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**Date:** June 16, 2021  
**To:** Mayor and Council  
**Author:** Ryan McLeod, CPA, CA  
**RE:** 2020 Financial Statements and Year End Review  
**Report No.:** FS-2021-14

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## **RECOMMENDED ACTION**

That Council approve the Financial Statements for the year ending December 31, 2020, as audited by BDO Canada LLP.

That council approve the allocation of the 2020 general budget surplus of \$735,125 to a 'Property Acquisition Reserve'.

## **BACKGROUND**

As per section 294.1 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 required to be 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 2020 Financial Statements and highlight any significant changes and observations.

## **DISCUSSION**

The Consolidated Statement of Financial Position, also known as the "Balance Sheet", can be found on page 3 of the Financial Statements. This statement provides a snapshot of the Town's assets and liabilities as at December 31, 2020. Items to note include the following:

**Cash and cash equivalents**

The Town continues to be in a relatively strong cash position. The increase in this balance can be attributed to an increase in reserves and accounts payable at year end. 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 5.8%, as indicated in 2019 Provincial Financial Indicator Review (Appendix C). A low tax receivable balance 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 2019.

**Drainage costs recoverable**

This refers to drainage work that has yet to be billed. This figure has increased over 2019 primarily due to the Esseltine Drain project which is expected to be completed later this year.

**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. The Town is reporting a gain on the sale of this property of \$1,246,233.

**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 increase in this balance can be attributed to an increase in capital spending in the final months of 2020. 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:

	2020	2019	Increase (Decrease)
Property Tax Supported Debt	\$6,596,608	\$7,276,798	\$(680,190)
Debt Paid by Benefiting land owners	425,480	644,275	(218,795)
Union Water Debt	4,306,542	4,772,208	(465,666)
	<u>\$11,328,630</u>	<u>\$12,693,281</u>	<u>\$(1,364,651)</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.

Based on the 2021 Capital budget, Council should expect to see an increase in long-term debt over the next few years. This budget included some significant capital projects, namely the Road 2 E reconstruction and South West Watermain, which require debt financing to complete. As these projects were captured in the Town's Development Charge study, the majority of the debt servicing costs associated with these projects will be funded through the future collection of development charges.

## **Employee future benefits**

The Employee Future Benefit Obligation represents the Town's estimated liability for benefit payments for its retirees, based on current and past years of service. The increase in 2020 is primarily attributed to a reduction in the 'discount rate' applied to estimated future cash flows.

## **Deferred revenue**

Deferred Revenue consists of \$3.8M in Development Charges and \$2.2M of unspent federal and provincial grants.

During 2020 the Town collected \$1,911,812 in Development Charges. These funds are collected upon the issuance of building permits and are held in a reserve to finance various growth related capital projects. To put this amount in perspective, the Town would have had to increase property taxation by 10% to generate this level of revenue in 2020. Please refer to appendix A for the Treasurer's Annual Statement of Development Charge Activity.

A breakdown of the unspent federal and provincial grants can be found in Schedule 2 of the Financial Statements. The majority of these funds have been applied against 2021 capital projects.

### **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 \$129,945,434 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. Administration currently is the process of reviewing and updating its Asset Management Plan for the Town's core infrastructure 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, 2020.

Under PSAB, the Town is reporting a surplus of \$14,062,277 for 2020. This surplus includes \$4.3M in contributed capital from private developers and a \$1.4M 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 as 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 payments are made.
Water & Wastewater & Building Depts.	The Financial Statements include all of the Town's water, wastewater and building department 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 budget purposes, the Town is reporting a general surplus of \$735,125 from 'tax funded' operations. Please refer to Appendix B for a detailed reconciliation of the surplus for budget purposes to the surplus reported under PSAB standards.

The 2020 budget surplus is primarily the result of the following key factors:

- Supplemental tax levies (i.e. taxes on new development) exceeded estimates by \$100,000
- Staffing vacancies and lay-offs resulted in wages and benefit savings of approximately \$290,000
- A reduction in park & facility maintenance and special event expenditures due to COVID-19 cancellations totaled \$122,000 in savings
- Training cancellations due to COVID-19 resulted in savings of \$90,000

## **Covid-19 Impact**

Covid-19 had a significant financial impact on 2020 operations. Fortunately, the Town received \$542,800 in funding from the Federal-Provincial Safe Restart program to help offset Covid-19 related financial pressures. Of the amount received, \$326,475 was applied against 2020 expenses and the balance has been carried forward to offset 2021 challenges. 2020 Covid-19 financial challenges included; enhanced cleaning, PPE, workspace modifications, work from home technology investments, interest waivers on property tax balances, and lost rental income at various Town facilities.

## **Budget Surplus Allocation**

As part of the 2021 Strategic Plan Review, Council identified “Financial Savings for the potential acquisition of Migration Hall and / or School Properties” as a key priority. With this direction in mind, Administration is recommending that the \$735,125 budget surplus from general operations be applied to a new ‘Property Acquisition’ reserve.

## **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 2020 surplus for PSAB purposes includes a \$1,419,536 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 2020, the Town’s reserve balances increased by approximately \$4.8M, which includes a \$1.4M increase in UWSS reserves. Based on the Provincial Financial Indicator review, the Town’s reserve balances in relation to operating expenses are slightly better than the average for Southern Ontario lower-tier municipalities.

## **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.

## **Link to Council 2021-2022 Priorities**

- ☐ COVID-19 and the health and safety of the community
- ☐ Customer Service: Training, Technology, Staff, Review Standards/Level of service
- ☐ Housing: Affordability (lot sizes, developer incentives, second dwellings, density, etc.)
- ☐ Greenhouse: lights & dark sky, odours (site plan compliance, bylaws, other tools)
- ☐ Programming Increase: Youth and Seniors
- ☐ A development plan for Downtown Kingsville / Main Street
- ☒ Financial savings: Schools closings, Migration Hall
- ☐ Economic Development: strengthen tourism/hospitality
- ☐ COVID - economic recovery
- ☐ Communications: Strategy – Policy (social media), Website refresh and other tools, Public engagement
- ☐ Housing: Migrant Worker Housing – Inspections (Building/Fire), regulate, reduce, or increase

- ☐ Committees / Boards: Review and Report
- ☐ Policy Update: Procedural Bylaw
- ☐ Economic Development: diversify the economy, create local jobs, industrial, Cottam
- ☐ Infrastructure (non-Municipal): Union Water expansion & governance
- ☐ Infrastructure (Municipal): Asset Management Plan update, the infrastructure funding deficit
- ☐ No direct link to Council priorities

## **FINANCIAL CONSIDERATIONS**

Overall, the 2020 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 over the long-term, it is imperative for Council to maintain its commitment to increasing infrastructure funding as stated in the strategic plan.

## **CONSULTATIONS**

Senior Management Team

*Ryan McLeod*

Ryan McLeod, CPA, CA

Director of Financial & IT Services