

## MANAGEMENT REPORT

**Date:** November 25, 2024  
**To:** Mayor and Members of Council  
**From:** Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer  
**Report Number:** COU24-142  
**Attachments:** Draft 2022 Audited Financial Statements

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**Title:** Draft 2022 Audited Financial Statements

**Objective:** To provide background information and an overview of material highlights in the Draft 2022 Audited Financial Statements and to obtain approval of the Draft 2022 Audited Financial Statements.

**Background:** Audited financial statements provide a consolidated and independently verified overview of a municipality's financial activities over the course of the previous fiscal year and its financial position at the end of that year. The intent is enhanced transparency and public accountability of local government financial affairs.

Financial statements must be prepared annually by the City's Treasurer in accordance with Public Sector Accounting Board (PSAB) standards as defined by Chartered Professional Accountants of Canada (CPA Canada) and must be independently audited by a qualified and authorized auditor in Ontario. The auditor reports directly to the local council and provides an audit opinion on the statements.

Section 224 (e) of the Municipal Act, 2001 states that it is the role of Council to maintain the financial integrity of the municipality. This function is fulfilled through various activities, including policy setting, budget approvals, review of regular variance reports (currently provided quarterly to the Finance and Labour Relations Sub-committee) to name a few. Another of these is approval of the audited financial statements.

Once completed, the audited financial statements must be available for public inspection and a copy of the statements must be provided to various funding agencies upon request. The financial statements are also used as the basis for completing the Financial Information Return (FIR) that is used by the Ministry of Municipal Affairs and Housing for further analysis, and to assess the Municipality's financial health in relation to other municipalities and determine eligibility for various funding streams.

**Analysis:** Due to many variables, the 2022 financial statements were significantly delayed in being completed. New staff worked with the auditing firm, which provided much appreciated guidance and support, as the Finance Division worked towards stability.

Generally, the financial statements consolidate the activities of the City's general operations, with those of our wholly and partially owned government business enterprises and partnerships, including Festival Hydro Inc, Festival Hydro Services Inc, Huron Perth Public Health, Spruce Lodge and SEEDCo.

While staff report regularly to the Finance and Labour Relations Sub-committee on the general operations and significant risk factors and variances, this is done for the general operations only. The typical reports include reporting on the cash activities, but do not include adjustments to the budgets and actuals to reflect Public Sector Accounting Board (PSAB) guidelines, which are necessary adjustments for the audited statements and other reporting the City is required to complete.

The result of converting the day-to-day financial reporting from a cash basis to a fully consolidated, PSAB adjusted basis is often a very different 'bottom line'. Cash surpluses reported are often rolled up and adjusted such that assessing the overall financial health of the City is done using very different figures than used by staff and Council. Both are valid methods; however, the full-accrual approach does include specific adjustments for items like how capital and reserve transactions are recorded. Because the cash method is more relatable for residents, this is the day-to-day approach taken by the City for internal reporting.

The adjusted statements are not really used internally as the City relies on the modified presentation of the budgets and variance analysis to make decisions requiring cash. The statements can, however, be useful for external parties to compare the City to other similar entities using the same accounting principles. It should be noted that there are still a few policy choices that can affect comparability, including things like asset useful lives, as an example.

Regardless of adjustments for PSAB, the regular reporting the City uses is reflective of the general requirement for and use of cash and presents a valid picture at the December 31, 2022 date.

## **Highlights from the Draft 2022 Audited Financial Statements**

### Statement of Financial Position

Cash and Cash equivalents decreased from \$43 million to \$39 million due to a decrease in general and reserve balances between cash and investments and increased investment in Tangible Capital Assets. Trade and other receivables show an increase of approximately \$8 million, which is mainly due to the timing of grant revenues received for capital projects.

The remainder of the \$10 million change is due to investment in Festival Hydro amounts required to be reported as revenues, along with some smaller shifts in other receivables.

Payables and other liabilities increased by approximately \$5 million, between deferred revenues (attributed to provincial grants) and general trade payables due to timing differences at year-end. Long-term debt balances decreased only slightly due to borrowing occurring in the year.

Amounts invested in Tangible Capital Assets increased by \$25 million due to infrastructure investment, the largest of which was the Queen St storm project.

### Income Statement

Total Revenues increased by \$10 million over the previous year. \$5 million was from increases in taxation revenues, mainly in the residential and commercial classifications and as a result in increased assessment from growth. The investment the City holds in Festival Hydro accounted for 4 million of the change. There was a shift between other revenue lines to account for the differences.

Total expenses increased compared to the prior year by approximately \$13 million. The largest component of this variance to Council-approved budget is related to the adjustments required to comply with PSAB, for things like debt repayment, transfers to and from reserve funds and amortization expense but there was also increased operating expenses in all departments.

