



To: SPECIAL COUNCIL
Meeting Date: 5/31/2022
Subject: 2021 Financial Report
Submitted By: Sheryl Ayres, Chief Financial Officer
Prepared By: Mirna Raponi, Supervisor of Accounting and Financial Reporting
Report No.: 22-005-CRS
File No.: C1101
Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 22-005(CRS) 2021 Financial Report be received;

AND THAT the audited consolidated financial statements for the Corporation of the City of Cambridge be approved for the year ended December 31, 2021.

EXECUTIVE SUMMARY:

Purpose

- Consolidated audited financial statements are required under sections 294.1 and 296(1) of the *Municipal Act, 2001*. The statements are the responsibility of management and prepared by staff. The 2021 audited consolidated financial statements for the Corporation of the City of Cambridge is attached for approval.

Key Findings

- KPMG LLP, the City's appointed external auditors, have audited the consolidated financial statements. Staff are pleased to report that the City has received an unqualified audit opinion, meaning that in the auditor's opinion the statements are fairly and appropriately presented in accordance with Public Sector Accounting Board (PSAB) standards.
- A representative of KPMG will present their audit findings, attached as Appendix B, and will be available to answer any questions that members of Council may have related to the audit.
- For the sixth year in a row, the Government Finance Officers Association of the United States and Canada (GFOA) honoured the City of Cambridge with a

Canadian Award for Financial Reporting (CAnFR) for the City's Annual Report (2020). City staff are currently finalizing the 2021 Annual Report. The City has shown its ability to continue to be awarded the CAnFR from the (GFOA), which exemplifies transparency, accountability, and reporting excellence.

Financial Implications

- The consolidated financial statements indicate that the City is fiscally strong as of December 31, 2021, with net financial worth of \$810.2 million (2020 – \$774.9 million). As at December 31, 2021, total financial assets were \$346.9 million (2020 – \$310.0 million), total liabilities were \$245.1 million (2020 – \$199.0 million) and non-financial assets were \$708.4 million (2020 – \$663.9 million).

STRATEGIC ALIGNMENT:

- Strategic Action; or
- Core Service

Objective(s): Not Applicable

Strategic Action: Not Applicable

Program: Finance

Core Service: Financial Accounting and Reporting

The audited financial statements of the Corporation of the City of Cambridge transparently disseminate information to the public about the financial affairs of the City of Cambridge for the year 2021.

BACKGROUND:

Consolidated Audited Financial Statements

The City is required to prepare annual audited financial statements under sections 294.1 and 296(1) of the *Municipal Act, 2001*. Statements must be prepared in accordance with generally accepted accounting principles as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Annual Report

City staff are currently finalizing the 2021 Annual Report. The Annual Report provides further analysis of the City's financial performance in 2021 and includes the consolidated audited financial statements, a message from the CFO, financial statement discussion and analysis, and ratio analysis.

For the sixth year in a row, the GFOA honoured the City of Cambridge with a CAnFR for the City's Annual Report (2020). The CAnFR program was established in 1986. The program encourages and assists Canadian local governments to go beyond the minimum requirements and prepare Annual Reports that model transparency and full disclosure. The CAnFR recognizes excellence in government accounting and financial reporting and represents a significant accomplishment by a municipal government and its management.

The City of Cambridge is continuing this standard of high quality reporting and is working towards submitting for the 2021 Annual Report. The City has shown its ability to continue to be awarded the CAnFR from the GFOA, which exemplifies transparency, accountability, and reporting excellence.

ANALYSIS:

Year End Audit

The auditors have full and free access to management and Council and their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards. The auditors perform tests and other procedures as they consider necessary to obtain reasonable assurance that the consolidated financial statements are free of material misstatements and present fairly the financial position and results of operations of the City in accordance with Canadian public sector accounting standards.

Management Involvement

The consolidated financial statements are reviewed and approved by management prior to their submission to Council. Management meets periodically with the external auditor to approve the scope and timing of their respective audits, to review their findings, and to satisfy itself that their responsibilities have been properly discharged.

Financial Statements

There are four required Financial Statements: Statement of Financial Position, Statement of Operations and Accumulated Surplus, Statement of Change in Net Financial Assets and Statement of Cash Flows. These Financial Statements provide information on the cost of all City activities, how they were financed, investing activities,

as well as the assets and liabilities of the City. Below is a summary of the purpose of each statement:

Statement of Financial Position: Reports the resources, obligations, and ownership details as at a specific day. This statement includes the assets, liabilities, and accumulated surplus.

