial statements exclude dividends received, but include an equity pickup of the 2016 income based on the percentage holdings of the hydro corporation by the City of Vaughan.

A reconciliation of the major differences between the Consolidated 4<sup>th</sup> Quarter Report ending December 31, 2016 and the Consolidated Statement of Financial Position is provided below:

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

<b>2016 City of Vaughan Operating Surplus on Fund Basis - Quarterly Statements</b>	<b>\$ -</b>
<b>Revenue</b>	
Contributed tangible capital assets	128.1
Water & wastewater revenue	132.2
Other: capital revenues, VBEC	34.0
Share of net earnings of Hydro Vaughan Corporations	10.0
Vaughan Holdings Inc. dividends paid to City of Vaughan	(6.9)
Investment in Hydro Vaughan Corporations	(1.8)
<b>Expenses</b>	
Amortization	(69.0)
Other PSAB Adjustments	(10.3)
Water & wastewater expenditures	(109.3)
Post employment benefits	(6.3)
Other: financing and transfers	25.3
<b>2016 City of Vaughan Annual Surplus on PSAB Basis - Statutory F/S</b>	<b><u>\$ 126.0</u></b>

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##### **Relationship to Term of Council Service Excellence Strategy Map (2014-2018)**

On Sept. 30, 2015, Council approved a refreshed strategic plan. The plan provides a focused set of priorities for the corporation to deliver on our mission of citizens first through service excellence. The refreshed direction is presented in the form of a Service Excellence Strategy Map. The 2016 Draft Consolidated Financial Statements indicate that the City continues to follow sustainable fiscal policies and manage City assets while meeting Council's target tax rates (no greater than 3%).

##### **Regional Implications**

There are no Regional implications associated in the report.

##### **Conclusion**

The City of Vaughan's 2016 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, 2016 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, 2016 in accordance with public sector accounting standards.

##### **Attachments**

1. 2016 Draft City Consolidated Financial Statement Package which includes the City's Consolidated Financial Statements, the Vaughan Public Library Board Financial Statements, the Statement of Revenue and Expenditures and Fund Balances of the Mayor's Golf and Gala Events, the Kleinburg Business Improvement Area Financial Statements. Also included, but not incorporated in the City's Consolidated Financial Statements, are the Trust Fund Financial Statements.
2. 2016 Audit Findings Report – KPMG LLP

##### **Report prepared by:**

Nancy Yates, CPA, CA, BComm  
Accounting Manager

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)