



To: COUNCIL
Meeting Date: 5/30/2023
Subject: 2022 Financial Report
Submitted By: Sheryl Ayres, Chief Financial Officer
Prepared By: Mirna Raponi, Supervisor of Accounting and Financial Reporting
Report No.: 23-095-CRS
File No.: C11
Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 23-095-CRS 2022 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, 2022;

AND FURTHER THAT the Cambridge Public Library Board surplus in the amount of \$181,000 be transferred to the Library Rate Stabilization reserve (\$90,500) and to the Facility Capital - Library Reserve Fund (\$90,500), as recommended by the Cambridge Public Library Board.

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 2022 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 seventh 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 2021 Annual Report. City staff are currently finalizing the 2022 Annual Report and will be submitting it to GFOA for consideration of the award. The City has shown its ability to continue to be awarded the CAnFR from the GFOA, which exemplifies transparency, accountability, and reporting excellence.
- Management and board members of Idea Exchange has informed the City that the total annual surplus for the Cambridge Public Library Board was \$181,000 in 2022. The Library Board recommends that Council approve transferring the surplus to the Library Rate Stabilization reserve in the amount of \$90,500 and to the Facility Capital - Library Reserve Fund in the amount of \$90,500.

Financial Implications

- The consolidated financial statements indicate that the City is fiscally strong as of December 31, 2022, with net financial worth of \$896.0 million (2021 – \$810.2 million). As at December 31, 2022, total financial assets were \$424.7 million (2021 – \$346.9 million), total liabilities were \$285.9 million (2021 – \$245.1 million) and non-financial assets were \$757.2 million (2021 – \$708.4 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 2022.

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 2022 Annual Report. The Annual Report provides further analysis of the City's financial performance in 2022 and includes the consolidated audited financial statements, a message from the CFO, financial statement discussion and analysis, and ratio analysis.

For the seventh year in a row, the GFOA honoured the City of Cambridge with a CAnFR for the City's 2021 Annual Report. 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 2022 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 City owns 54.339% of its subsidiary, GrandBridge Corporation. GrandBridge Corporation is not consolidated, but is 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 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.	In some cases may be 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, 2022, with net financial worth of \$896.0 million. As at December 31, 2022, total financial assets were \$424.7 million, total liabilities were \$285.9 million and non-financial assets were \$757.2 million.

In comparison, as at December 31, 2021, net financial worth was \$810.2, total financial assets were \$346.9 million, total liabilities were \$245.1 million, and non-financial assets were \$708.4 million.

Financial Assets:

In 2022 the City's financial assets totalled \$424.7 million, an increase of \$77.8 million from the prior year. This was due to an increase in investments by \$70.7 million, cash and cash equivalents increasing by \$8.8 million, and taxes and grants in lieu increasing

by \$1.1 million. These increases were offset by trade and other receivables decreasing by \$2.8 million.

The increase in investments by \$70.7 million is mainly due to the merger of Energy Plus with Brantford Energy Corporation. The merger closed on May 2, 2022 and the City owns 54.339% of the merged entity, GrandBridge Corporation. Prior to the merger, at December 31, 2021, the City owned 92.1% of Energy Plus. As a result of the transaction, the City disposed a portion of their previously held investment in Energy Plus and accounts for a decrease in investment of \$93.1 million. To account for their new investment in GrandBridge Corporation, the City recorded the fair value of GrandBridge Corporation of \$131.3 million. The total net gain on the overall transaction was \$38.3 million, and is reflected on the Consolidated Statement of Operations and Accumulated Surplus.

In addition, the carrying value of marketable securities increased by \$28.4 million over the previous year, in addition to an increase in cash balance by \$8.8 million. This is reflective of overall increased carrying value of the reserve funds, with the largest increase in development charge reserve funds of \$21.5 million from the prior year due to timing of incoming development charge revenues compared to cashflow needs on capital projects. In addition, the City invested more of its cash holdings in 2022 compared to 2021 following improved interest rates as the Bank of Canada increased its key overnight interest rate throughout 2022.

Liabilities:

In 2022, the City's liabilities totalled \$285.9 million, an increase of \$40.8 million from the prior year. The major contributors are an increase in deferred revenue - obligatory reserve funds 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 \$26.9 million is due to an increase from 2021 of cash collected but not earned related to the timing of capital work activity completed and funded through development charges.