Statement of Operations: For a reporting period, reports the revenues/gains, expenses/losses, and net income and results.

Statement of Change in Net Financial Assets: For a reporting period, this statement explains the difference between annual surplus and the change in net financial assets; reports spending to acquire non-financial assets; and reports disposal or use of non-financial assets.

Statement of Cash Flow: For a reporting period, this statement reports the City's major sources and uses of cash by identifying where cash came from and shows where cash was used.

Basis of Consolidated Statements

The consolidated financial statements reflect the financial assets, liabilities, operating revenues and expenses, reserve funds and reserves, changes in investment in tangible capital assets and cash flows and include the activities of all governmental functions controlled and exercised by the City. The consolidated statements include the following boards which are under the control of Council:

- The Cambridge Public Library Board
- Preston Towne Centre Business Improvement Area
- Downtown Cambridge Business Improvement Area
- Hespeler Village Business Improvement Area

The Cambridge and North Dumfries Energy Plus Inc. (now GrandBridge Energy Inc.) and its affiliates are not consolidated, but are accounted for on the modified equity basis, which reflects the City's investment in the enterprise and its share of net income or loss less dividends received since acquisition.

Financial Statements vs. Budget

The Audited Financial Statements are prepared to meet the requirements of PSAB. In comparison, the Budget is prepared to meet the requirements of the *Municipal Act, 2001*, and its related regulations. Both begin on the same basic framework of accrual-based accounting, but then there are exceptions in treatment of specific items. Please see below of a summary between the consolidated financial statements and the budget:

| | | Financial Statements | Budget |
|---------------------------|--|---|---|
| Required Framework | | Canadian Public Sector Accounting Standards. | <i>Municipal Act, 2001.</i> |
| Differences | Transfers to/from Reserve and Reserve Funds | Netted out. | Included. |
| | Long-term Debt | Interest payments are recorded as an expense. | Interest & principal payments recorded as an expense. |
| | Energy Plus | The City's portion of Energy Plus' income is recorded. | The dividend collected is recorded as revenue. |
| | Tangible Capital Assets - Repairs and Maintenance | Recorded as an expense. | Excluded from operating budget, part of capital budget. |
| | Depreciation | Recorded as an expense. | Excluded , but the transfer to the capital budget is included as an expense. |
| | Post-Employment Benefits | Annual change in actuarial estimate is recorded as an expense. | Excluded. |

Financial Highlights

The consolidated financial statements indicate that the City is fiscally strong as of December 31, 2021, with net financial worth of \$810.2 million. As at December 31, 2021, total financial assets were \$346.9 million, total liabilities were \$245.1 million and non-financial assets were \$708.4 million.

In comparison, as at December 31, 2020, accumulated surplus was \$744.9, total financial assets were \$310.0 million, total liabilities were \$199.0 million, and non-financial assets were \$663.9 million.

Financial Assets:

In 2021 the City's financial assets totalled \$346.9 million, an increase of \$36.9 million from the prior year. This was due to an increase in investments by \$72.1 million and trade and other receivables by \$7.7 million. These increases were offset by cash and cash equivalents decreasing by \$40.5 million, taxes and grants in lieu decreasing by \$2.1 million, and land held for resale decreasing by \$0.4 million.

The increase in investments by \$72.1 million offset by a reduction in cash balance by \$40.5 million is reflective of the City investing more of its cash holdings in 2021 compared to 2020 following further interest rate cuts on the City's cash holdings in 2021 as well as the Bank of Canada's overnight interest rate remaining low at 0.25% since March 27, 2020 and into the full year in 2021. This ultimately increased the need to invest more into investments with higher interest rates compared to the lower interest rates on cash held at the bank.

