

Staff Report



To	City Council as Shareholders of Guelph Junction Railway Inc.
Date	Monday, June 28, 2021
Subject	Guelph Junction Railway 2020 Audited Financial Statements

Recommendation

1. That the Guelph Junction Railway Limited 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 Junction Railway Limited 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 Junction Railway Limited (GJR) 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 GJR 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 GJR as of December 31, 2020 and its results of operations and cash flows for the year then ended.

GJR earned \$530 thousand in net comprehensive income for 2020, slightly less than 50% of 2019 net income (\$1.1 million) and invested \$1.2 million in tangible capital assets (2019 - \$1.4 million). The most significant area of variance was freight revenue which was \$581 thousand lower than 2019 due to a decrease in car volumes by 905 cars as a result of the COVID-19 pandemic. For this reason, no dividend was declared by the Board of Directors in 2021 due to the strain COVID has had on GJR's revenue and cash flow.

The cost of GJR's 2020 external audit was \$9 thousand, with future increases limited to the Consumer Price Index for the Toronto Region as published by Statistics Canada.

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

Financial Implications

The governance and oversight of the City's wholly-owned subsidiaries creates financial value to the City through equity gains and dividend returns.

Report

Audited Financial Statements

GJR 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.

GJR earned \$530 thousand in net comprehensive income for the year, slightly less than half of the 2019 net income (\$1.1 million). Revenue decreased by \$729 thousand (15.5%) in 2020 compared with 2019. The most significant area of variance was freight revenue which was \$581 thousand lower than 2019 due to a decrease in car volumes by 905 cars as a result of the COVID-19 pandemic. Expenses decreased by \$167 thousand (4.6%) compared with 2019.

GJR changed operators in 2020 and the Company's risk profile shifted with this change. For the first eight months of the year, the operator's fees were linked to revenue. The new operator contracts for freight movement and track maintenance began in September 2020, and are flat fee contracts. Previously, a decrease in revenue meant a decrease in expenses, but now decreases in revenue are fully absorbed by GJR; however, as GJR's revenue increases its costs for freight movement and track maintenance will not increase beyond the contracted rate.

GJR invested \$1.2 million in property, plant and equipment in 2020 (\$1.4 million in 2019) and received capital contributions of \$415 thousand which offset the cost to GJR. Capital contributions are deferred and amortized into income over the same period that the capital assets are depreciated.

The long-term loan from the City of Guelph to GJR renewed on December 31, 2020 for a five year term and allows GJR to make lump sum loan repayments once per year if cash flow permits.

GJR declared a dividend to the City of \$80 thousand in 2020, equal to budget based on the 2019 financial results. No dividend will be paid in 2021 due to the strain on GJR's cash flows from the COVID-19 pandemic.

GJR is committed to increasing its long-term value to the City and to the community. The focus for 2021 is to continue to manage through and recover from the COVID-19 pandemic to ensure that GJR continues to be a profitable and self-sustaining company into the future.

Appointment of Auditor

The contract for GJR'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 GJR's external audit.

In July 2020, City Council, in its capacity as Shareholder of GJR, approved the appointment of the same audit firm for GJR'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 GJR's 2020 audit is \$9 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

GJR's budget is approved by the Board of Directors in the spring of each year. In 2021, GJR will work to align its budget cycle with the City's multi-year budget cycle. GJR will prepare a two year operating budget (for 2022 and 2023) and a two year operating forecast (for 2024 and 2025). On the capital side, GJR will work toward the preparation of a two year capital budget for the years 2022 and 2023, and an eight year capital forecast for 2024 through 2031. The budget will be presented to GJR's Board of Directors in the fall of 2021 for approval.

Financial Implications

The governance and oversight of the City's wholly-owned subsidiaries creates financial value to the City through equity gains and dividend returns.

Consultations

The Board of Directors for GJR 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

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This report was approved by:

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