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Date: June 15, 2020

To: Mayor and Council

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RE: 2019 Financial Year-End Review

Report No.: FS-2020-12

AIM

To provide Council with an overview of the 2019 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 2019 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, 2019. Items to note include the following:

Cash and cash equivalents

The Town was in a relatively strong cash position at year end. The increase in this balance can be attributed to an increase in reserves and deferred revenue. Both of these items are discussed in further detail below.

Taxes and grants in-lieu receivable

The Town's tax receivable balance is approximately 4% of total taxes levied which is below the regional municipal average of 6.3% (as per the Provincial Financial Indicator Review). A low tax receivable balance as a % of total taxes levied is an indicator of effective collection strategies and a healthy local economy.

Trade and other receivables

This refers to water, sewer, and other miscellaneous receivables owing to the Town at year end. This balance is relatively consistent with 2018.

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 refers to the property sold to the Greater Essex County School Board on January 16, 2020.

Long-term investment

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

Accounts payable and accrued liabilities

The decrease in this balance can be attributed to a reduction in capital spending in the final months of 2019. All vendor invoices are paid upon approval. The Town had no difficulty meeting its financial obligations as they became due throughout the year.

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:

| | 2019 | 2018 | Increase (Decrease) |
|-------------------------------------|---------------------|---------------------|------------------------|
| Property Tax Supported Debt | \$ 7,276,798 | \$ 7,940,177 | \$ (663,379) |
| Debt Paid by Benefiting land owners | 644,275 | 909,762 | (265,487) |
| Union Water Debt | 4,772,208 | 5,184,234 | (412,026) |
| | <u>\$12,693,281</u> | <u>\$14,034,173</u> | <u>\$ (1,340,892)</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. The increase in 2019 is primarily attributed to a reduction in the ‘discount rate’ applied to estimated future cash flows.

Deferred revenue

Deferred Revenue consists of \$4,136,185 of Development Charges and \$2,982,404 of unspent federal and provincial grants.

During 2019 the Town collected \$1,368,949 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 nearly 8% to generate this level of revenue in 2019. Please refer to appendix A for the Treasurer’s Annual Statement of Development Charge Activity.

The increase in unspent federal and provincial grants can be attributed to a delay in Jasperson Dr project, which was to be funded by the Ontario Community Infrastructure Fund, and 2 significant unexpected funding announcements from the Federal and Provincial governments after the 2019 budget was approved. These unexpected transfers include the ‘one-time doubling of the Federal Gas Tax’ (\$1,088,640) and the Provincial ‘modernization grant’ (\$620,201). The majority of these funds have been applied to projects in the 2020 budget.

Tangible capital assets

Tangible capital assets refers to all of the infrastructure, property, and equipment owned by the Town. This includes assets that been purchased directly by the Town and assets that have been contributed to the Town from developers. 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 \$121,992,658 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, 2019.

Under PSAB, the Town is reporting a surplus of \$7,871,782 in 2019. This surplus includes \$4.2M in contributed capital from private developers and a \$1.3M from our share of UWSS.

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. |
| Developer Contributions | Any assets built and transferred to the Town are considered to be income at the time of transfer. | Developer contributions are not budgeted for. |
| 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 \$877,770 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.

The 2019 budget surplus is primarily the result of the following key factors:

- Supplemental tax levies (i.e. taxes on new development) exceeded estimates by \$185,000
- Interest revenue exceeded expectations by \$163,000
- Staffing vacancies resulted in wages and benefit savings of \$270,000
- An number of long-outstanding ARB appeals were settled, resulting in tax reductions (i.e. write-offs) less than anticipated, generating savings of \$190,000

During 2020 budget deliberations, Council conservatively applied a \$50,000 anticipated surplus from 2019 to offset 2020 property taxes. This leaves \$827,770 available to Council to apply to various municipal strategic priorities.

In the absence of the direction from Council to do otherwise, the Town's Reserve and Reserve Fund Policy indicates 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, litigation or global pandemics. Further, having a contingency reserve allows Administration to avoid budgeting for "worst case scenarios" in any given year.

Given the unprecedented effects of COVID-19 on the Canadian economy and municipal budgets, Administration recommends that Council apply the unallocated 2019 surplus of \$827,770 to the Town's Budget Stabilization Reserve. Administration will provide further recommendations on the application of these funds pending the results of the 'COVID-19 worst case scenario' financial report which will be provided to Council in July.

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 2019 surplus for PSAB purposes includes a \$1,301,387 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 21 of the Financial Statements includes summary of the Town's reserve balances at year end. In 2019, the Town's reserve balances increased by \$1,131,983. This figure is net of a \$218,697 decrease in UWSS reserves.

LINK TO STRATEGIC PLAN

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

FINANCIAL CONSIDERATIONS

Overall, the 2019 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 have already occurred and do not project what may occur in the future. Most importantly, 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

None.

RECOMMENDATION

That council approve the Financial Statements for the year ending December 31, 2019, as audited by BDO Canada LLP.

That council approve the allocation of the unallocated 2019 surplus of \$827,770 to the Town's Budget Stabilization Reserve.

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