Liabilities:

In 2021, the city's liabilities totalled \$245.1 million, an increase of \$46.0 million from the prior year. The major contributors to the increase are an increase in deferred revenue - obligatory reserve funds, long-term debt, and accounts payable and accrued liabilities, as well as lesser increases in employee future benefits and deferred revenue. The increase in deferred revenue - obligatory reserve funds of \$18.2 million is due to an increase from 2020 of cash collected but not earned related to capital work activity completed and funded through development charges. The increase in long-term debt of \$13.1 million is due to the issuance of debentures in 2021. The increase in accounts payable and accrued liabilities of \$12.9 million is due to credit for service agreements (CFSA) which took place in 2021 totaling \$11.6 million. A CFSA represents an agreement with a developer to facilitate the construction of growth-related municipal infrastructure ahead of the City's capital program. Under these agreements, developers construct, or pay to have constructed, infrastructure that the City is unwilling or unable to fund within the time frame sought by a developer. The reimbursement to the

developer is provided by way of development charge credit and/or refund. Under these agreements, the developer pays for the upfront costs of the infrastructure ahead of the capital budget schedule and are provided credits and/or refunds for development charges. These credits will offset development charges owing at the time development charges are required to be paid which is subdivision registration and/or building permit issuance.

Non-Financial Assets:

In 2021 the city’s non-financial assets totalled \$708.4 million, an increase of \$44.4 million from the prior year. Non-financial assets primarily consist of tangible capital assets, which reflects the City’s investment into capital infrastructure and the value of new assets being added to the City’s inventory exceeding the annual amortization costs.

Below summarizes comparative information from the prior fiscal year:

| | 2021 | 2020 | Increase/ (Decrease) |
|----------------------------|----------------------|----------------------|-------------------------|
| Financial assets | \$346,870,834 | \$310,001,686 | \$36,869,148 |
| Liabilities | 245,063,463 | 199,021,067 | 46,042,396 |
| Net financial assets | 101,807,371 | 110,980,619 | (9,173,248) |
| Non-financial assets | 708,365,649 | 663,927,157 | 44,438,492 |
| Accumulated surplus | \$810,173,020 | \$774,907,776 | \$35,265,244 |

Reserve and Reserve Funds

Total revenues and other income for 2021 is \$217.7 million compared to total expenses of \$182.4 million resulting in annual surplus of \$35.3 million which is used to fund capital assets and contribute to reserves and reserve funds. Reserve and reserve funds balances increased from \$104.1 million in 2020 to \$116.8 million in 2021. The main sources of increases are as follows:

Capital: Capital reserve and reserve funds totalled \$47.5 million in 2021, an increase of \$11.7 million from 2020 of \$35.8 million. The majority of this increase is the result of funding transfers to capital reserves to support the current long-range financial plan and is based on lifecycle funding.

In addition, the increase in the capital reserve funds is also due to the 2020 year end surplus transferred to the water and wastewater capital reserve funds in 2021. Per Special Council Meeting on April 13, 2021 through motion 21-095, a portion of the water surplus was transferred to the Water Capital Reserve Fund

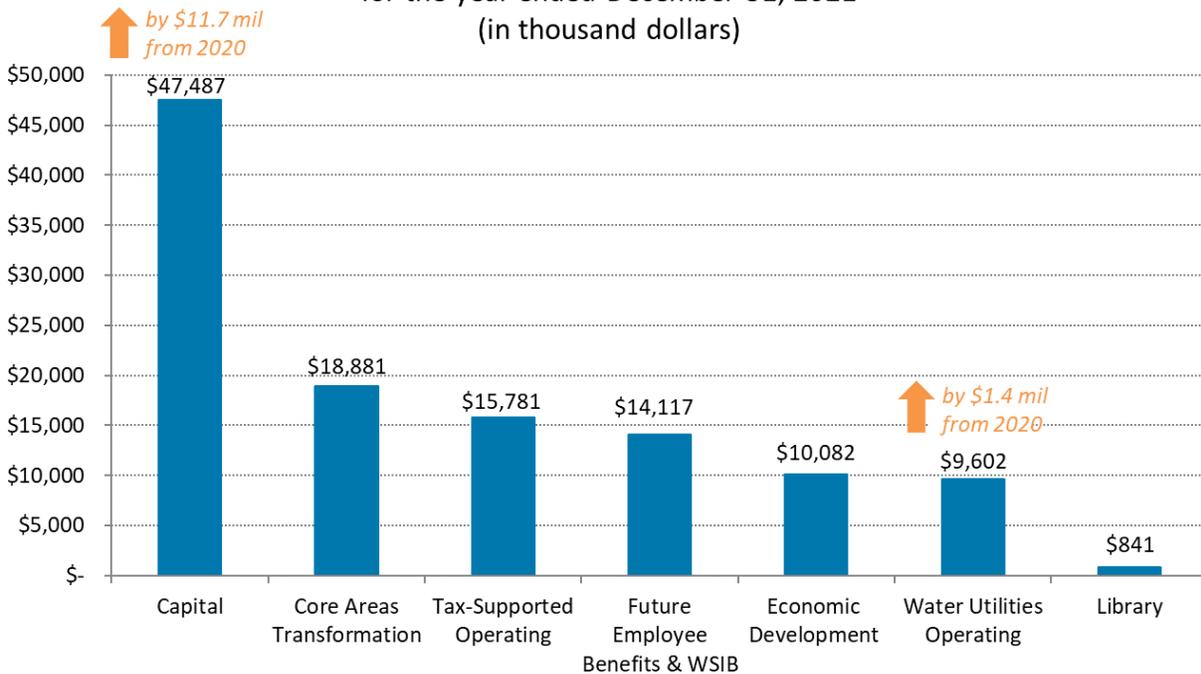
totalling \$0.4 million, and a portion of the wastewater surplus was transferred to the Wastewater Capital Reserve fund totalling \$2.0 million.

