

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, June 7, 2022
Subject	2021 Consolidated Financial Statements and External Audit Findings Report

Recommendation

That the City of Guelph 2021 Consolidated Financial Statements and External Audit Findings Report, dated June 27, 2022, be approved.

Executive Summary

Purpose of Report

To present and provide an overview of the City's 2021 Consolidated Financial Statements, including related entities' Financial Statements; and to provide Council with the City's external audit results as reported in KPMG LLP's 2021 Audit Findings Report.

Key Findings

Detailed financial statement discussion and analysis can be found in the stand-alone report entitled "Corporation of the City of Guelph Consolidated Financial Statements and Treasurer's Report for the Year Ended December 31, 2021" (2021 Treasurer's Report).

The City's net financial position continued to strengthen in 2021 with an increase of \$47.6 million in net financial assets; however, a significant portion of the funds in the City's investment portfolio are for approved capital projects included in the 2021 or prior budgets which have not yet been completed or have been set aside for capital expenditures in 2022 and future budgets. As staff implement the capital resourcing strategy as described in [Report 2021-39 – Capital Program Resourcing Strategy](#), and backlogged capital projects are completed, the City's net financial position will change as funds are spent and therefore shift from financial assets (cash and investments) to non-financial assets (tangible capital assets).

Financial Implications

An unqualified opinion on the 2021 Consolidated Financial Statements will assist the City in obtaining a fair credit rating, which has the potential to lower its borrowing costs as well as support grant-funding requests from outside organizations.

The City's net financial position is a key indicator of its overall fiscal condition and is used in the City's annual credit rating review. A stable financial position helps ensure the City of Guelph meets service levels and infrastructure standards without resorting to excessive rate increase or disruptive cuts in service.

Report

Staff have taken a different approach to present management's discussion and analysis of the Consolidated Financial Statements for 2021. Instead of presenting it in the body of this report, the 2021 Treasurer's Report has been appended to this report as (Attachment-1). The Treasurer's Report includes introductory information about the community, Council, and Senior Leadership Team; financial information, including the Consolidated Financial Statements and Auditor's Report, and the financial statement discussion and analysis; and statistical information calculated from the Consolidated Financial Statements.

The objective of providing this information in this way is to improve transparency by including the contextual information provided to Council and the community through the Committee of the Whole process about the City's financial statements together with the financial statements themselves when they are posted on the City's website. We are also working to align our reporting with best practices as published by the Government Finance Officers Association.

Overall, the City's net financial position improved by \$47.6 million, with the proceeds of the spring debt issue (\$49.1 million) being added to reserves and invested in the City's investment portfolio; in addition to the debt proceeds, the City's cash and investments continued to increase due to unspent capital funds that have been accumulating as a result of delays associated with a lack of staff capacity to complete capital projects, as explained in report [2022-150 – 2021 Year-end Capital Budget Monitoring Report](#).

A significant portion of the funds in the City's investment portfolio are for approved capital projects included in the 2021 or prior budgets which have not yet been completed or have been set aside for capital expenditures in future budgets. As backlogged capital projects are completed, the City's net financial position will change as funds are spent and therefore shift from financial assets (cash and investments) to non-financial assets (tangible capital assets).

The City's employee future benefits liabilities continued to increase, with an expense of \$3.9 million recorded in 2021 for future WSIB costs associated with current claims and the future costs of providing medical and dental benefits for retired employees and those on long-term disability for greater than 24 months.

On the Statement of Operations, user charges revenue increased over a 2020 low caused by the COVID-19 pandemic (COVID), but still remained lower than 2019. This loss of user fees, and additional expenses related to COVID were funded through Safe Restart and other COVID grants received by the City and its consolidated entities.

The audited financial statements for The Elliott Community (The Elliott) (Attachment-2), Downtown Guelph Business Association (DGBA) (Attachment-3) and Wellington-Dufferin-Guelph Public Health (Public Health) (Attachment-4), as well as KPMG's Audit Findings Report (Attachment-5), have been attached to this report for Council information.

Review of the Consolidated Entities' Financial Statements

During the preparation of the 2021 Consolidated Financial Statements, staff reviewed the audited Financial Statements for each of the consolidated entities. The impacts of the consolidated entities' Financial Statements on the City's Consolidated

Financial Statements are included in the financial statement discussion and analysis in the 2021 Treasurer's Report, however a summary for each of the consolidated entities' statements is provided for further information:

The Elliott (Attachment-2)

The Elliott is required to be consolidated into the City's Financial Statements because of its financial reliance on the City. The Elliott's Financial Statements are audited by KPMG and have a year-end date of December 31, 2021. KPMG provided a clean audit opinion on The Elliott's 2021 Financial Statements.

Like most organizations in the healthcare sector, The Elliott's financial operations continued to be impacted by COVID. The Elliott reported an annual surplus of \$652 thousand for 2021 (2020 - \$438 thousand). The net deficit of \$4.2 million at the beginning of the year was reduced to \$3.5 million by the end of the year. The key driver of this deficit position stems from an initial aggressive depreciation term of 20 years for a building constructed in 2003. The depreciation policy has since been amended to a 40-year term, but the change was made on a prospective basis. The net difference as of December 31, 2021, is approximately \$7.5 million of asset value, which more than eliminates the accumulated deficit.

Operating revenue increased by approximately \$854 thousand driven largely by COVID grant funding from the province for staffing and other costs (\$205 thousand more than the grant received in 2020) and an increase of \$503 thousand in the subsidy provided by the City for long-term care. Operating expenses increased by \$655 thousand, largely driven by increases in wages and salaries and COVID supplies and services.

