

Staff Report



To	City Council
Service Area	Corporate Services
Date	Tuesday, June 25, 2024
Subject	2023 Consolidated Financial Statements and External Audit Findings Report

Recommendation

1. That the City of Guelph 2023 Consolidated Financial Statements and External Audit Findings Report, dated June 25, 2024, be approved.
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Executive Summary

Purpose of Report

To present and provide an overview of the City's 2023 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 2023 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, 2023 ("Treasurer's Report"), found in Attachment-1.

The overarching theme of the City's 2023 financial statements is a continued strong and stable financial position for the City. This includes the conversion of financial assets into tangible capital assets, resulting in the stabilization of the declining asset consumption ratio trend and a levelling out of the increasing net financial assets trend of the past several years, where assets were aging faster than our renewal efforts. The City continues to have excellent liquidity with a strong cash position, and the ratio of cash and investments to reserves and reserve funds remains in excess of the target of one to one. The City's investments in Guelph Municipal Holdings Inc.(GMHI) and Guelph Junction Railway Limited (GJR) both increased with strong financial results for 2023 in both companies. An increase in liabilities mainly resulted from an increase in contributions to obligatory reserve funds (deferred revenue contributions), which exceeded withdrawals from those reserve funds.

The City also implemented two significant new accounting standards in 2023: PS 3450 – Financial Instruments and PS 3280 - Asset Retirement Obligations ("ARO"). The 2022 comparative figures were adjusted in accordance with the retrospective application of the ARO standard. Implementing this standard was a significant body

of work with participation required across the organization. While no financial statement adjustments were required from implementing the Financial Instruments standard, this too required significant analysis and documentation. New note disclosures are included in the financial statements for both standards.

Both revenues and expenses increased in 2023 in comparison with 2022, and a detailed analysis is included in the Treasurer's Report.

Strategic Plan Alignment

Maintaining the City's healthy financial position is an objective of the Foundations theme. Reporting on the audited financial statements of the City provides continued transparency and understandability of City finances.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

Financial Implications

An unqualified audit opinion on the 2023 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 other levels of government and philanthropic 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 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 2023 with an increase of \$1.5 million in net financial assets and the City's reserves and reserve funds grew by \$31.5 million. The increase in net financial assets continued a multi-year trend of increasing net assets, but at a slower pace than in previous years.

Expenses have increased by \$30.6 million compared with 2022 and tangible capital asset acquisitions have increased by \$18.5 million compared with 2022. There are three main drivers of these increases: inflationary pressures, large construction projects in progress, and the implementation of the capital resourcing strategy as

described in [Report 2021-39 – Capital Program Resourcing Strategy](#), enabling city staff to increase execution of Council approved capital projects.

2023 was a record year for capital spending and progress is being made on the capital backlog. Although capital spending was high in 2023, 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 high interest rate environment in 2023 which bolstered the year-end balances in reserve funds.

The City made principal payments on existing outstanding debt of \$12.3 million in 2023 and received the first installment payment of an interest free loan from the Federation of Canadian Municipalities (FCM) for the Guelph Greener Homes program (\$2.5 million). Given the high interest rate environment, no new debt was issued for capital projects in 2023. Instead, the City's reserve position enabled temporary internal financing for approved project expenditures planned to be debt financed, but for which debt has not yet been issued.

The deferred contributions liability increased by \$35.5 million in 2023. The main driver of this increase is the \$46.0 million in development charge inflows, consisting of development charge collections, contributions from tax and rate supported reserve funds for development charge exemptions and discounts, and interest earned on the reserve fund balances. Inflows were offset by \$19.8 million in corresponding outflows to fund capital projects and to pay interest on development charge supported debt. Grants and other contributions account for the remaining increase.

The City's employee future benefits liabilities continued to increase, with an expense of \$5.5 million recorded in 2023 for future Workplace Safety Insurance Board (WSIB) costs associated with current claims and the future costs of providing sick leave benefits for emergency services workers and medical and dental benefits for retired employees and those on long-term disability for greater than 24 months.

The asset retirement obligations (ARO) standard has been adopted by the City effective Jan 1, 2023. The City used the modified retrospective method of adoption which means the previously listed landfill post-closure liability is now included in the ARO liability and the 2022 comparative financial statements have been restated to reflect the ARO standard as if it had been in effect on January 1, 2022. Recognition of an asset retirement obligation is required when there is a legal requirement for the City to incur retirement costs for a tangible capital asset and a reasonable estimate of the retirement cost can be made. Further information on the standard can be found in notes 1, 2(a), and 15 of the financial statements.

The City's ARO include landfill post-closure costs, estimated costs related to removing asbestos in City owned facilities, and costs of decommissioning wells and fuel tanks. For 2023, an ARO liability of \$10.2 million was reported, an increase of \$2.6 million compared to 2022. The primary driver of the increase is related to a revised assumption in 2023 of the term over which landfill post-closure costs are expected to be incurred, from 35 to 50 years. This assumption was updated based on consultation with the City's environmental engineering division as part of the implementation of the ARO standard.