Water Utilities Operating: Water utilities operating reserve funds totalled \$9.6 million in 2021, an increase of \$1.4 million from 2020 of \$8.2 million. The increase is mainly due to the 2020 year end surplus transferred to the rate stabilization reserve funds in 2021. Per Special Council Meeting on April 13, 2021 through motion 21-095, a portion of the water surplus was transferred to the Water Rate Stabilization Reserve Fund totalling \$0.4 million, and a portion of the wastewater surplus was transferred to the Wastewater Rate Stabilization Reserve fund totalling \$0.9 million. The increase in the water utilities operating reserve funds is also due to the investment income earned in these reserve funds totalling \$0.1 million in 2021.

The graph below shows the reserve and reserve fund balances for the year ended December 31, 2021.

Reserve and Reserve Funds

for the year ended December 31, 2021
(in thousand dollars)



Revenues

Total revenue reported for the year 2021 was \$192.7 million, an increase of \$2.9 million from 2020 of \$189.8 million. Various increases and decreases in revenue offset each other in a year over year comparison. The main sources of increases are as follows:

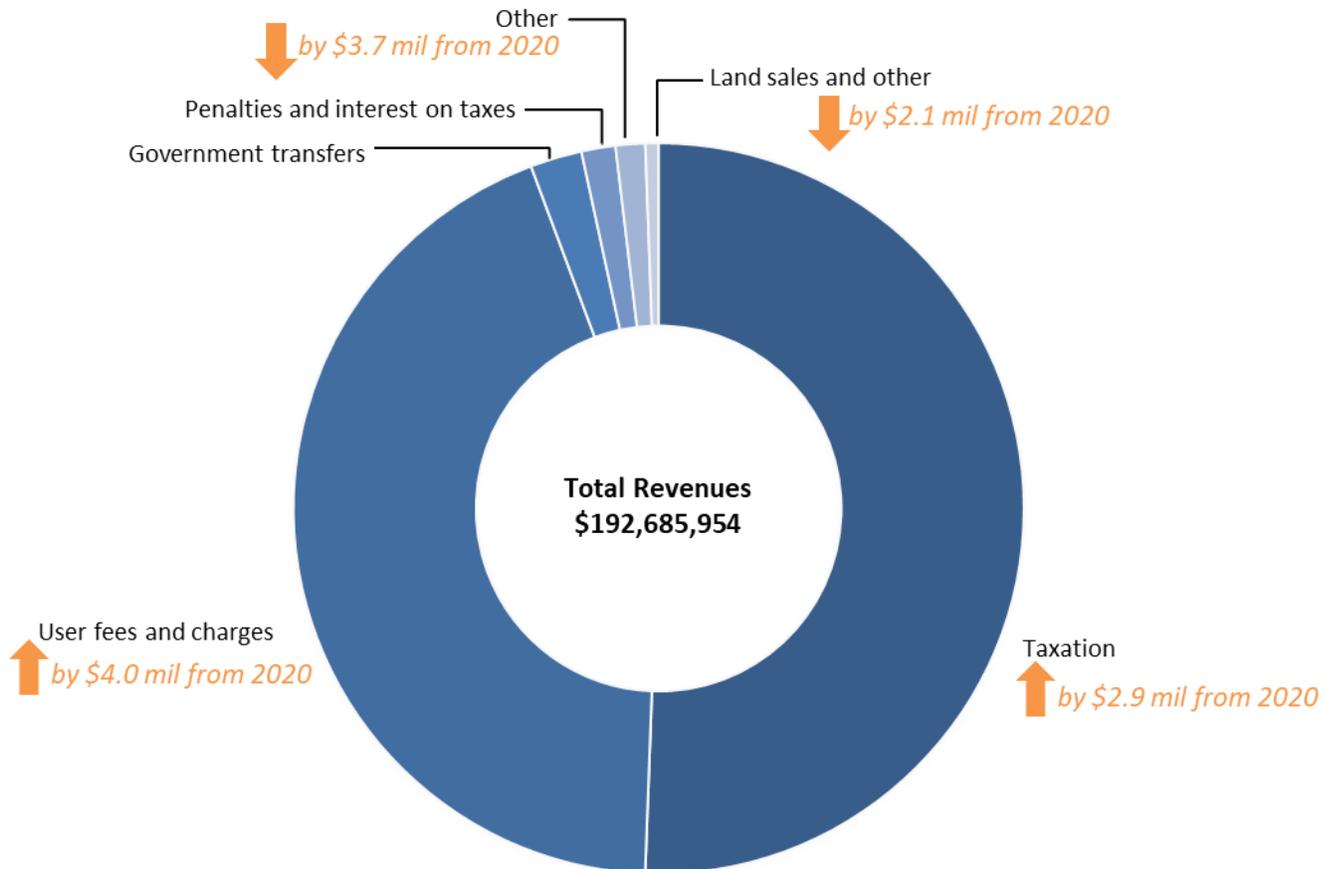
- **User fees and charges:** User fees and charges totalled \$84.3 million in 2021, an increase of \$3.4 million from 2020 of \$80.9 million. This was mainly due to the increase in building services permit revenue by \$1.0 million from 2020 to 2021. The number of building permits issued in 2021 were due to a significant increase in comparison to permits issued in 2020. The most significant increase in number of permits issued was in the construction of new townhouse units in 2021. Further, the increase in construction value in 2021 can be attributed to high value industrial, commercial and institutional construction projects. In addition, the increase in user fees and charges is due to water and wastewater billing of \$1.0 million and \$0.7 million respectively. Water and wastewater billing increased in 2021 over 2020 due to budget rate increases and new service installations.
- **Taxation:** Taxation revenue totalled \$97.5 million in 2021, an increase of \$2.9 million from 2020 of \$94.6 million. This was mainly due to the tax levy increase of \$1.9 million ratified by Council during the 2021 budget approval process based on projected operating requirements. In addition, the increase is also due to higher than budgeted supplemental taxes, payments in lieu of taxes, and penalties and interest on taxes, partially offset by higher tax write-offs and rebates, with a net impact of \$1.3 million.