The City has a mortgage loan receivable from The Elliott of \$13.3 million (2020 - \$14.0 million) relating to debentures issued on behalf of The Elliott by the City. The loan was eliminated in the consolidated statements but is highlighted here because it appears on The Elliott's Financial Statements. The City guarantees The Elliott's revolving lease line of credit of up to \$4.0 million, of which \$0 was drawn upon at the December 31, 2021 year-end (2020 - \$0).

Downtown Guelph Business Association (Attachment-3)

The DGBA is a business improvement area in the City and is consolidated because of the legislative relationship between the City and the DGBA defined in the Municipal Act. The DGBA's Financial Statements are audited by KPMG. KPMG provided a clean audit opinion on the DGBA's 2021 Financial Statements.

The DGBA reported a 2021 excess of revenues over expenses of \$176 thousand compared to \$9 thousand in 2020. The increase in 2021 excess of revenue over expenses was largely driven by grants and sponsorships revenue which increased by \$140 thousand in 2021 mainly due to a grant received from the Ministry of Tourism for the Illuminate Guelph Project, while overall expenses increased by \$19 thousand. Expenditures funded by the grant were capitalized and will be amortized over their useful life.

Public Health (Attachment-4)

The City proportionately consolidates the assets, liabilities, revenues and expenses of Public Health based on the percentage of municipal funding contributed during the year. The 2021 percentage was unchanged from 2020 at 46.3 per cent. This percentage is based on the 2016 census population. The Public Health Financial

Statements are audited by KPMG. KPMG provided a clean audit opinion on Public Health's 2021 Financial Statements.

Public Health reported an excess of revenues over expenses of \$1.2 million (2020 - \$887 thousand) and an increase in the accumulated surplus from \$18.7 million in 2020 to \$19.9 million in 2021. A significant increase (\$10.0 million) in one-time extraordinary funding from the province was received to support the continuing COVID response. This was offset by a reduction totaling \$1.3 million from the Ministry of Children, Community and Social Services on the revenue side, as the Preschool Speech and Language Program funded by this Ministry was transferred to another regional agency as of April 1, 2021. Total expenses increased by \$8.7 million as Public Health rolled out an unprecedented COVID vaccination campaign during the year. Public Health had \$2.6 million in reserves at the 2021 year-end (2020 - \$1.8 million).

The City has a loan receivable from Public Health of \$1.5 million (2020 - \$2.0 million) related to the financing arrangement on the Guelph and Orangeville facilities. This loan is eliminated in the consolidated statements but is highlighted here because it appears on Public Health's Financial Statements.

Guelph Municipal Holdings Inc. (GMHI) and Guelph Junction Railway (GJR)

GMHI and GJR both have a formal process for reporting their Financial Statements to Council in accordance with each entity's Shareholder Declaration; for this reason, their Financial Statements have not been included as attachments. Commentary is provided in the Council reports that accompany these statements which Council will receive at each company's Annual General Meeting on June 27, 2022.

Guelph Police Services Board

The Guelph Police Services Board is fully consolidated into the City's Consolidated Financial Statements and a supplementary schedule (Schedule 6) within the Consolidated Financial Statements outlines the activity throughout the year. The Police Board's variance is included in [2022-155 - 2021 Year-end Operating Budget Monitoring Report](#) so further analysis is not provided in this report.

Guelph Public Library Board

The Guelph Public Library Board is fully consolidated into the City of Guelph's Consolidated Financial Statements and a supplementary schedule (Schedule 5) within the Consolidated Financial Statements outlines the activity throughout the year. The Library Board's variance is included in [2022-155 - 2021 Year-end Operating Budget Monitoring Report](#) so further analysis is not provided in this report.

External Audit Findings Report (Attachment-5)

The external audit results, as prepared by KPMG, are included in Attachment-5. Highlights from KPMG's report include:

- There were no significant changes from the Audit Planning Report previously presented to Council.
- There have been no initial selections of or changes to significant accounting policies and practices to bring to Council's attention.

- No significant control deficiencies in internal control over financial reporting were identified.
- No audit differences were identified by KPMG.

KPMG confirmed their independence from the City.

Financial Implications

An unqualified opinion on the 2021 Consolidated Financial Statements will assist the City in obtaining a fair credit rating, which has the potential to lower its borrowing costs as well as support grant-funding requests from outside organizations.

The City's net financial position is a key indicator of its overall fiscal condition and is used in the City's annual credit rating review. A stable financial position helps ensure the City of Guelph meets service levels and infrastructure standards without resorting to excessive rate increase or disruptive cuts in service.

Consultations

Staff consulted with the Finance teams at Public Health, The Elliott and The DGBA while preparing the summaries of the financial statements for these organizations.

Strategic Plan Alignment

The City's Consolidated Financial Statements and the unqualified audit opinion provided by KPMG LLP on them support the Strategic Plan pillar of Working Together for our Future through maintaining a fiscally responsible local government.

Attachments

Attachment-1 Consolidated Financial Statements and Treasurer's Report for the Year Ended December 31, 2021

Attachment-2 The Elliott Community 2021 Audited Financial Statements

Attachment-3 Downtown Guelph Business Association 2021 Audited Financial Statements

Attachment-4 Wellington-Dufferin-Guelph Public Health 2021 Audited Financial Statements

Attachment-5 City of Guelph 2021 External Audit Findings Report

Attachment-6 Staff Presentation

Departmental Approval

None.

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