



REPORT TO FINANCE AND RESPONSIBLE GOVERNANCE COMMITTEE

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TO: FINANCE AND RESPONSIBLE GOVERNANCE COMMITTEE

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CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

DATE: MAY 29, 2024

SUBJECT: 2023 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

RECOMMENDED MOTION

1. That the 2023 Audited Consolidated Financial Statements attached as Appendix "A" to the Report to the Finance and Responsible Governance Committee dated May 29, 2024, be received.

PURPOSE & BACKGROUND

Report Overview

2. The purpose of this report is to present the 2023 Audited Consolidated Financial Statements ("the financial statements"). The financial statements are a key accountability tool and provide valuable information about the Corporation's financial condition in the following format:
 - a) Consolidated Statement of Operations and Accumulated Surplus;
 - b) Consolidated Statement of Change in Net Debt;
 - c) Consolidated Statement of Financial Position;
 - d) Consolidated Statement of Remeasurement Gains;
 - e) Consolidated Statement of Cash Flows; and,
 - f) Notes to the Consolidated Financial Statements.

These statements have been prepared by staff in accordance with generally accepted accounting principles (GAAP) as established by the Public Sector Accounting Board (PSAB), and have been audited by Deloitte LLP, as required by section 296(1) of the *Municipal Act, 2001*, S.O. 2001, c. 25. This report provides highlights of the 2023 financial statements. The financial statements are provided in Appendix "A". Deloitte's report on the results of the audit is provided in Appendix "B".

3. The consolidated financial statements provide Council, the public, the City of Barrie’s (“City”) debenture holders, and other interested stakeholders an overview of the City’s finances at the end of the year, and indicate revenues, expenses and funding sources and uses. City Staff are responsible for preparing the statements; Deloitte’s role as the City’s external auditor is to express an opinion on the fair presentation of the City’s financial position and operating results, and to confirm that the statements are free from material misstatements.

Consolidated Financial Statements

4. The consolidated financial statements include the following individual statements:

TABLE 1: Consolidated Financial Statements

Name	Purpose	Comments
Consolidated Statement of Operations and Accumulated Surplus	Summarizes revenues and expenses for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating fund, capital fund (revenue portion only), reserves and reserve funds for the City and its consolidated entities and provides the calculation of the City’s year end accumulated surplus.	<ul style="list-style-type: none"> • Includes amortization expense. • Capital spending is not shown as expenditures, but as an increase in tangible capital assets on the Statement of Financial Position. • Only reflects interest payments on debt (debt principal repayments reflected in balances shown on Statement of Financial Position). • Assets assumed during the year reflected as revenue.
Consolidated Statement of Change in Net Debt	Summarizes the change in net assets (debt) as a result of annual operations, tangible capital asset transactions, and changes in other non-financial assets.	<ul style="list-style-type: none"> • This statement (unique to governments), assists users in understanding whether net revenue generated during the year was sufficient to cover net capital investments and other changes in non-financial assets.
Consolidated Statement of Financial Position	Provides a summary of the City’s consolidated financial assets and liabilities (the financial resources available to provide future services and the future revenues required to pay for past transactions).	<ul style="list-style-type: none"> • Includes tangible capital assets. • Reserves are reported as part of “Accumulated Surplus”.
Consolidated Statement of Remeasurement Gains	Summarizes the unrealized gains and losses on financial instruments measured at fair value. Once the gain or loss on a financial instrument measured at fair value is realized (i.e. sold), the gain or loss is transferred to the Consolidated Statement of Operations and Accumulated Surplus.	<ul style="list-style-type: none"> • Includes unrealized gains and losses on equity instruments and interest rate swaps.

Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by describing the sources and uses of cash categorized by operating, capital, investing, and financing activities.	<ul style="list-style-type: none"> • Similar to cash flow statements from the private sector.
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5. The financial statements combine the financial results of the City's divisions with the financial results of the boards and government business enterprise that the City effectively controls. The entities included in the financial statements as described in the Summary of Significant Accounting Policies accompanying the statements are:
- a) Barrie Police Services Board;
 - b) Barrie Public Library Board;
 - c) Downtown Barrie Business Improvement Area;
 - d) Barrie Hydro Holdings Inc. (shown as a Government Business Entity).

ANALYSIS

2023 Consolidated Financial Statements

6. The financial statements present five key indicators about a government's finances:
- a) Net assets (debt);
 - b) Accumulated surplus (deficit);
 - c) Annual surplus (deficit);
 - d) Annual change in net assets (debt); and,
 - e) Cash flows.

Required Adoption of New Accounting Standards

7. Effective January 1, 2023, the City was required to adopt two new Public Sector Accounting Standards:
- a) PS 3280 Asset Retirement Obligations
 - b) PS 3450 Financial Instruments

PS 3280 Asset Retirement Obligations

8. This standard requires that an asset retirement obligation liability be recognized when there is a statutory, contractual, or legal obligation to incur retirement costs in relation to a tangible capital asset. The adoption of this standard required a prior period restatement of the 2022 comparative figures in the 2023 Consolidated Financial Statements. As a result, there is an adjustment on adoption of \$5.4M to the 2022 opening accumulated surplus on the Consolidated Statement of Operations and Accumulated Surplus, and of \$7.9M to the 2022 opening net debt on the Consolidated Statement of Change in Net Debt to reflect the retroactive impact of the standard from all years prior to 2022.
9. PS 3270 Solid Waste Landfill Closure and Post-Closure Liability is no longer in effect, and the liability associated with landfill closure and post-closure costs is now accounted for under PS 3280 Asset Retirement Obligations, along with liabilities associated with buildings that are known or assumed to have designated hazardous materials.

