Staff Report

Report To: City Council

Report From: Kate Allan, Director of Corporate Services

Meeting Date: November 30, 2026

Report Code: CR-26-103

Subject: 2025 Draft Audited Financial Statements

Recommendations:

THAT in consideration of Staff Report CR-26-103 respecting the 2025 draft audited financial statements, City Council:

1. Approves the 2025 Consolidated Financial Statements as presented; and
2. Confirms to the municipal auditor, MNP LLP, that, to the best of its knowledge, it is not aware of any actual, suspected or alleged fraud affecting the City up to and including the date of this resolution.

Highlights:

- The draft 2025 consolidated financial statements are accompanied by an unqualified (clean) audit opinion.
- The financial results are consistent with the year-end financial results previously reported to Council.
- The City's overall financial position continues to improve, as evidenced by declining net debt, growing reserve balances, and continued investment in municipal infrastructure, reinforcing a positive multi-year trend.

Vision 2050 - Strategic Plan Alignment:

Strategic Plan Priority: The recommendation contributes to core service delivery or a corporate initiative that enables service delivery for one or more strategic priorities.

Previous Report/Authority:

CR-26-037 - 2025 Year End

Background:

The *Municipal Act, 2001* requires municipalities to prepare annual financial statements in accordance with generally accepted accounting principles for the public sector and to have those statements audited by an independent municipal auditor.

The annual financial statements provide Council and the public with a comprehensive overview of the City's financial position, annual financial performance, and investment in municipal infrastructure. They support financial transparency, accountability, and informed decision-making.

Staff are responsible for preparing the financial statements in accordance with Public Sector Accounting Standards (PSAS) and maintaining appropriate internal controls to support the accuracy and integrity of financial reporting. The municipal auditor is responsible for independently examining the financial statements and expressing an opinion on whether they fairly present, in all material respects, the City's financial position and results of operations.

Council, as the governing body, is responsible for overseeing the City's financial reporting process, reviewing and approving the annual financial statements, and communicating to the auditor any known or suspected fraudulent activity as part of the annual audit process.

Analysis and Options:

The City's 2025 draft consolidated financial statements are accompanied by the draft independent auditor's report and the auditor's communications to Council. The draft auditor's report provides an unqualified (clean) audit opinion, indicating that the financial statements fairly present, in all material respects, the City's financial position and results of operations in accordance with Canadian PSAS.

Financial Position

The City continues to demonstrate improvements in its overall financial position. Notable changes over the prior year include:

- Net Debt: Decreased from $12.4 million to $9.5 million, with the repayment of $2.1 million in external long-term debt associated with historical capital projects contributing significantly to this improvement. The City's net debt has declined by approximately 52 per cent since 2023, when it was $19.7 million.
- Tangible Capital Assets: Increased in net book value from $271.8 million to $281.6 million, reflecting continued investment in the replacement and rehabilitation of municipal infrastructure. The City recorded $18.8 million in capital asset additions in 2025.
- Loans Receivable: Increased by approximately $2 million, reflecting the loan issued to the Grey Sauble Conservation Authority.
- Deferred Revenue: Increased from $12.2 million to $17.0 million, reflecting funds received and held for restricted purposes, including obligatory reserve funds.
- Reserves and Reserve Funds: Increased from $42.8 million to $49.3 million.
- Accumulated Surplus: Increased by $12.6 million to $273.2 million.

As detailed in **Note 8**, approximately $234.9 million, or 86 per cent, of the City's accumulated surplus represents its net investment in tangible capital assets. It is important to distinguish accumulated surplus from funds available for spending, as the majority of this balance represents investment in municipal infrastructure.

Note 8 also identifies an increase in unfinanced capital assets from $11.4 million to $17.5 million. While funding has not yet been applied, funding sources have been identified and incorporated into the City's multi-year financial planning. Much of this balance relates to ongoing capital projects and longer-term financing commitments, including the Julie McArthur Regional Recreation Centre (JMRRC) and Sydenham Heights servicing. These longer-term balances are expected to be reduced through future development charge (DC) collections, and, in the case of the JMRRC, interest earned on the GBE reserve. This reinforces the importance of collecting DCs to fund growth-related infrastructure. Where DCs are waived or reduced without an alternative funding source, the financial obligation ultimately shifts to existing taxpayers or water and wastewater ratepayers.