The main source of decrease in total revenues relate to the following:

- **Land Sales and Other:** Land sales and other revenue totalled \$1.2 million in 2021, a decrease of \$2.1 million from 2020 of \$3.2 million. This was mainly due to reduced capital contributions from others. Most notably in 2020, a contribution was received towards a soccer facility for \$0.5 million, which was then subsequently returned in 2021. In addition, the decrease is also due to a reduction in revenue recognized for the library relating to deferred capital contributions.
- **Government Transfers:** Government transfers (federal and provincial) totalled \$4.4 million in 2021, a decrease of \$1.6 million from 2020 of \$6.0 million. This was mainly due to a reduced amount of funding received from the Safe Restart Agreement totalling \$2.5 in 2021 compared to \$4.4 million in 2020.

Revenues

For the year ended December 31, 2021



Expenses

Total expenses reported for the year was \$182.4 million, an increase of \$10.4 million from last year's amount of \$172.0 million. The main sources of increases are as follows:

- **General Government:** General government expenses totalled \$31.5 million in 2021, an increase by \$5.2 million compared to the 2020 amount of \$26.3 million. This was due to an increase in materials, rents and financial expenses, as well as salaries wages and employee benefits:

The increase in materials is primarily due to capital expenditures. The expenses relate to capital projects such as technology services architecture and process review, technology services budget and process review, rates and fees study, equipment growth and replacement studies.

The increase in rents and financial expenses is due to timing of developments and associated waived development charges.

The increase in salaries wages and employee benefits is due to health and dental expenses. In 2020, the city experienced significantly low health and dental expenses primarily due to the closures of health and dental facilities during the beginning of the pandemic in 2020, which resulted in staff not being able to use benefits. In 2021, the City experienced an increasing use of benefits throughout the year due to the lifted restrictions and such services deemed as essential.

