

# Staff Report



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To	<b>City Council as Shareholders of Guelph Municipal Holding Inc.</b>
Date	Monday, June 28, 2021
Subject	<b>2020 Guelph Municipal Holdings Inc. Audited Financial Statements and Appointment of External Auditor</b>

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## Recommendation

1. That the Guelph Municipal Holdings Inc. Audited Financial Statements for the year-ended December 31, 2020 be received for information.
  2. That KPMG LLP be appointed as the external auditor for Guelph Municipal Holdings Inc. for the fiscal years ending 2021 through 2024.
  3. That the Chief Financial Officer be authorized to annually execute the engagement letter with KPMG LLP subject to the terms approved.
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## Executive Summary

### Purpose of Report

To present and review the 2020 Guelph Municipal Holdings Inc. (GMHI) Audited Financial Statements and to provide an overview of the results of the Request for Proposals (RFP) process for External Audit Services for the 2021 through 2024 fiscal years.

### Key Findings

Please refer to Attachment-1, which represents the audited financial statements of GMHI for the year-ended December 31, 2020. KPMG LLP performed the audit in accordance with generally accepted auditing standards and expressed an unqualified or "clean" opinion that the statements present fairly, in all material respects, the financial position of GMHI as of December 31, 2020 and its results of operations and cash flows for the year then ended.

GMHI reported total comprehensive income of \$3.0 million for 2020 which included \$3.5 million in investment income from Alectra Inc. (Alectra), \$731 thousand in non-dividend income from Alectra, a loss of \$296 thousand from district energy operations, and general and administration expenses totaling \$121 thousand. The wind down of the Hanlon Node has been completed and all payments related to the transition have been accounted for in 2020 and prior years (\$847 thousand in 2020). GMHI paid \$3.0 million in dividends to the City of Guelph (the City) in 2020.

The cost of GMHI's 2020 external audit was \$7.5 thousand, with future increases limited to the Consumer Price Index for the Toronto Region as published by Statistics Canada.

GMHI will work to align its budget cycle with the City's multi-year budget cycle beginning in 2021.

## **Financial Implications**

The prudent management of the City's hydro utility company is an important asset that generates a healthy dividend to the City which in turn reduces the requirement of property tax increases to fund capital infrastructure renewal.

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## **Report**

### **Audited Financial Statements**

GMHI has prepared its financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis.

GMHI earned \$3.0 million in total comprehensive income for 2020, with revenue totaling \$4.5 million and expenses totaling \$1.5 million.

The equity method of accounting for GMHI's investment in Alectra means that 4.63% of Alectra's net income is recognized as investment revenue in GMHI's audited financial statements (\$3.5 million) instead of the actual amount of dividends received during the year (\$3.6 million).

GMHI also received \$731 thousand in non-dividend income from Alectra in 2020, which is 50% of a tax refund that Alectra received from carrying back losses from Guelph Hydro Electric Systems Inc. (GHESI) in accordance with the terms of the merger agreement. This has been accounted for as additional proceeds of disposition from the GHESI/Alectra merger.

Electricity sales revenue totaling \$210 thousand was offset by operating expenses totaling \$506 thousand, for a net loss from district energy operations of \$296 thousand.

Management and general administration costs totaled \$121 thousand in 2020 and includes management fees paid to the City, insurance, and professional fees.

District energy wind down costs totaled \$847 thousand in 2020, including a recovery of \$50 thousand from the sale of Hanlon Node equipment and represent the completion of the Hanlon Node wind down and transition of customers to conventional heating and cooling. The transition was budgeted at \$1.5 million and the net costs came in at \$1.3 million, a savings of \$200 thousand from budget.

### **Appointment of Auditor**

The contract for GMHI's external audit is put out to tender through a competitive procurement process on a five year cycle along with the City's external audit. In 2020 the City issued a RFP for external audit services for the 2020 through 2024 fiscal years, which included GMHI's external audit.

In July 2020, City Council, in its capacity as Shareholder of GMHI, approved the appointment of the same audit firm for GMHI's 2020 external audit as appointed by City Council for the City's 2020 through 2024 external audit.

In October 2020, Council appointed KPMG LLP as the City's auditor for the fiscal years 2020 through 2024.

The cost of GMHI's 2020 audit is \$7.5 thousand. KPMG LLP is responsible for notifying the City's Purchasing Department of any future increases which are limited to the Consumer Price Index for the Toronto Region as published by Statistics Canada.

### **Budget Cycle**

GMHI's budget is approved by the Board of Directors in the spring of each year. In 2021, GMHI will work to align its budget cycle with the City's multi-year budget cycle. GMHI will prepare a two year operating budget (for 2022 and 2023) and a two year operating forecast (for 2024 and 2025). The budget will be presented to GMHI's Board of Directors in the fall of 2021 for approval.

### **Financial Implications**

The prudent management of the City's hydro utility company is an important asset that generates a healthy dividend to the City which in turn reduces the requirement of property tax increases to fund capital infrastructure renewal.

### **Consultations**

The Board of Directors for GMHI met on May 4, 2021. The Company's auditor, Matt Betik of KPMG LLP attended the meeting. The audited financial statements were approved by the Board at this meeting.

### **Attachments**

Attachment-1 2020 Audited Financial Statements

### **Report Author**

Shanna O'Dwyer, Manager of Financial Reporting and Accounting

### **This report was approved by:**

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### **This report was recommended by:**

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