



## **Staff Report for Audit Committee Meeting**

**Date of Meeting:** June 29, 2021

**Report Number:** SRCFS.21.033

**Department:** Corporate and Financial Services

**Division:** Financial Services

**Subject:** SRCFS.21.033 – 2020 Draft Consolidated Financial Statements

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### **Purpose:**

To present the Draft Audited Consolidated Financial Statements for the year ended December 31, 2020.

### **Recommendation(s):**

- a) That the 2020 Audited Consolidated Financial Statements included in Appendix "A" to Staff Report SRCFS.21.033, be approved and published;
- b) That the Mayor and the Treasurer be authorized to sign the Financial Statements;
- c) That the 2020 Audited Richmond Hill Public Library Board Financial Statements (to be approved by the Library Board in June 2021) included in Appendix "B" to Staff Report SRCFS.21.033, be received for information purposes.

### **Contact Person:**

David Dexter, Director Financial Services and Treasurer, Extension 3656

Shirley Tu, Manager Financial Reporting and Accounting, Extension 5450

### **Report Approval:**

**Submitted by:** Sherry Adams, Commissioner of Corporate and Financial Services

**Approved by:** Mary-Anne Dempster, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner, and City Manager. Details of the reports approval are attached.

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### **Note to Reader:**

This document concerns the Annual Audit Program and Results for the Corporation of the City of Richmond Hill. As such, it necessarily contains terminology that is required to be used in public accounting reports. For example, the reader will see term “surplus” used frequently in reporting the City’s Financial Position. For purposes of this report, the term ‘surplus’ refers to accounting effects on the Financial Statements since the Corporation’s inception (and an accumulation of accounting differences owing to depreciation, book value versus cost, inflationary effects, time value of money and so forth). In this respect, the “surplus” term is being used in a different context than in single year operating reports where a surplus describes an excess of current revenues over expenditures.

### **Background:**

The City is legislatively obligated to undergo an external audit of financial processes and results each year. An external audit is an examination of the records and financial statements of an organization by an independent auditor, for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position and results of operations and its cash flows as at the year-end in accordance with generally accepted accounting principles. The City’s financial statements have been audited by our auditors, Grant Thornton LLP, Chartered Accountants, who conducted the audit in accordance with generally accepted Canadian auditing standards. These standards require that the auditors plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

The audit of the accounting records and financial statements includes all the funds for the City of Richmond Hill, the Richmond Hill Public Library Board, and the Village of Richmond Hill Business Improvement Area. The approval of the financial statements meets the requirements of the Municipal Act.

This report summarizes the City of Richmond Hill’s draft consolidated financial statements (provided in Appendix “A”) and is divided into the following sections:

1. Consolidated Statement of Financial Position
2. Consolidated Statement of Operations
3. Consolidated Statement of Change in Net Financial Assets
4. Consolidated Statement of Cash Flow, and
5. Notes to Consolidated Financial Statements.

### **Financial/Staffing/Other Implications:**

The Financial Statements reflect the combined positions and operations for the City, the Richmond Hill Public Library Board, and Village of Richmond Hill Business Improvement Area. As well as how those entities financed their activities and met their cash requirements. In addition, the financial statements confirm that the resources were obtained and used in accordance with the budget approved by Council.

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This report presents an overview of the financial statements.

### 1. Consolidated Statement of Financial Position (page 3 of Appendix “A”)

The Statement of Financial Position is the municipal equivalent of the private sector’s balance sheet. This statement focuses on the City’s financial assets, financial liabilities and non-financial assets. The difference between the financial assets and financial liabilities reflects the City’s net financial asset position and represents the funding available to offset future requirements.

On the Consolidated Statement of Financial Position, net financial assets of \$281.16 million (2019 - \$275.74) represents a positive net financial asset position which occurs when financial assets are greater than liabilities and implies that the City has the resources to finance future operations.

Non-financial assets, which are assets with physical rather than monetary value, include tangible capital assets (TCA) such as roads, buildings, inventories of supplies such as salt and sand, as well as prepaid expenses, totaled \$977.78 million (2019 - \$953.34), almost all of which is related to the addition of tangible capital assets owned by the City of Richmond Hill. On a historical cost basis, net investments in tangible capital assets such as roads, water-mains, parks and recreation facilities, total \$974.07 million (2019 – \$950.63). The replacement value of these assets is much higher.