- **Protection to Persons and Property:** Protection to persons and property expenses totalled \$33.4 million in 2021, an increase by \$2.3 million compared to the 2020 amount of \$31.1 million. This was due to an increase in contract services as well as salaries wages and employee benefits:

The increase in contracted services mainly comes from Building Services. In addition, the City experienced increased contracted services expenses due to the COVID-19 pandemic. Finally, the contracted services under By-Law Compliance increased due to motor patrol coverage expenses in 2021.

The increase in salaries wages and employee benefits is mainly due to Fire Suppression firefighters moving through the pay grid, as well as additional overtime expenses as a result of increase coverage required to maintain appropriate staffing levels. By-Law Compliance also experienced an increase in salaries wages and employee benefits due to previously contracted external security service brought in house in 2021.

Additionally, in 2021, Building Services increased salaries wages and employee benefits due to construction activity increasing significantly which required the need to hire additional positions to manage workload.

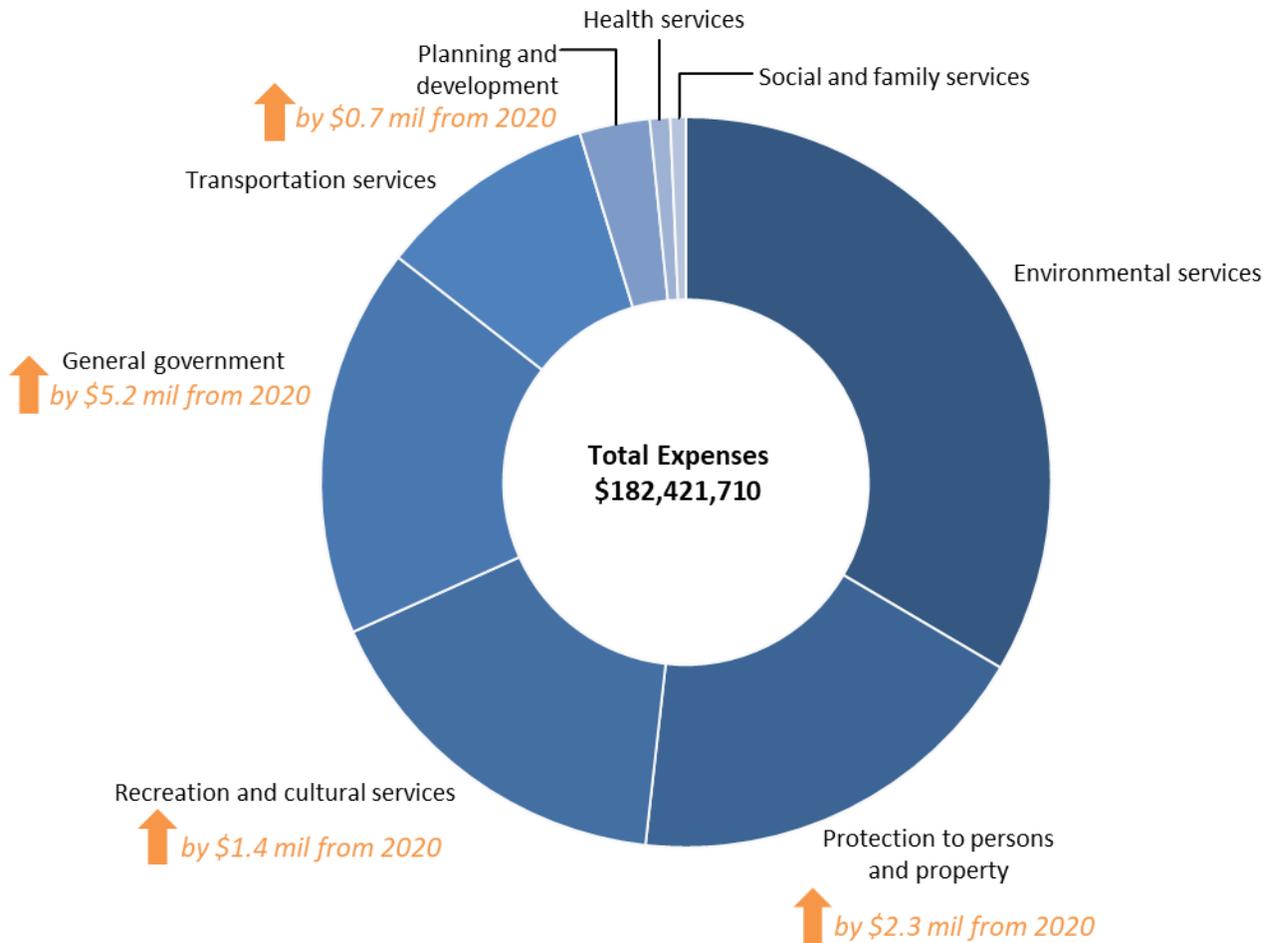
- **Recreation and Cultural Services:** Recreation and cultural services expenses totalled \$30.1 million in 2021, an increase by \$1.4 million compared to the 2020 amount of \$28.7 million. This was mainly due to salaries wages and employee benefits. The main driver of this is an increase in the number of staff allocated to the Recreation and Cultural Services area due to restructuring of divisions, as approved by council. Further increases were seen in part-time salaries and employee benefits, as more part-time staff hours were used to run recreation programming in 2021 as compared to 2020 which saw longer closures of

