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Date: May 3, 2019
To: Mayor and Council
Author: Ryan McLeod, CPA, CA
Director of Financial Services
RE: 2018 Financial Year-End Review
Report No.: FS-2019-08

AIM

To provide Council with an overview of the 2018 Financial Statements and other key financial information.

BACKGROUND

As per section 295(1) of the *Municipal Act, 2001*, every year, municipalities are required to prepare financial statements in accordance with Public Sector Accounting Board (PSAB) standards. These statements are audited by an independent accounting firm. Prior to issuing their audit opinion, the Financial Statements must be approved by Council.

In addition to the annual Financial Statements, the Treasurer is also required to provide an annual statement on Development Charge activity.

The following discussion attempts to provide Council with an overview of the 2018 Financial Statements and highlight any significant changes and observations.

DISCUSSION

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, 2018. 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 currently less than 4% of total taxes collected which is considered ‘very good’ based on the Province’s Financial Indicated Review.

Trade and other receivables

This refers to water, sewer, and other miscellaneous receivables owing to the Town at year end. The increase in this balance can primarily be attributed to outstanding grants and HST rebates payable to the Town.

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.

Drainage debt receivable

This refers to drainage work that has been billed, however, the assessed property owners have opted to finance their charges on their tax rolls.

Land held for sale

This is considered a financial asset as the Town expects to sell the property within the next year.

Long-term investment

This balance refers to Kingsville’s share (40.33%) of a \$10,000,000, 5-year GIC, held by UWSS. The amount reflected on the balance sheet includes accrued interest.

Accounts payable and accrued liabilities

The increase in this balance can be attributed to an increase in planning security deposits and capital spending in final months of 2018. All vendor invoices are paid upon approval. Council can be assured, the Town had no 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:

	2018	2017	Increase (Decrease)
Property Tax Supported Debt	\$ 7,940,177	\$ 8,587,256	\$ (647,079)
Debt Paid by Benefiting land owners	909,762	1,177,442	(267,680)
Union Water Debt	5,184,234	5,548,015	(363,781)
	<u>\$14,034,173</u>	<u>\$15,312,713</u>	<u>\$ (1,278,540)</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 fewer tax dollars directed towards debt, the more tax dollars available to finance current and future projects.

Employee future benefits

The Employee Future Benefit Obligation represents the Town’s estimated liability for benefit payments that will be required for its retirees, based on current and past years of service.

Deferred revenue

Deferred Revenue consists of \$2,865,083 of Development Charges and \$318,763 of unspent Gas Tax.

During 2018 the Town collected \$1,108,474 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 6.9% to generate this level of revenue in 2018. Please refer to appendix A for the Treasurer’s Annual Statement of Development Charge Activity.

In 2018, the Town received \$1,088,640 in Federal Gas tax funding which was allocated to various road, bridge and sidewalk projects. Any unspent funds can be retained by the municipality for up to 5 years, and applied against future eligible projects.

Tangible capital assets

Tangible capital assets refers to all of the infrastructure, property, and equipment owned by the Town. It is important to note that the value reported on the financial statements refers to historical cost, less accumulated amortization. In most cases, the replacement value of these assets would be significantly higher than the \$117,079,809 reported on the balance sheet. Council should rely on the Asset Management Plan and other infrastructure studies for long-term financial planning with respect to tangible capital assets.

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, 2018.

Under PSAB, the Town is reporting a surplus of \$2,470,754 in 2018.

It is important to note there are a number of significant differences between PSAB standards and the modified cash based / 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 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.
Employee Future Benefit Obligation	An actuarial valuation is performed. The estimated obligation is recognized as a liability on the Balance Sheet.	Benefit payments on behalf of retirees are expensed in the year the payment is made.
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 had a surplus of \$411,376 from general 'tax funded' operations. Please refer to Appendix B for a detailed reconciliation of the surplus for budgeting purposes to the surplus reported under PSAB standards.

In accordance with the Town's Reserve and Reserve Fund Policy, in the absence of direction from Council to do otherwise, the surplus from general operations is to be transferred to the "Budget Stabilization" reserve. This reserve allows the Town to respond to major, unforeseen events without triggering a major increase in taxation. For example, this reserve could be used to address municipal liabilities resulting from weather emergencies or litigation. Further, having a contingency reserve allows Administration to avoid budgeting for "worst case scenarios" in any given year.

With this contribution, the Town's Budget Stabilization reserve would be \$861,932. This would represent approximately 5% of the 2019 property tax levy.

Union Water Supply System (UWSS)

The PSAB financial statements include our proportionate share (40.33%) of UWSS assets, liabilities and any surplus or deficit. The Town's 2018 surplus for PSAB purposes includes a \$1,140,140 surplus from UWSS. 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. Page 20 of the Financial Statements includes summary of the Town's reserve balances at year end. In 2018, the Town's reserve balances increased by \$1,475,462. This figure includes an increase in UWSS reserves of \$582,107.

LINK TO STRATEGIC PLAN

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

FINANCIAL CONSIDERATIONS

Overall, the 2018 Financial Statements indicate that the Town is in a relatively healthy financial position. There are no immediate cash flow concerns. Property taxes are being collected in timely fashion. Long-term debt is decreasing and reserve balances are increasing.

Council should understand, however, that the Financial Statements do not paint the entire financial picture for the municipality. Financial statements report transactions which already occurred and do not project what may occur in the future. 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 maintain infrastructure to the level Kingsville residents expect. For the Town to maintain a healthy financial position it is imperative for Council to maintain its commitment to increasing infrastructure funding as stated in the strategic plan.

CONSULTATIONS

Tiffany Hong, CPA, CMA, Manager of Financial Services

RECOMMENDATION

That council approve the Financial Statements for the year ending December 31, 2018, as audited by BDO Canada LLP.

That council approve the allocation of \$411,376 from the 2018 general budget surplus to the Budget Stabilization Reserve.

Respectfully submitted,

Ryan McLeod

Ryan McLeod, CPA, CA
Director of Financial Services

Peggy Van Mierlo-West

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