### Accumulated Surplus

Both the budgeted annual surplus and the actual figures have been adjusted for PSAB. As mentioned earlier, the City (like many municipalities) prepares its budget on a modified accrual basis. This means that most items are budgeted based on cash outlay including debt repayments and transfers to the capital reserve funds. The budget also does not include non-cash expenses like amortization, and therefore adjustments are required to ensure the financial reporting is consistent with PSAB guidelines.

Accumulated surplus consists of the historical values of tangible capital assets, is reduced by corporate liabilities to reserves and reserve funds and amounts to be recovered. This is not to be confused with cash operating surplus, that is reported to Council through management reports. In 2022, the cash surplus of \$1,169,805 (2021-\$3,076,500) was transferred to the Tax Stabilization Reserve.

### Statement of Cash Flow

This schedule breaks down the sources of cash and the use of cash as compared to the prior year. As indicated, the main reason for the change is due to timing differences between receipt of cash and expending of cash and often fluctuates year-over-year.

## Notes to the Financial Statements

Notes and qualitative context are just as important as the financial data to interpret financial statements. Working with the auditors, staff continue to improve the qualitative descriptions and provide disclosures that are above those required by PSAB standards. Better disclosures of commitments and multi-year contracts is one example.

## Automating the Financial Statement Process

Prior to 2021, most of the City's working papers and those of the auditors were paper-based and the systems used by both entities not well-interfaced. This resulted in inefficient preparation for the audit by the City, and suboptimal audit processes by the auditor. Considerable time has been spent by both parties to ensure that fulsome working papers are prepared by staff and that mapping and grouping of accounts is done consistently at both ends. This is expected to considerably improve the efficiency of the audit process and allow for future audits to be completed much quicker.

## Overall conclusion on 2022

Despite the lingering effects of the Covid-19 pandemic, the overall financial health of the Corporation remained good when assessing by common accounting metrics. Long-term financing strategies for the asset management plan and how the City uses long-term debt to address these remain significant considerations looking to the future. Decisions around current and future service levels and their lifecycle costs will continue to require scrutiny.

With respect to the 2023 year-end financial statements, staff are already working with the auditor to have completed as soon as possible, aiming for first quarter of 2025. 2024 will also be a priority to ensure the City returns to having the statements prepared in the first half of the subsequent year.

## **Next Steps**

Once the 2022 audited financial statements are approved and prepared in final format, these will be signed and provided to the ministries and financial institutions that require them and published to the City's website.

Staff will finalize the 2022 Financial Information Return (FIR) for submission to the Ministry of Municipal Affairs and Housing and expect this to be submitted before the end of 2024.

The City has cash-flowed some capital works that will be funded via bank loans. Drawing these loans is dependent upon having reasonably current financial statements for the bank. Funding these projects to replenish cash for other purposes will occur in the 2025. This process does not impact the 2022 audited financial information but will affect subsequent statements of cash flow and reserve fund balances.

## **Financial Implications:**

### **Financial impact to current year operating budget:**

The 2022 audited financial statements have little bearing on the 2024 operating cash budget. The cash basis surplus that was previously communicated of \$1,169,805 from the 2022 year-end is reflected in the Tax Stabilization Reserve and has since been utilized in developing the 2024 draft budget.

### **Financial impact on future year operating budget:**

The budgets are prepared with the expectation that surpluses or deficits will not occur. Sometimes they do but given the reliance on this reserve in the draft 2024 budget process, this is not expected to be an option in future years to the same extent.

### **Link to asset management plan and strategy:**

There is an indirect connection between the audited financial statements and the asset management plan. One of the more significant PSAB adjustments relates to the treatment of the City's regular 'Transfers to Reserves' for Capital purposes, and the non-cash adjustments to budget for amortization and other non-cash expenses. Asset acquisitions and disposals overlap, but the financial statements take a historical cost approach, while the asset management activities look to future cost replacements.

## **Alignment with Strategic Priorities:**

### **Intentionally Change to Support the Future**

This report aligns with this priority as the City improves its financial reporting and improves efficiencies of reporting.

## **Alignment with One Planet Principles:**

**Not applicable:** This report is a financial administrative report and does not align with One Planet Principles.

**Staff Recommendation: THAT the report titled, "Draft 2022 Audited Financial Statements" (COU24-142), dated November 25, 2024, be received for information;**

**AND THAT Council approve the Draft 2022 Audited Financial Statements to be finalized, including any minor changes if required.**

**Prepared by:** Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer

**Recommended by:** Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer  
Joan Thomson, Chief Administrative Officer