On the Statement of Operations, the City's revenue increased by \$37.3 million (6.7 per cent) over 2022. The largest revenue increases for 2023 are in property taxation (\$14.8 million), user fee revenues (\$9.8 million) and province of Ontario contribution revenue (\$7.2 million). Further discussion and analysis is included in the Treasurer's Report.

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 2023 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 2023 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 2023 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 due to elements of control the City maintains over The Elliott. The Elliott's financial statements are audited by KPMG and have a year-end date of December 31, 2023. KPMG provided a clean audit opinion on The Elliott's 2023 Financial Statements.

During 2023, The Elliott generated a \$167 thousand (2022 - \$1.2 million) surplus, reducing the net deficit to \$2.1 million (2022 - \$2.3 million). The reduction in annual surplus can be attributed to a reduction in COVID-19 one-time and fundraising revenues and increased wages and salaries, supplies and purchased services in order to meet legislated care requirements.

Operating revenue increased by \$1.3 million (2022 - \$1.7 million) in 2023, mostly related to increased provincial subsidies, suite re-leasing revenue and other revenue.

The City has a mortgage loan receivable from The Elliott of \$11.9 million (2023 - \$12.6 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 (2022 - \$0) of the operating line was drawn upon and \$1.4 million (2022 - \$1.6 million) of the lease line of credit was outstanding as at December 31, 2023 year end.

The Elliott analyzed the impact of the Asset Retirement Obligations accounting standard and concluded that the adoption of the standard did not impact the organization's financial statements. The Elliott also disclosed the agreement with the Ministry of Long-Term Care for the 29 Long-Term Care bed expansion project and the revolving credit facility agreement signed between the City and The Elliott subsequent to year-end in a new note to the financial statements.

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. KPMG provided a clean audit opinion on the DGBA's 2023 Financial Statements.

The DGBA reported a 2023 excess of revenues over expenses of \$648 thousand compared to a deficit of revenues over expenses of \$74.8 thousand in 2022. The main driver of the large surplus in 2023 is a large grant received in the fiscal year for lighting fixtures. Overall revenue increased by \$461 thousand compared to 2022. Expenses decreased by \$254 thousand, with the driver being a \$233 thousand decrease in salaries and benefits. The significant decrease in salaries and benefits in 2023 is due to a restructuring of the staffing model within the DGBA that will continue into 2024.

The DGBA implemented the Asset Retirement Obligations standard on a prospective basis and recognized a liability and corresponding asset of \$89 thousand as of December 31, 2023 for the present value of the estimated cost of removing lights owned by the DGBA in the downtown area that will require eventual removal.

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 2023 percentage is 46.7 which increased from 2022 of 46.3 per cent, based on the 2021 population census. Public Health's financial statements are audited by KPMG, and the auditors provided a clean audit opinion on its 2023 statements.

Public Health reported an excess of revenues over expenses of \$1.1 million (2022 - \$1.8 million) and an increase in the accumulated surplus from \$21.7 million in 2022 to \$22.8 million as at December 31, 2023. Revenues decreased by \$3.5 million compared to 2022 with the driver being a reduction in one-time funding from the Ministry of Health. Expenses decreased by \$2.8 million compared to 2022 with the majority of the decrease being in salaries and benefits. This correlates with the reduction of one-time provincial grant funding received in 2023. Public Health also had \$4.6 million in reserves at the 2023 year-end (2022 - \$3.8 million).

The City has a loan receivable from Public Health of \$383 thousand (2022 - \$945 thousand) 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.

Public Health analyzed the impact of the Asset Retirement Obligations accounting standard and concluded that no significant changes were required as a result of implementing the new standard.

Guelph Municipal Holdings Inc. and Guelph Junction Railway Limited

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 25, 2024.

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 [2024-215 – 2023 Year-end Operating Budget Monitoring and Surplus Allocation and Deficit Funding 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 [2024-215 – 2023 Year-end Operating Budget Monitoring and Surplus Allocation and Deficit Funding 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.
- The PS 3450 – Financial Instruments and PS 3280 – Asset Retirement Obligations accounting standards were appropriately analyzed and adopted as required.
- No significant control deficiencies in internal control over financial reporting were identified.
- No audit differences were identified by KPMG.

Financial Implications

An unqualified audit opinion on the 2023 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 other levels of government and philanthropic 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 and Engagement

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, 2023

Attachment-2 The Elliott Community 2023 Audited Financial Statements

Attachment-3 Downtown Guelph Business Association 2023 Audited Financial Statements

Attachment-4 Wellington-Dufferin-Guelph Public Health 2023 Audited Financial Statements

Attachment-5 City of Guelph 2023 External Audit Findings Report

Attachment-6 Staff Presentation

Departmental Approval

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