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**Date:** May 22, 2018  
**To:** Mayor and Council  
**Author:** Ryan McLeod, CPA, CA  
**RE:** 2017 Financial Statement Review  
**Report No.:** FS-2018-10

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## **AIM**

To provide council will an overview of the 2017 Financial Statements.

## **BACKGROUND**

Every year, Financial Services prepares the Town's financial statements in accordance with Public Sector Accounting Standards (PSAB). These statements are audited by an independent accounting firm. Prior to issuing their audit opinion, the Financial Statements must be approved by Council.

## **DISCUSSION**

The following discussion attempts to provide Council with an overview of the 2017 Financial Statements and highlight any significant changes or observations.

The Consolidated Statement of Financial Position, also known as a "Balance Sheet", can be found on page 3 of the Financial Statements. This statement provides a snap shot of the Town's assets and liabilities, as at December 31, 2017. Items to note include the following:

### **Taxes and grants in-lieu receivable**

The decrease in this balance indicates an improvement in the collection of outstanding taxes. The Town's tax receivable balance is less than 5% of total taxes collected, which is considered 'very good' based on the Province's Financial Indicated Review.

**Drainage costs recoverable**

This refers to drainage work that has yet to be billed. This figure will fluctuate from year to year based on the volume of drainage projects that are in process at year end. Financial Services makes it a priority to bill drainage works as quickly as possible. Within the next month or so, approx. \$1,030,000 of this balance will be billed to the assessed property owners.

**Long-term investment**

This balance refers to Kingsville’s share (40.33%) of a \$10,000,000, 5-year GIC, purchased by UWSS during the year.

**Accounts payable and accrued liabilities**

The increase in this balance can be attributed to an increase in capital spending in final months of 2017. All vendor invoices are paid within two weeks of receipt and approval. There was no point during the year where the Town had difficulty meeting its obligations as they became due.

**Municipal debt**

A detailed schedule of Municipal Debt can be found in Note 4 of the Financial Statements.

This debt can be summarized in 3 main categories:

	2017	2016	Increase (Decrease)
Property Tax Supported Debt	\$ 8,587,256	\$ 9,362,275	\$ (775,019)
Debt Paid by Benefiting land owners	1,177,442	1,598,003	(420,561)
Union Water Debt	5,548,015	5,068,099	479,916
	<u>\$15,312,713</u>	<u>\$16,028,377</u>	<u>\$ (715,664)</u>

The only component of Municipal Debt which Council has direct control over is the “Property Tax Supported Debt”. This figure is driven by the decisions Council makes during budget deliberations. While not all debt is ‘bad’, it is encouraging to see this balance decrease year over year. The quicker the Town can pay off its existing debts, the more tax dollars it will have available to finance current and future projects.

The increase in Union Water debt is directly attributed to our increased share in Union Water operations.

**Employee future benefits**

The Town’s Employee Future Benefit Obligation decreased by \$972,650 in 2017. This significant reduction is primarily due to actuarial gains realized upon the completion of the actuarial valuation at year end. The previous valuation was performed in 2011. Every year thereafter the Actuary would simply provide the Town with its estimated liability by “rolling forward” assumptions used in the 2011 valuation. When the 2017 valuation was completed, the Actuary discovered that many of the anticipated increases to the Town’s benefit premiums were not realized. This discovery significantly reduced the Town’s Employee Future Benefit Obligation at December 31, 2017.

**Deferred revenue**

At year end, Deferred Revenue consisted of Development Charges and unspent Gas Tax.

During 2017 the Town collected \$1,148,840 in development charges. These funds are held in a reserve and will help finance various growth related capital projects. To put this in perspective, the Town would have had to increase property taxation by 7.8% in to generate this level of revenue.

In 2017, the Town received \$1,060,935 in Federal Gas tax funding. At year end, \$165,427 had not been spent. These funds have been allocated to various infrastructure projects in the 2018 budget.

**Annual surplus**

The Consolidated Statement of Financial Operations and Accumulated Surplus, also known as an “Income Statement”, can be found on page 4 of Financial Statements. This statement provides a summary of the financial activities of the Town for the year ended December 31, 2017.