The increase in accounts payable and accrued liabilities of \$14.0 million is due to an increase in credit for service agreements (CFSA) by \$8.4 million totalling \$20.2 million in 2022. 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. These credits will offset development charges owing at the time development charges are required to be paid at subdivision registration and/or building permit

issuance. The remaining increase in accounts payable and accrued liabilities is due to timing of payments at year end.

Non-Financial Assets:

In 2022 the City’s non-financial assets totalled \$757.2 million, an increase of \$48.8 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:

	2022	2021	Increase/ (Decrease)
Financial assets	\$424,673,485	\$346,870,834	\$77,802,651
Liabilities	285,891,684	245,063,463	40,828,221
Net financial assets	138,781,801	101,807,371	36,974,430
Non-financial assets	757,192,055	708,365,649	48,826,406
Accumulated surplus	\$895,973,856	\$810,173,020	\$85,800,836

Reserve and Reserve Funds

Total revenues and other income for 2022 is \$293.8 million compared to total expenses of \$208.0 million resulting in annual surplus of \$85.8 million which is used to fund capital assets and contribute to reserves and reserve funds. Reserve and reserve funds balances increased from \$116.8 million in 2021 to \$124.0 million in 2022. The main sources of increases are as follows:

Capital: Capital reserve and reserve funds totalled \$55.4 million in 2022, an increase of \$7.9 million from 2021 of \$47.5 million. The majority of this increase is the result of funding transfers to the capital works reserve, wastewater capital, and water system capital reserves to support the current long-range financial plan and is based on lifecycle funding.

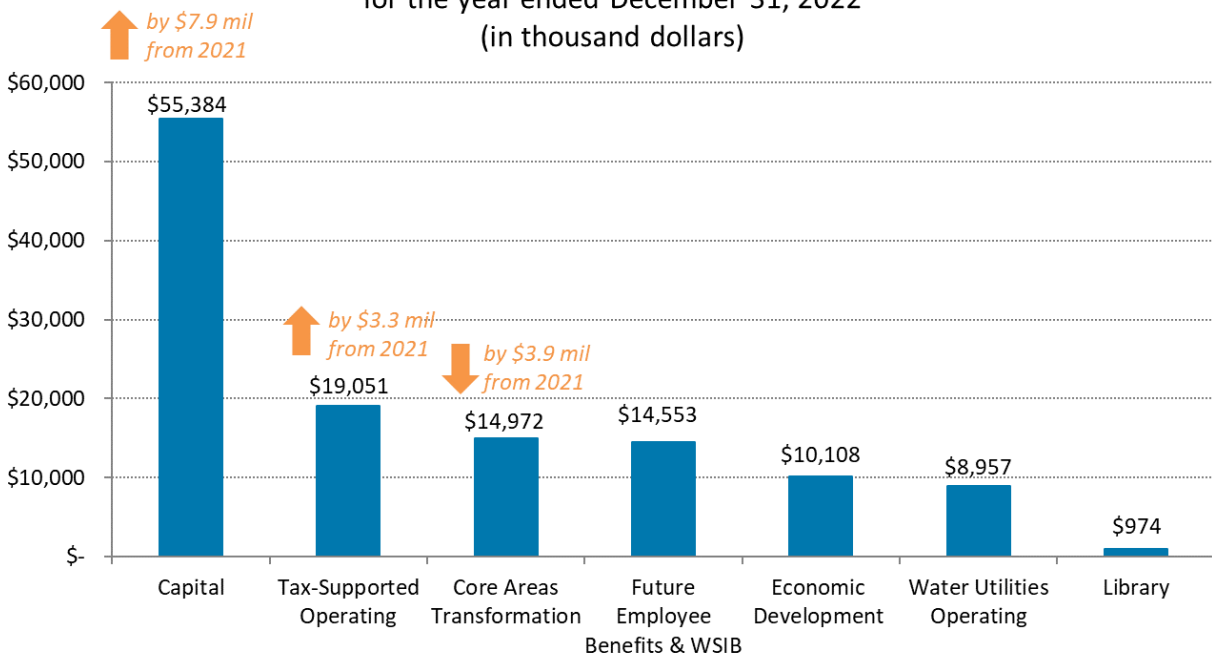
Tax-Supported Operating: Tax-supported operating reserve funds totalled \$19.1 million in 2022, an increase of \$3.3 million from 2021 of \$15.8 million. The increase is mainly due to the 2021 year end surplus transferred to the rate stabilization reserve funds in 2022. Per Special Council Meeting on April 19, 2022 through motion 22-118, a portion of the tax-supported operating surplus was transferred to the Rate Stabilization Reserve Fund totalling \$2.5 million, and to the Affordable Housing Reserve fund totalling \$0.8 million.

