

Staff Report



To	City Council
Service Area	Corporate Services
Date	Wednesday, June 14, 2023
Subject	2022 Consolidated Financial Statements and External Audit Findings Report

Recommendation

That the City of Guelph 2022 Consolidated Financial Statements and External Audit Findings Report, dated June 14, 2023, be approved.

Executive Summary

Purpose of Report

To present and provide an overview of the City's 2022 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 2022 Audit Findings Report.

Key Findings

Detailed financial statement discussion and analysis can be found in the standalone report entitled "Corporation of the City of Guelph Consolidated Financial Statements and Treasurer's Report for the Year Ended December 31, 2022" (Treasurer's Report), found in Attachment-1.

The overarching theme of the City's 2022 financial statements is the return to normal operations following the COVID-19 (COVID) impacts seen in fiscal years 2020 and 2021. This return to normal is most evidenced in the increase in both revenues and expenses for the segments most impacted by the pandemic, namely Transportation Services and Recreation and Culture Services, while noting that COVID did continue to impact operations in 2022, however, to a lesser extent than in the previous two years.

Expenses have increased by \$46.7 million (10 per cent) compared with 2021 and capital acquisitions have increased by \$22.3 million (33 per cent) compared with 2021. There are three main drivers of these increases: a return to full operations following COVID for a large part of 2022 for most services; inflationary pressures; and the implementation of the capital resourcing strategy as described in [Report 2021-39 – Capital Program Resourcing Strategy](#), allowing city staff to increase execution of Council approved capital projects.

Overall, the City's financial position continued to strengthen in 2022 with an increase of \$11.6 million in net financial assets and the City's reserves and reserve funds grew by \$4.7 million.

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.

Financial Implications

An unqualified audit opinion on the 2022 Consolidated Financial Statements will assist the City in maintaining its AAA credit rating, which has the potential to lower 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 meets service levels and infrastructure standards without resorting to excessive tax or rate increases or disruptive cuts to service.

Report

The Treasurer's Report, appended to this report as Attachment-1, includes introductory information about the community, Council, the Senior Leadership Team, financial information, including the Consolidated Financial Statements and discussion and analysis thereon, as well as statistical information calculated from the Consolidated Financial Statements.

The objective of providing this information in this way is to promote transparency and understandability of the financial information by providing contextual information together with the consolidated financial statements in one package that will be posted on the City website. This presentation approach is consistent with the best practices in financial reporting as promoted by the Government Financial Officers Association.

Overall, the City's financial position continued to strengthen in 2022 with an increase of \$11.6 million in net financial assets and the City's reserves and reserve funds grew by \$4.7 million. The increase in net financial assets continued a multi-year trend of increasing net assets, but at a slower pace in 2022 than in previous years.

The overarching theme of the City's 2022 financial statements is a return to normal operations following the COVID impacts seen in fiscal years 2020 and 2021. This return to normal is most evidenced in the increase in both revenues and expenses for the segments most impacted by the pandemic, namely Transportation Services and Recreation and Culture Services, while noting that COVID did continue to impact operations in 2022 but to a lesser extent than in the previous two years.

Expenses have increased by \$46.7 million (10 per cent) compared with 2021 and tangible capital asset acquisitions have increased by \$22.3 million (33 per cent) compared with 2021. There are three main drivers of these increases: a return to full operations following COVID for a large part of 2022 for most services; inflationary pressures; and the implementation of the capital resourcing strategy as described in [Report 2021-39 – Capital Program Resourcing Strategy](#), allowing city staff to increase execution of Council approved capital projects.

While staff is making progress on alleviating the backlog in approved capital projects, there is still a large portion of funds in the City's investment portfolio for approved capital projects included in the 2022 or prior budgets which have not yet been completed or have been set aside for capital expenditures in future budgets. In the short term, these funds are allowing the City to benefit from the increase in investment earnings due to the increasing interest rate environment in 2022 which bolstered the year-end balances in reserve funds.

The City made principal payments on existing outstanding debt of \$14.2 million in 2022 and no new debt was issued in 2022.

The deferred contributions liability increased by \$24.0 million in 2022. The main driver of this increase is the \$32.3 in development charge inflows, offset by \$10.2 million in corresponding outflows.

The City's employee future benefits liabilities continued to increase, with an expense of \$7.2 million recorded in 2022 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, the City's revenue increased by \$35.5 million (6.8 per cent) over 2021. The largest year-over-year percentage increase in revenue is user fee revenues which increased by \$15.2 million (14.5 per cent) over 2021. This increase in user fee revenue is directly attributable to the City's recovery from the impacts of COVID as the growth is from Transportation Services (\$8.9 million) and Recreation and Cultural Services (\$4.2 million) which are the segments most impacted by the pandemic.

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 information.

