



Date: June 24, 2024
To: Mayor and Council
Author: Ryan McLeod, CPA, CA
RE: 2023 Financial Statements and Year End Review
Report No.: FS-2024-06

RECOMMENDED ACTION

1. That the Financial Statements for the Corporation of the Town of Kingsville for the year ending December 31, 2023, as audited by HMID LLP, **BE APPROVED**;
2. That the 2023 Treasurer's Statement of Development Charge Reserve Funds, **BE APPROVED**;
3. That the 2023 Statement of Investment Activity, **BE APPROVED**; and
4. That the 2023 general budget surplus of \$933,193, be applied to the Ridgeview Park Community Centre project, **BE APPROVED**.

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 Charges and Investment activities.

The following discussion provides Council with an overview of the 2023 Financial Statements and highlights any significant changes or matters of concern.

DISCUSSION

The Consolidated Financial Statements for the Town of Kingsville reflect all municipal operations, which include property tax-funded and rate-funded departments (i.e. Water,

Wastewater, and Building). These statements also include the Town's 38.72% share of the Union Water Supply System (UWSS).

Cash and cash equivalents

On the surface, the Town's cash balance is relatively consistent with 2022, however, Council should understand this balance includes \$9.4 million of UWSS cash (2022 – \$8 million).

Taxes and grants in-lieu receivable

The Town's tax receivable remains at approximately 4% of total taxes levied which is lower than the regional municipal average of 5.4%, as per the 2022 Provincial Financial Indicator Review (Appendix A). 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, drainage and other miscellaneous receivables owing to the Town at year-end. The increase over 2022 is primarily attributable to an increase in Provincial grants receivable at year-end.

Drainage costs recoverable

This refers to drainage work that has yet to be billed. This figure has decreased from 2022 primarily due to the Esseltine Drain project.

Accounts payable and accrued liabilities

These accounts tend to fluctuate with the level of capital spending in the final month or two of the year. 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 4 main categories:

	2023	2022	Increase (Decrease)
Property Tax Supported	\$ 4,449,885	\$ 5,183,701	\$ (733,816)
Development Charge Supported	5,016,613	-	5,016,613
Debt Paid by Benefiting land owners	211,223	201,350	9,873
Union Water Debt	2,423,659	3,062,343	(638,684)
	<u>\$12,101,380</u>	<u>\$8,447,394</u>	<u>\$ 3,653,986</u>

It is important to note the Debt reported on the Financial Statements does not include unfinanced capital expenditures. Unfinanced capital refers to amounts which the Town is internally financing through reserves but will eventually recover through the future issuance of debt or other funding sources. As of December 31, 2023, the Town's Unfinanced Capital balance consisted of the following;

	2023	2022	Increase (Decrease)
Wastewater Projects (Rate funded)	\$ 20,251	\$ 20,251	\$ -
Road 2 E (Tax funded)	95,306	462,149	(366,843)
Lakeshore East Sewer (DC Funded)	309,537	309,537	-
Road 2 E (DC Funded)	4,380,061	1,437,442	2,942,619
SW Water Supply (DC funded)	1,893,637	3,579,171	(1,685,534)
	<u>\$6,698,792</u>	<u>\$5,808,550</u>	<u>\$ 890,242</u>

During 2023, Council authorized a \$12,000,000 construction loan with Ontario Infrastructure and Lands Corporation (OILC) to finance the Development Charge (DC) component of the Road 2 E road reconstruction and Southwest Water supply expansion (from Union Ave to Division Rd). As of year-end, the Town had only drawn \$5,016,613 of the \$12M available on this construction loan. Administration intends to draw the balance of this loan when cash demands necessitate, which will occur in Q3 of 2024.

When these projects are 100% complete, Administration is proposing to finance the road component over a 10 year period and the water component over a 20 year period. The Town is well within its Annual Repayment Limit, as calculated by the Province, to support this level of debt.

Asset Retirement Obligations (AROs)

In 2023, the Town was required to adopt a new public sector accounting standard (PS 3280) regarding Asset Retirement Obligations. AROs refer to future liabilities for the removal and disposal of hazardous materials, like asbestos, and other containments. This standard requires public sector bodies to estimate the future cost of abatement and to record the projected liability on their balance sheet. This change is applied retrospectively and requires the restatement of the previous year's figures. Please refer to Notes 16 and 17 of the financial statements for full details.

Employee future benefits

The Employee Future Benefit Obligation represents the Town's estimated liability for benefit payments for its current and future retirees. This benefit is provided to employees who retire earlier than age 65 and ends when the retired employee reaches their 65th birthday.

For clarity, the Employee Future Benefit obligation refers to post-retirement benefits only, and is completely separate from the employee pension plan managed by OMERS. As of December 31, 2023, the Town has fully funded the employer contributions required under the OMERS pension plan.

Deferred revenue

Deferred Revenue consists of the following;

	2023	2022	Increase (Decrease)
Development Charges	\$ 9,263	\$ 44,640	\$ (35,377)
Unspent Grants	2,694,567	2,302,394	392,173
	<u>\$ 2,703,830</u>	<u>\$ 2,347,034</u>	<u>\$ 356,796</u>

During 2023 the Town collected \$1,105,423 (2022- \$2,426,759) in Development Charges (DC). These funds are collected upon the issuance of building permits and are held in a reserve to finance various growth-related capital projects. Over the past few years, the Town proceeded with several large-scale DC projects, namely the Road 2 E reconstruction, the Southwest water supply (from Union Ave to Road 2 E) and the Cottam Lagoon expansion, which has significantly reduced DC reserve balances. As discussed in the Municipal Debt section of this report, some of the Town's recent Development Charge projects will need to be debt financed and repaid through the future collection of DCs.