Core Areas Transformation: Core areas transformation reserve fund totalled \$15.0 million in 2022, a decrease of \$3.9 million from 2021 of \$18.9 million. The decrease is mainly due to contributions to capital projects such as land acquisitions for 8 Water Street South, 19 Cambridge Street and 637 King Street East as well as property acquisition for 91 Spring Street. In addition, over \$0.3 million in grant funding was provided in 2022 under the Core Areas Community Improvement Plan to leverage private investment in the core areas.

The graph below shows the reserve and reserve fund balances for the year ended December 31, 2022.

Reserve and Reserve Funds

for the year ended December 31, 2022
(in thousand dollars)



Library Accumulated Surplus and Reserves

Management and board members of Idea Exchange have informed the City that the total annual surplus for the Cambridge Public Library Board was \$181,000 in 2022. As a review of the Cambridge Public Library Board surplus subsequent to 2022 year-end, the Library Board recommends that Council approves a transfer of \$90,500 to the Library Rate Stabilization reserve and \$90,500 to the Facility Capital - Library Reserve Fund.

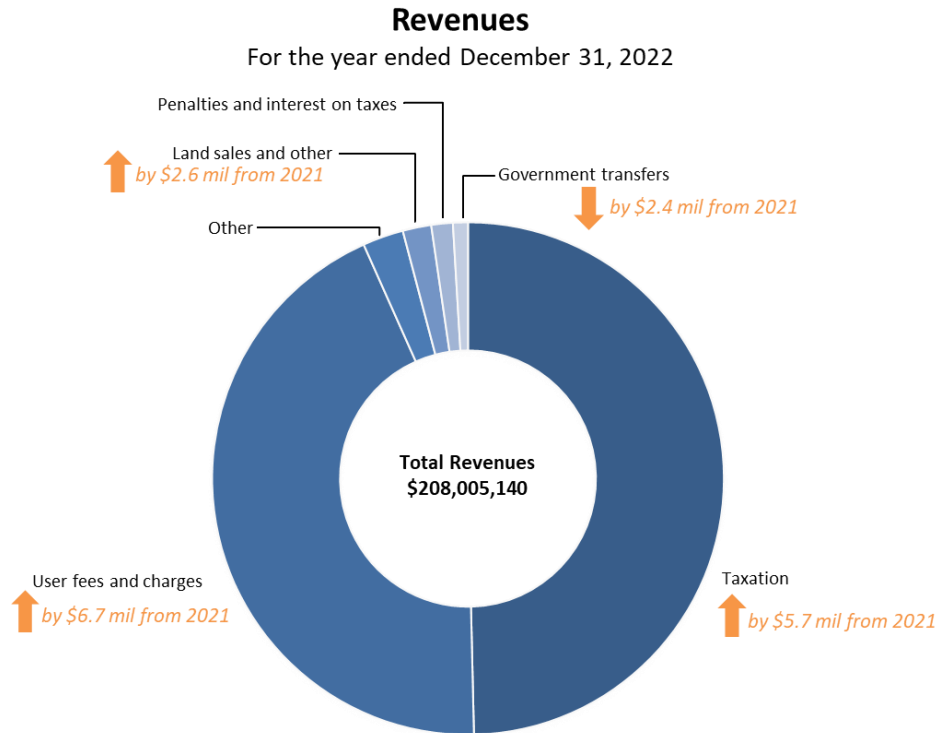
Revenues

Total revenue reported for the year 2022 was \$208.0 million, an increase of \$15.3 million from 2021 of \$192.7 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 \$90.9 million in 2022, an increase of \$6.7 million from 2021 of \$84.2 million. The increase in revenues in 2022 in comparison to the prior year is attributed to the reopening of recreation and cultural facility and programming. In 2021, the COVID-19 pandemic and mandated recreation and culture facility and programming closures resulted in a reduction in program related revenues during the year. However, in 2022, there was an increase in program related revenues but not at the levels seen prior to COVID-19 due to mandated closures seen in the first quarter of the year along with reduced participation levels. In addition, the increase in user fees is attributable to increase in collections for the removal of trees from private properties through permits as well as development lands through site plans and subdivisions. Furthermore, the increase in user fee revenue in 2022 is due to an increase in water usage, connections, and respective water fixed and variable rates.
- Taxation:** Taxation revenue totalled \$103.2 million in 2022, an increase of \$5.7 million from 2021 of \$97.5 million. This was mainly due to the tax levy increase of \$5.2 million ratified by Council during the 2022 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, which had a net impact of \$1.7 million.
- Land Sales and Other:** Land Sales and Other revenue totalled \$3.7 million in 2022, an increase of \$2.6 million from 2021 of \$1.1 million. This was mainly due to the City entering into separate agreements with The Lyle Shantz Hallman Charitable Foundation and the KW Urban Native Wigwam Project, as approved by Council through report 22-046-CRS on August 9, 2022. The City partnered on the development project at 27-31 Cambridge Street for the purposes of accessing critical funding from The Lyle Shantz Hallman Charitable Foundation. This resulted in an increase in revenue of \$2.4 