Under PSAB, the Town is reporting a surplus of \$4,732,167 in 2017. This includes a non-recurring gain of \$2,356,277 from Union Water (see below for further details) and a \$972,650 ‘actuarial gain’ from a change in our Employee Future Benefit Obligation (discussed earlier).

It is important to note there are a number of significant differences between PSAB standards and the fund accounting methods used by the Town for budgeting purposes. The most significant differences between these two methods of accounting are as follows;

	PSAB	Budget “Fund” Accounting
Capital Assets	Most capital expenditures are recognized on the Balance Sheet as long-lived assets and amortized over their useful lives	Capital expenditures are an expense in the year incurred.
Long-term Debt Repayments	Only the interest portion of long-term debt repayments is an expense.	Both the principle and interest payments are expensed in the year incurred.
Reserves	Reserve activity is neither recognized as ‘revenue’ or an ‘expense’	Contributions from reserves are recognized as revenue, contributions to reserves are considered to be an expense.
Local Improvements & Special Capital Levies	Local improvements and Special Levies are recorded in revenue in the year they are levied on taxes.	Local Improvements and Special Levies are recognized as revenue in the year the project expenses are incurred, offsetting the cost of the project.

	PSAB	Budget "Fund" Accounting
Employee Future Benefit Obligation	An Actuarial valuation is performed. The estimated obligation is recognized as a liability on the Balance Sheet.	Benefit payments made on behalf of retirees are expensed in the year they are incurred.
Water & Wastewater	The Financial Statements include all of the Town's water and wastewater activities.	For budgeting purposes, these operations have separate stand-alone budgets.
Union Water Supply System	The Financial Statements include the Town's proportionate share of UWSS assets, liabilities and annual surplus / deficit	The UWSS budget is not incorporated into the Town's budget.

For budgeting purposes, the Town is reporting a surplus of \$484,388 from 'tax funded' operations. Please refer to Appendix A for a detailed reconciliation of the surplus for budgeting purposes to the surplus reported under PSAB standards.

The 2018 budget assumed a \$75,000 surplus which was used to offset 2018 taxation. It is administration's recommendation that the additional surplus of \$409,388 (\$484,388 - \$75,000) be transferred to a reserve to fund infrastructure costs associated with the development of the new school property.

### **Gain on investment in Union Water Supply System (UWSS)**

Included in Annual Surplus is a "Gain on investment in UWSS" of \$2,356,277. As of January 1, 2017, the Town's ownership in UWSS increased from 34.83% to 40.33%. As the value of UWSS assets exceeds its liabilities, this has resulted in a "gain" for the Town. Please refer to Note 3 of the Financial Statements for a breakdown of how UWSS is consolidated with the Town's Financial Statements.

### **Reserves**

As discussed above, Reserves are neither an asset or liability under PSAB financial reporting, they are simply an internal allocation of equity. On page 20 of the Financial Statements you will find a summary of the Town's reserve balances at year end. In 2017, the Town's reserve balances increased by \$3,871,191. This figure includes an increase in UWSS reserves of \$1,592,603.

### **LINK TO STRATEGIC PLAN**

Effectively manage corporate resources and maximize performance in day-to-day operations.

To become a leader in sustainable infrastructure renewal and development.

### **FINANCIAL CONSIDERATIONS**

Overall, the 2017 Financial Statements indicate that the Town is in a relatively healthy financial position. Property taxes are being collected in timely fashion. Long-term debt is decreasing and reserves are increasing.

I caution council that the Financial Statements, while valuable, do not paint the entire financial picture for the municipality. These statements do not provide a commentary on

the state of the Town's infrastructure, nor do they disclose any financial requirements to replace or enhance its infrastructure as this becomes necessary. I would encourage council to maintain its commitment to infrastructure funding as outlined in the strategic plan and evidenced in the 2018 budget.

### **CONSULTATIONS**

None.

### **RECOMMENDATION**

That council approve the Financial Statements for the year ending December 31, 2017, as audited by BDO Canada LLP.

That council approve the allocation of \$409,388 from the 2017 Budget Surplus to the Public Works capital reserve (03-000-032-39068) for future infrastructure improvements.

*Ryan McLeod*

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Ryan McLeod, CPA, CA  
Director of Financial Services

*Peggy Van Mierlo-West*

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Peggy Van Mierlo-West, C.E.T.  
Chief Administrative Officer