Review of Consolidated Entities Financial Statements

During the preparation of the 2022 Consolidated Financial Statements, staff reviewed the audited financial statements for each of the consolidated entities and consulted with the financial management teams of The Elliott, the DGBA, and Public Health to understand their 2022 results. The impacts of the consolidated entities' financial statements on the City's Consolidated Financial Statements are embedded in the financial statement discussion and analysis in the 2022 Treasurer's Report, however, a summary of 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, 2022. KPMG provided a clean audit opinion on The Elliott's 2022 Financial Statements.

During 2022, The Elliott generated a \$1.2 million (2021 - \$0.7 million) surplus, reducing the net deficit to \$2.3 million (2021 - \$3.5 million). The majority of the increased surplus is attributed to a significant charitable donation of \$374 thousand received during the year. The operating surplus increased by only \$56 thousand, as

increased revenues were largely offset with increased wages and salaries, supplies and purchased services in order to meet legislated care requirements.

Operating revenue increased by \$1.7 million (2021 - \$0.9 million) in 2022, mostly related to increased Provincial Subsidy and Other revenue. Provincial Subsidy increased with additional staffing supplements in order to work towards meeting a new 4 hours of care requirement for Long-Term Care residents by 2024. Included in Other revenue is \$708 thousand (2021 - \$224 thousand) for the use of vacant retirement facilities as short-term transition care contracts.

The City has a mortgage loan receivable from The Elliott of \$12.6 million (2021 - \$13.3 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 operating line of credit of up to \$1.0 million and lease line of credit of up to \$4.0 million. During the year \$0 (2021 - \$0) of the operating line was drawn upon and \$1.6 million (2021 - \$1.8 million) of the lease line of credit was outstanding as at December 31, 2022 year end.

Downtown Guelph Business Association (DGBA) (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. The attached financial statements are still considered drafts until formally approved by their board of directors. The approval of the 2022 audited financial statements is on the agenda for their June 7, 2023 meeting. KPMG is expected to provide a clean audit opinion on the DGBA's 2022 audited financial statements, pending board approval.

The DGBA reported a 2022 deficit of revenues over expenses of \$74.8 thousand compared to an excess of revenue over expenses of \$176 thousand in 2021. Overall revenue decreased by \$122 thousand from 2021 to 2022, largely driven by lower grants and sponsorships revenue (this line item increased by \$140 thousand from 2020 to 2021 mainly due to a grant received from the Ministry of Tourism for the Illuminate Guelph Project) and lower revitalization funding from the City. Expenses increased by \$176 thousand, with the largest expense increases being salaries and benefits and special events. Amortization of the capital lease associated with the grant funding received in 2021 continued as the cost is spread over five years, while the grant funding was fully recognized as revenue in 2021. Net assessment write-offs decreased from \$60 thousand in 2021 to \$12 thousand in 2022.

Wellington-Dufferin-Guelph Public Health (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 2022 percentage was unchanged from 2021 at 46.3 per cent, based on the 2016 population census. Starting in 2023, the percentage will be updated to reflect the 2021 census. Public Health's financial statements are audited by KPMG, and the auditors provided a clean audit opinion on its 2022 statements.

In 2022, Public Health reported an excess of revenues over expenses of \$1.8 million (2021 - \$1.3 million) and an increase in the accumulated surplus from \$19.9 million in 2021 to \$21.7 million as at December 31, 2022. One-time extraordinary

funding received from the province to support Public Health's response to the COVID pandemic declined by \$7.0 in 2022 compared with the previous year, in line with the decrease of \$6.8 million in expenses, as the response to the COVID pandemic eased significantly compared with 2021. Public Health also had \$3.8 million in reserves at the 2022 year-end (2021 - \$2.6 million).

The City has a loan receivable from Public Health of \$945 thousand (2021 - \$1.5 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 Limited (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 14, 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 [2023-157 - 2022 Year-end Operating Budget Monitoring and Surplus Allocation 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 [2023-157 - 2022 Year-end Operating Budget Monitoring and Surplus Allocation 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 audit opinion on the 2022 Consolidated Financial Statements will assist the City in maintaining its AAA credit rating, which has the potential to lower 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 meets service levels and infrastructure standards without resorting to excessive tax or rate increases or disruptive cuts to service.

Consultations

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

Attachments

Attachment-1 Consolidated Financial Statements and Treasurer's Report for the Year Ended December 31, 2022

Attachment-2 The Elliott Community 2022 Audited Financial Statements

Attachment-3 Draft- Downtown Guelph Business Association 2022 Audited Financial Statements

Attachment-4 Wellington-Dufferin-Guelph Public Health 2022 Audited Financial Statements

Attachment-5 City of Guelph 2022 External Audit Findings Report

Attachment-6 Staff Presentation

Departmental Approval

None.

Report Author

Shanna O'Dwyer, Manager, Financial Strategy and Long-Term Planning

This report was approved by:

Tara Baker

General Manager, Finance/City Treasurer

Corporate Services

519-822-1260 extension 2084

tara.baker@guelph.ca

This report was recommended by:

Trevor Lee

Deputy Chief Administrative Officer

Corporate Services

519-822-1260 extension 2281

trevor.lee@guelph.ca