

Staff Report



To	City Council as Shareholders of Guelph Municipal Holding Inc.
Date	Monday, June 27, 2022
Subject	2021 Guelph Municipal Holdings Inc. Audited Financial Statements

Recommendation

That the Guelph Municipal Holdings Inc. Audited Financial Statements for the year-ended December 31, 2021, be received for information.

Executive Summary

Purpose of Report

To present and review the 2021 Guelph Municipal Holdings Inc. (GMHI) Audited Financial Statements.

Key Findings

GMHI's business in 2021 can be summarized as follows:

- Investment in Alectra Inc. (Alectra) - quarterly dividend payments received.
- District energy operations, consisting of thermal energy sales to two customers on the Downtown Node and related expenses.
- General and administrative costs (audit, tax filing, legal, and management support from the City of Guelph).

The audited financial statements can be found in Attachment-1.

Overall, GMHI's balance sheet was strengthened in 2021, with assets increasing by \$1.1 million and liabilities decreasing by \$137 thousand, for a net increase of over \$1.2 million in shareholder's equity after dividends were paid to the City totaling \$3.3 million. GMHI's total comprehensive income totaled \$4.8 million in 2021 compared with \$3 million in 2020.

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.

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.

GMHI is reporting total comprehensive income of \$4.8 million after deferred tax expense for 2021, comprised of the following:

- \$5.2 million in revenue from GMHI's 4.63 per cent share of Alectra's 2021 earnings.
- Net loss of \$108 thousand from district energy operations (budgeted loss of \$137 thousand).
- \$124 thousand in management and general administration expenses (on budget), and \$13 thousand in other income (\$8 thousand more than budget).
- A recovery of \$5 thousand was recorded from recoverable HST associated with district energy wind down costs that were expensed in 2020.
- \$166 thousand in deferred income tax expenses were recorded due to the increase in GMHI's investment in Alectra.

GMHI budgets for revenue from Alectra differently than it reports for the purposes of the audited financial statements. The budget forecasts dividends received from Alectra (cash flows), while the revenue from Alectra on the audited financial statements is based on GMHI's share of Alectra's net income. GMHI budgeted for dividends totaling \$3.5 million from Alectra in 2021 and received \$2 thousand more than budgeted.

GMHI is using the equity method to report its investment in Alectra. On January 1, 2019, the initial investment in Alectra was recorded at fair value. Since then, the accounting value is adjusted annually by adding 4.63 per cent of Alectra's net income for the year and deducting the dividends that GMHI received from Alectra. The accounting value of GMHI's investment in Alectra increased by \$1.7 million from 2020 to 2021, as 4.63 per cent of Alectra's 2021 net income was \$5.2 million, offset by \$3.5 million in dividends paid by Alectra to GMHI in 2021.

If GMHI disposes of its shares in Alectra at some future date, tax would be payable on this transaction. The deferred tax liability has been adjusted to reflect the tax that would be payable based on the accounting value of the investment as of December 31, 2021. A portion of the deferred tax is refundable and is, therefore, recorded in Shareholder's Equity. The remainder is expensed through the Statement of Profit or Loss (\$166 thousand in 2021).

Audit Findings Report

KPMG provided a clean audit opinion on the 2021 financial statements. KPMG did not identify any audit misstatements, nor any control deficiencies that they consider to be significant. KPMG reaffirmed their independence from GMHI.

Financial Implications

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Consultations

The Board of Directors for GMHI met on May 4, 2022. The Company's auditor, Matt Betik of KPMG LLP attended the meeting and presented the Audit Findings Report. The audited financial statements were approved by the Board at this meeting.

Attachments

Attachment-1 2021 GMHI Audited Financial Statements

Report Author

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This report was approved by:

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