PS 3450 Financial Instruments

10. This standard establishes accounting and reporting requirements for all types of financial instruments. Financial instruments are monetary contracts between two parties. The adoption of this standard required the City's equity investments and interest rate swap to be measured at fair value (previously measured at cost), beginning in 2023. Since these financial instruments are now measured at fair value, PSAB requires the unrealized gains and losses to be presented in the new Consolidated Statement of Remeasurement Gains, with an adjustment on adoption to the 2023 opening net debt on the Consolidated Statement of Change in Net Debt to reflect unrealized gains as of January 1, 2023 of \$319k.

Consolidated Statement of Financial Position and Consolidated Statement of Change in Net Debt

11. The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's Balance Sheet. Among other details, it reports two of the five key indicators – net assets (debt) and accumulated surplus (deficit).
12. Net debt is the shortfall between financial assets and liabilities, and represents the amount that must be financed from future budgets to pay for prior period decisions. Net debt results from cumulative spending that exceeds cumulative revenues that were raised. As shown, the City of Barrie's net debt position increased from 2022 to 2023 by \$8.0 million to a total of \$101.4 million.
13. The Consolidated Statement of Change in Net Debt describes the factors making up the annual change in net debt, and the difference between the annual surplus and net debt. The inclusion of budget figures allows for an assessment of plan versus actual results.
14. Accumulated surplus is the amount by which all assets, including tangible capital assets, exceed liabilities. A surplus indicates a government has net resources (financial and physical) to provide services in the future, while a deficit indicates liabilities are greater than assets, and the government has been financing annual operating deficits by borrowing.
15. The City of Barrie's accumulated surplus grew by \$132.3 million in 2023. The current year surplus includes \$66.1 million in assumed assets (which is a non-cash revenue resulting largely from the assumption of land and municipal infrastructure, which must be maintained by the City in the future) as well as government transfers and grants of \$26.0 million.

Consolidated Statement of Operations and Accumulated Surplus

16. The Consolidated Statement of Operations and Accumulated Surplus is the municipal equivalent of the private sector's Income Statement. It shows whether revenues recorded in the year were sufficient to cover expenses.
17. It is important to note that a surplus does not indicate that there are "profits" or extra cash to spend. For example, in 2023, of the \$132.3 million current year surplus for financial statement purposes, \$66.1 million relates to the assumption of assets, and \$68.9 million relates to the utilization of obligatory reserves, for which the cash was largely received in prior years. Judgements about the meaning and significance of a reported annual surplus need to consider the sources and uses of cash, and the change in gross/net debt during the reporting period.

Consolidated Statement of Remeasurement Gains

18. The Consolidated Statement of Remeasurement Gains shows the unrealized gains and losses on financial instruments that are measured at fair value. In 2023, the total unrealized gain is \$4.2M, made up of \$830k from the interest rate swap and \$3.4M from equity instruments. The 2022 comparatives in the Consolidated Statement of Remeasurement Gains are nil because PS 3450 Financial Instruments was adopted prospectively beginning in 2023.
19. The Consolidated Statement of Remeasurement Gains helps inform readers of the unrealized portion of financial instruments that are measured at fair value on the Consolidated Statement of Financial Position.

Consolidated Statement of Cash Flows

20. The Consolidated Statement of Cash Flows describes how activities were financed during the reporting period and the effect of activities on cash balances. In 2023, cash generated from operating activities and investing activities exceeded the amount required for capital activities by \$21.8M. The excess helped fund financing activities of \$28.5M, with the remainder being funded by the \$6.7M decrease in the cash and cash equivalents balance from 2022 to 2023.
21. The Consolidated Statement of Cash Flows helps to inform readers about whether future cash resources are sufficient for sustaining the Corporation's activities. We must also consider the Corporation's Financial Policies Framework, Capital Plan, and expected service levels. While the financial statements provide an opportunity to consider these policies and plans, they will also be considered during Council's review of the annual business plan.

ENVIRONMENTAL MATTERS

22. There are no environmental matters related to the recommendation.

ALTERNATIVES

23. As this Report is being presented for information purposes only, no alternatives are presented.

FINANCIAL

24. There are no financial implications for the Corporation resulting from the proposed recommendation.



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25. While this report has no direct financial implications, indirectly, PSAB standards reflected in these financial statements emphasize the significance of incorporating amortization, post-employment liabilities, and landfill liabilities into the Corporation's budget through adequate reserve transfers, and improving its financial condition.

LINKAGE TO 2022-2026 STRATEGIC PLAN

26. The recommendations included in this Staff Report are not specifically related to the goals contained in the 2022-2026 Strategic Plan.



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APPENDIX "A"

2023 Audited Consolidated Financial Statements



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APPENDIX "B"

Deloitte Report to the Finance and Responsible Governance Committee on the 2023 Audit