million, offset with an increase in expenses of \$2.4 million issued to KW Urban Native Wigwam Project. In addition, the increase in Land Sales and Other was mainly due to increased capital contributions from others. Most notably in 2022, the City disposed of land in the vicinity of the Recreation Complex joint use campus in South East Galt to the Waterloo Region District School Board and the Waterloo Catholic District School Board as per Council report 22-027-OCM on August 9, 2022, which resulted in a gain on sale of assets of \$1.7 million.

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

- Government Transfers:** Government transfers (federal and provincial) totalled \$2.0 million in 2022, a decrease of \$2.4 million from 2021 of \$4.4 million. This was mainly due to the funding received from the Safe Restart Agreement totalling \$2.5 million in 2021 in comparison to no additional funding received in 2022.



Other Income

Total other income for the year was \$85.8 million in 2022, an increase of \$60.8 million from last year’s amount of \$25.0 million. The main sources of increases are as follows:

- Contributed tangible capital assets:** Contributed tangible capital assets totalled \$22.1 million in 2022, an increase of \$11.4 million from 2021 of \$10.7 million. Contributed tangible capital assets vary year-over-year depending on assumed assets from subdivisions.
- Gain on dilution from prior interest in Energy Plus:** During 2020, the shareholders of Energy Plus approved a merger of Energy Plus with Brantford Energy Corporation, the merger closed on May 2, 2022 and the City owns 54.339% of the merged entity, GrandBridge Corporation. Prior to the merger, at December 31, 2021, the City owned 92.1% of Energy Plus. As a result of the transaction, the City recorded a gain of \$38.2 million on dilution of its prior interest in Energy Plus.

Expenses

Total expenses reported for the year was \$208.0 million, an increase of \$25.6 million from last year's amount of \$182.4 million. The main sources of increases are as follows:

- **General government:** General government expenses totalled \$38.1 million in 2022, an increase by \$6.6 million compared to the 2021 amount of \$31.5 million. This was due to an increase in salaries, wages and employee benefits as well as rents and financial expenses:

A key driver in the increase in salaries, wages and employee benefits is due to the job evaluation retroactive payment for the CUPE 32 union totalling \$1.4 million. In addition, the increase is due to the employee future benefits liability increase from the most recent actuarial report, as post-employment benefits, sick leave benefits and workplace safety and insurance benefits were estimated by an actuarial update as at December 31, 2022.

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

- **Environmental services:** Environmental services expenses totalled \$66.2 million in 2022, an increase by \$5.1 million compared to the 2021 amount of \$61.1 million. This was due to an increase in salaries, wages and employee benefits, amortization of tangible capital assets, as well as contracted services:

The increase in salaries, wages and employee benefits is mainly due to the job evaluation retroactive payment for the CUPE 32 union \$1.3 million.