Reconciliation to the Operating Surplus

While expenses reported in the consolidated financial statements exceed budget, this is largely attributable to differences between municipal budgeting practices and PSAS reporting requirements. These differences

include non-cash expenses, such as amortization and changes in post-employment benefit obligations, as well as capital expenditures that do not meet the criteria for capitalization. Amortization alone accounted for approximately $9 million in expenses in 2025.

The annual surplus of $12,608,580 reported in the consolidated financial statements should not be interpreted as the City's operating budget surplus.

Council's attention is directed to **Note 10**, which reconciles the annual surplus reported under PSAS to the City's operating surplus. This reconciliation accounts for non-cash accounting entries as well as budgeted transactions that are not recognized as expenses under PSAS, including transfers to reserves, tangible capital asset acquisitions, and debt principal repayments.

The final operating surplus of $343,042, transferred to the Tax Stabilization Reserve as identified in **Notes 8 and 10**, is approximately $52,000 lower than the surplus of $395,000 reported to Council in April 2026. This difference reflects year-end accounting adjustments, including adjustments to inventory and prepaid expenses, that had not been finalized at the time of the operating year-end report. There are no significant changes to the operating results previously presented to Council.

The year end report provided to the previous term of Council in April of this year is linked under the Previous Report/Authority Section of this report. It may be useful in verifying how operating revenues and expenditures compare to the annual operating budget.

Financial Information Return

The 2025 Financial Information Return (FIR) was submitted to the Ministry of Municipal Affairs and Housing on November 19, 2026, and is expected to be publicly available on the Ministry's website shortly.

The FIR presents municipal financial information in a standardized format, supporting financial analysis, benchmarking, and comparisons across Ontario municipalities. Key financial balances, including net debt, accumulated surplus, and amounts invested in tangible capital assets, agree with the City's draft consolidated financial statements.

Audit Confirmation

As part of the annual audit process, Canadian Auditing Standard 240 requires the municipal auditor to inquire of Council, as those charged with governance, regarding its knowledge of actual, suspected, or alleged fraud.

Council is being asked to provide this confirmation based on its knowledge as of the date of this report. This confirmation does not require newly elected members of Council to independently investigate activities that occurred prior to their term of office.

Given the transition to the City's new committee structure, the 2025 consolidated financial statements are being presented directly to Council for approval. Beginning in 2027, the annual consolidated financial statements will be reviewed by the Resilient Community Advisory Committee prior to being presented to Council for approval.

Resource Alignment:

Financial Resources

The City's annual audit fees are approximately $71,725 and are budgeted within the Finance Department and funded proportionately through taxation, water, and wastewater rates. The preparation of the annual financial statements also requires specialized external services, including an actuarial valuation to support the reporting of post-employment benefit obligations

Human Resources

Finance staff coordinate and support the annual audit process, relying on inputs from staff across all City departments, including the Owen Sound Police Service Board, Owen Sound & North Grey Union Public Library Board, and River District Board of Management.

The scope of the annual audit extends well beyond the review of operating revenues and expenditures and includes capital assets, reserves and reserve funds, long-term liabilities, and complex accounting estimates.

In addition to the annual financial statement audit, Finance staff supported several funding-specific audits in 2026, including the Canada Community-Building Fund (formerly Federal Gas Tax) and the infrastructure grant associated with the arena boards and rink improvements at the Bayshore Community Centre. These audits are separate from the annual financial statement audit and require additional staff resources.

Time and Scheduling

The annual audit process begins at the end of the fiscal year and culminates with the presentation of the financial statements. This year's presentation is behind schedule. In future years, staff are targeting September for the presentation of the annual financial statements to the Resilient Community Advisory Committee, prior to Council approval.

Technology and Infrastructure

There are no additional technology or infrastructure requirements used to complete the audit.

Climate and Environmental Impacts:

There are no anticipated climate or environmental impacts.

Communication and Engagement:

Following Council approval and receipt of the signed independent auditor's report, the final consolidated financial statements will be published on the City's website.

The annual Financial Information Return (FIR) is publicly available through the Ministry of Municipal Affairs and Housing's website, providing access to standardized financial information across Ontario municipalities.

All reports related to the City's financial position and performance are publicly accessible through Council and Committee agendas and minutes. These reporting practices support financial transparency, accountability and public access to municipal financial information.

Report Developed in Consultation With:

MNP LLP

Attachments:

1. Draft Financial Statements
2. Auditor’s Letter to Council

Submission approved by:
Tim Simmonds, City Manager

For more information on this report, please contact Kate Allan, Director of Corporate Services, at kallan@owensound.ca or 519-376-4440 ext. 1238.