Please refer to Appendix B for the Treasurer's Annual Statement of Development Charge Activity for full details.

Tangible capital assets

Tangible capital assets refer to all the infrastructure, property, and equipment owned by the Town. This includes assets that were purchased directly by the Town and infrastructure that has 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 (also known as "Book Value"), which is significantly lower than replacement value. Council should rely on its 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, 2023.

Under PSAB, the Town is reporting a surplus of \$9,605,990 for 2023. This surplus includes \$2.5 M from its share of UWSS income.

It is important to note there are a number of significant differences between PSAB standards and the modified cash basis / fund accounting method used by the Town for

budgeting purposes. The most significant differences between these two methods of accounting are summarized below.

	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 treated as 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'.
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.
Asset Retirement Obligations	An estimated obligation is recognized as a liability on the Balance Sheet.	Abatement costs are budgeted for in the year they are incurred.
Water & Wastewater & Building Depts.	The Financial Statements include all of the Town's water, wastewater and building department activities.	For budgeting purposes, each of 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 \$933,193 from 'tax funded' operations. Please refer to Appendix C for a detailed reconciliation of the surplus for budget purposes to the surplus reported under PSAB standards.

For perspective, this general budget surplus equates to 2.2% of the Town's Operating and Capital expenses during the year.

This surplus is primarily the result of the following:

- Investment income exceeded estimates by \$546,000 due to the dramatic increase in interest rates over recent historical averages.

- Staffing vacancies and leaves of absence resulted in wages and benefit savings of approximately \$488,000
- Higher than expected 'Supplement Tax Revenue' from in-year MPAC assessments contributed to additional \$135,000 in revenue.

These unexpected gains were offset by approximately \$279,000 of expenses resulting from 3 major storm events that occurred during the year.

Budget Surplus Allocation

During 2024 Budget deliberations, Council approved the construction of a new community centre in Ridgeview Park at a cost of \$2,850,000, and recently increased this budget by an additional \$150,000. The funding for this project is outlined below;

Taxation	\$	239,000
Other revenue		46,000
Debt		2,565,000
Unfinanced		<u>150,000</u>
Total	\$	3,000,000

Administration recommends applying the 2023 surplus against the debt and unfinanced portion of this project. This will reduce pressure on future tax rate increases and put the Town in a better financial position to respond to future strategic investment opportunities.

Union Water Supply System (UWSS)

The PSAB financial statements include our proportionate share of UWSS assets, liabilities and any surplus or deficit. As of December 31, 2023 the Town's ownership in UWSS was 38.72%.

The Town's share of UWSS Surplus in 2023 was \$2,530,219. Please refer to Note 3 of the Financial Statements for a breakdown of how UWSS is consolidated with the Town's Financial Statements.

Investment Income

In Ontario, a municipality's ability to invest surplus funds is heavily regulated by O. Reg. 438/97. In addition to compliance with statutory requirements, the Town's Cash Management and Investment Policy cites the *Preservation of Principle* and *Maintaining Liquidity* as key investment objectives.

During 2023, the Town benefited from a general rise in interest rates. Between term deposits and interest on savings accounts, the Town earned \$821,036 (2022 - \$561,343) of investment income. Please refer to Appendix D for a schedule of the Town's financial security activities for the year. This schedule does not include interest

on cash deposit accounts, which earn interest at rates between prime-1.95% and prime-1.5%. All investments are consistent with the Town's Cash Management and Investment policy.

Reserves

As discussed above, Reserves are neither an asset nor a liability under PSAB financial reporting, they are simply an internal allocation of equity. Page 22 of the Financial Statements includes a summary of the Town's reserve balances at year-end. Excluding UWSS reserves, the Town's overall reserve balance decreased by approx. \$873,000 in 2023. Based on the Provincial Financial Indicator review, the Town's reserve balances in relation to operating expenses are slightly 'above average' for Southern Ontario lower-tier municipalities, however, this metric can change quickly based on the timing of large capital expenditures.

FINANCIAL CONSIDERATIONS

Overall, the 2023 Financial Statements indicate that the Town is in a relatively healthy financial position. However, it is important to understand that Financial Statements report on transactions which have already occurred and do not project the future.

From an Asset Management perspective, these statements are of limited value as they do not provide a commentary on the current state of the Town's infrastructure, nor do they provide information on asset replacement values. For the Town to maintain a healthy financial position over the long term, it is imperative that Council remains committed to closing its infrastructure funding gap through steady annual increases to its infrastructure funding. During the 2024 budget, Council approved a \$650,000 increase to its road, bridge and facility life-cycle reserves, which was a significant step towards fiscal sustainability.

Although existing debt levels are relatively low today, Council should expect these levels to rise as the Town finances its existing 'Unfinanced Capital' and the Ridgeview Park Community Centre. Although the Town is well within the debt ceiling prescribed by the Province, Council will need to carefully prioritize strategic capital projects over the next 10-year period. Please refer to Appendix E for a summary of existing and anticipated debt commitments.

ENVIRONMENTAL CONSIDERATIONS

There are no direct environmental considerations associated with this report.

CONSULTATIONS

Financial Services Team

PREPARED BY:

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Director of Finance, IT & Customer Service

REVIEWED BY:

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John Norton
CAO