The increase in amortization of tangible capital assets is due to increase in investment of linear asset capital infrastructure, resulting in increased amortization expense in 2022 over 2021.

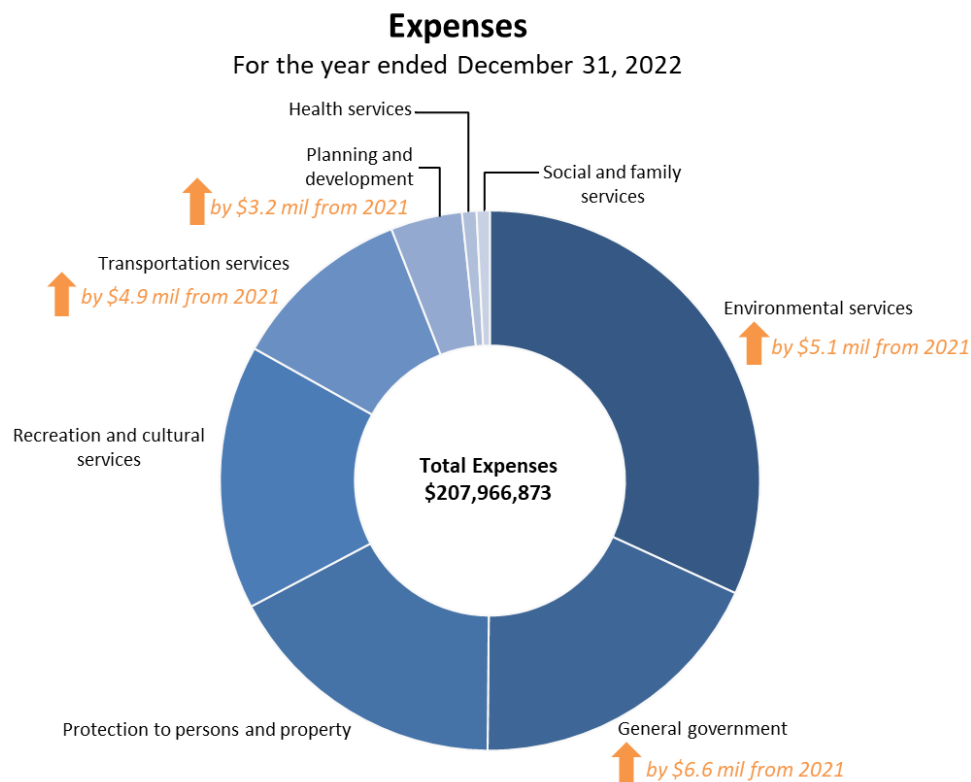
The increase in contracted services is due to increase in usage and rates associated with the purchase of clean water and wastewater treatment from the Region of Waterloo.

- **Transportation services:** Transportation services expenses totalled \$22.7 million in 2022, an increase by \$4.9 million compared to the 2021 amount of \$17.8 million. This was mainly due to materials and contracted services:

The increase in materials is primarily due to increased capital expenditures in 2022 in comparison to the prior year. The capital expenditures relate to capital projects such as infrastructure design, environmental assessments, compliance updates, and equipment replacement.

The increase in contracted services is mainly due to a shift from internal staffing to external contracting due to extended position vacancies. Contracted services expenditures increased in areas such as leaf pickup and snow removal in order to maintain City core service levels. In addition, the City experienced an increase due to the Blackbridge Road bridge repair and landscaping construction costs in 2022.

- Planning and Development:** Planning and development expenses totalled \$8.9 million in 2022, an increase of \$3.2 million compared to the 2021 amount of \$5.7 million. This was mainly due to an increase in external transfers and specifically due to the City entering into separate agreements with The Lyle Shantz Hallman Charitable Foundation and the KW Urban Native Wigwam Project, as discussed above, which resulted in an increase in revenue of \$2.4 million and an associated increase in expenses of \$2.4 million issued to KW Urban Native Wigwam Project.



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, 2022.

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 recognized for its financial reporting by being 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, 2022 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 gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager

Chief Financial Officer

City Solicitor

City Manager

ATTACHMENTS:

1. 23-095 Appendix A – Consolidated Financial Statements
2. 23-095 Appendix B – Audit Findings Report