The results of the current year’s operations are captured in the accumulated surplus and the consolidated statement of operations. Accumulated surplus has replaced the Municipal Position lines of previous years, and it consists of any general fund surplus, reserves, and reserve funds. The general fund surplus may be misleading as it primarily represents the City’s investment in tangible capital assets, unspent capital, unfunded postemployment benefits and budget surplus carry forward. For 2020, the total of the City’s accumulated surplus was \$1,258.94 million (2019 - \$1,229.08 million) as summarized below:

**Table - Accumulated Surplus Details**

	<b>2020</b>	2019
General Surplus	<b>\$959.35</b>	\$936.24
Reserves	<b>\$38.48</b>	\$37.91
Reserve Funds	<b>\$261.11</b>	\$254.94
Total Accumulated Surplus	<b>\$1,258.94</b>	\$1,229.08

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Note 7, Accumulated Surplus in the Notes to the Financial Statements (page 15 Appendix “A”) provides a breakdown of the Accumulated Surplus components.

### **2. Consolidated Statement of Operations (page 4 of Appendix “A”)**

The Consolidated Statement of Operations is considered the municipal equivalent to the private sector’s income statement and retained earnings. The focus of this statement is the net expenses or revenues for a given period. A net expense figure represents an amount that the City has to finance from sources other than operating revenue. A net revenue figure represents an amount that the City could allocate to reserves for future use.

Taxation revenue, user charges, developers’ and other contributions, and permits income were the primary revenue sources for 2020. The City reported an annual surplus from all sources of \$29.86 million in 2020 compared to \$54.48 million in 2019.

Budget figures presented in these consolidated statements are based upon the 2020 operating and capital budgets approved by Council. Key indicators in the statement of operations are large variances in budget to actual as well as large changes in revenue or expenses category from one year to the next. The explanation for these variances is a result of activity related to tangible capital assets due to timing of the expenses which could expend over a couple years for the major capital projects.

### **3. Consolidated Statement of Change in Net Financial Assets (page 5 of Appendix “A”)**

The Statement of Change in Net Financial Assets, a unique statement to public sector reporting. Its purpose is to assist financial statement users in understanding whether enough revenue was generated in the reporting period to cover the expenses to acquire new tangible capital assets and other non-financial assets such as inventories and prepaid expenses. The important measure of any level of government’s financial condition is the net assets to debt amount. The City’s net financial assets as at December 31, 2020 was \$281.16 million.

### **4. Consolidated Statement of Cash Flow (page 6 of Appendix “A”)**

The Consolidated Statement of Cash Flows details how the City generated and used cash and cash equivalents during the fiscal year. It categorizes cash flows during the year between Operating, Capital, and Investing activities. An increase in the cash position of \$11.05 to \$108.35 million as compared with \$97.3 million in 2019 was mainly a result of the cash increase in the investing activities. Cash provided from investment has been used to acquire tangible capital assets, which is consistent with the Council approved 2020 Capital Budget.

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### **5. Notes to the Consolidated Financial Statements (pages 7 - 29 of Appendix “A”)**

The Notes to Financial Statements provide additional information to explain or supplement the financial statements results, or disclosure of accounting policies.

Provided for reference purposes are also the Richmond Hill Public Library Board Financial Statements for 2020 (to be approved by the Library Board in June 2021) (Appendix “B”).

### **Relationship to Council’s Strategic Priorities 2020-2022:**

Presentation of Council and Committee remuneration and expenses aligns with the Priority of “Fiscal Responsibility” that will endeavor to keep tax increases below the cost of inflation and will avoid unnecessary expenditures in order to emerge from COVID-19 in the strong financial position.

### **Climate Change Considerations:**

Climate change considerations are not applicable to this staff report.

### **Conclusion:**

Grant Thornton has issued an Auditor’s Standard Report on the City of Richmond Hill’s consolidated financial statements. The standard report is issued when the auditors express an unqualified opinion (i.e. the financial statements fairly represent the financial position and results of the organization in accordance with Generally Accepted Accounting Principles). The financial statements reflect the City’s good financial position and fiscal responsibility. The auditors will sign this report, once Council has approved the financial statements. In addition, to meet the Ministry of Municipal Affairs and Housing requirement to publish the financial statements within the community, the financial statements will be posted to the City’s website.

### **Attachments:**

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call contact person listed in this document.

- Appendix “A” – Draft 2020 Consolidated Financial Statements
- Appendix “B” – Draft 2020 Richmond Hill Public Library Board Financial Statements (to be approved by the Library Board in June 2021)

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### Report Approval Details

Document Title:	SRCFS.21.033 - 2020 Draft Consolidated Financial Statement.docx
Attachments:	- SRCFS.21.033 - Appendix A - City of Richmond Hill FS 2020 DRAFT.PDF - SRCFS.21.033 - Appendix B - Richmond Hill Public Library Board FS 2020 DRAFT.PDF
Final Approval Date:	Jun 21, 2021

This report and all of its attachments were approved and signed as outlined below:

**David Dexter - Jun 21, 2021 - 4:01 PM**

**Sherry Adams - Jun 21, 2021 - 4:33 PM**

**Darlene Joslin on behalf of MaryAnne Dempster - Jun 21, 2021 - 4:48 PM**