recreation facilities and a greater number of cancelled recreation programs in response to the COVID-19 pandemic.

- Planning and Development:** Planning and development expenses totalled \$5.7 million in 2021, an increase of \$0.7 million compared to the 2020 amount of \$5.0 million. This was mainly due to an increase in materials and specifically due to capital expenditures in 2021 totalling \$0.5 million in comparison to 2020 totalling \$0.08 million. The expenses relate to capital projects such as studies including the River Road neighbourhood plan and service study, assessing infilling & intensification, urban design guidelines preparation, and the development charges update & community benefits charges study.

Expenses

For the year ended December 31, 2021



EXISTING POLICY / BY-LAW(S):

As a municipality in the province of Ontario, the Corporation of the City of Cambridge complies with the requirements of the *Municipal Act, 2001*. Section 294.1 of the *Municipal Act, 2001* requires that for each fiscal year, the municipality prepare annual financial statements in accordance with generally accepted accounting principles as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. Section 296(1) requires that the municipality appoint an auditor who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements.

FINANCIAL IMPACT:

The Financial Statements are prepared in accordance with the Canadian public sector accounting standards published by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

There are four required Financial Statements: Statement of Financial Position, Statement of Operations and Accumulated Surplus, Statement of Change in Net Financial Assets and Statement of Cash Flows. These Financial Statements provide information on the cost of all City activities, how they were financed, investing activities, as well as the assets and liabilities of the City.

The Independent Auditor's Report which is included in the statements provides an unqualified "clean" opinion on the City's Consolidated Financial Statements for the year ended December 31, 2021.

Although it is a regulatory requirement to prepare annual Financial Statements, this requirement creates an increase in the credibility to the financial affairs of the City. In addition, the City is able to continue to be awarded the Canadian Award for Financial Reporting (CANFR) from the GFOA, which exemplifies transparency, accountability, and reporting excellence.

PUBLIC VALUE:

This report supports the financial sustainability of the City by ensuring appropriate oversight and governance towards the City's Consolidated Financial Statements. This report also provides transparency in the City's financial position and year end performance. Furthermore, this report ensures the City remains compliant with the requirements of section 294.1 and 296(1) of the *Municipal Act, 2001*.

ADVISORY COMMITTEE INPUT:

Not Applicable.

PUBLIC INPUT:

As per section 295(1) of the *Municipal Act, 2001*, the audited financial statements will be made available to the public.

INTERNAL / EXTERNAL CONSULTATION:

An audit involves performing procedures, as determined by the auditors, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes an evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The external auditors have full and free access to management and Council in order to complete their duties. As the preparers of the financial statements, staff in the Financial Services division of the City coordinates the audit, arranging meetings or obtaining evidence and documentation from departments throughout the City as determined necessary by the auditors.

CONCLUSION:

At the completion of the audit, the auditors provide an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position of the City at year-end and the results of its operations, net financial assets, and cash flows for the year. The opinion provided by the auditors as at December 31, 2021 and for the year ended thereof is an unqualified opinion, or in other words a clear opinion.

REPORT IMPACTS:

Agreement: **No**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

**This report has been reviewed by the Chief Financial Officer and City Solicitor.
It has been reviewed and approved by the Director, Deputy City Manager and City Manager.**

ATTACHMENTS:

When naming attachments please use the following format:

1. 22-005 Appendix A – Consolidated Financial Statements
2. 22-005 Appendix B – Audit Findings Report