



**Date:** June 16, 2025

**To:** Mayor and Council

**Author:** Ryan McLeod, Director of Finance & Corporate Services  
Margaret Schroeder, Manager of Finance & Customer Services

**RE:** 2024 Financial Statements and Year End Review

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## **RECOMMENDED ACTION**

That the Financial Statements for the Corporation of the Town of Kingsville for the year ending December 31, 2024, as audited by HMID LLP, **be approved**;

And that the 2024 Treasurer's Statement of Development Charge Reserve Funds, **be approved**;

And that the 2024 Statement of Investment Activity, **be approved**;

And that the 2024 general budget surplus of \$471,382 be applied to the Property Acquisition and Development Reserve **be approved**.

And that corresponding By-law 52-2025 and By-law 53-2025 to debenture long-term debt with Ontario Infrastructure and Land Corporation, **be adopted** during the By-law stage of this Council Agenda.

## **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 and Investment activities.

The following discussion provides Council with an overview of the 2024 Financial Statements and highlight any significant changes or other matters of financial concern.

## **DISCUSSION**

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

### **Investment in UWSS Inc.**

In 2023 and prior, the Town's financial statements included its proportionate share (38.72%) of Union Water Supply System (UWSS) assets and liabilities. During the year, all assets and liabilities were transferred from the UWSS partnership to UWSS Inc. While the Town's ownership interest remains the same at 38.72%, this corporate re-organization has changed the manner in which the Town accounts for UWSS. All previous assets and liabilities associated with UWSS are now reported on a single line called 'Investment in UWSS Inc'. This investment will fluctuate from year to year based on the Town's share of UWSS Inc.'s profit or loss. Refer to Note 3 of Financial Statements for further details.

### **Cash and cash equivalents**

The Town's cash balance has decreased by \$11.1 million from 2023, however, this decrease is primarily related to the change in accounting treatment of UWSS assets. The 2023 cash balance included \$9.4 million of cash controlled by UWSS. The 2024 balance now reflects only the bank accounts or short-term investments held directly by the Town of Kingsville.

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

The Town's tax receivable balance is approximately \$1.5 million higher than 2023. Based on a review of outstanding balances, Administration believes this increase can be attributed in large part to the postal strike from November 15 – December 15<sup>th</sup> rather than a symptom of broader economic challenges.

### **Trade and other receivables**

This refers to water, sewer, drainage and other miscellaneous receivables owing to the Town at year end. The increase over 2023 is primarily attributable to an increase in water works performed and recoverable from the MTO (Ministry of Transportation) in regard to the Highway 3 expansion.

### **Drainage costs recoverable**

This refers to drainage work that has yet to be billed. This figure has increased from 2023 due to a general increase ongoing drainage projects.

### **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 into 4 main categories:

	2024	2023	Increase (Decrease)
Property Tax Supported	\$ 3,697,065	\$ 4,449,885	\$ (752,820)
Development Charge Supported	5,016,613	\$5,016,613	-
Debt Paid by Benefiting land owners	205,895	211,223	5,328
Union Water Debt	-	2,423,659	(2,423,659)
	<u>\$8,919,573</u>	<u>\$12,101,380</u>	<u>\$ 3,181,807</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, 2024, the Town's Unfinanced Capital balance consisted of the following;

	2024	2023	Increase (Decrease)
Wastewater Projects (Rate funded)	\$ -	\$ 20,251	\$ (20,251)
Road 2 E (Tax funded)	-	95,306	(95,306)
Lakeshore East Sewer (DC funded)	309,537	309,537	-
West Side Collector Rd (DC funded)	457,649	-	457,649
Water Meter Upgrade (Rate funded)	1,916,312	-	1,916,312
Road 2 E (DC funded)	5,684,665	4,380,061	1,304,604
SW Water Supply (DC funded)	2,094,169	1,893,637	200,532
	<u>\$10,462,332</u>	<u>\$6,698,792</u>	<u>\$ 3,763,540</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 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. In 2025, an additional \$6,827,556 was drawn on this loan. As these projects are now complete, Administration recommends converting its \$11,844,169 construction loan with a variable interest rate into a long-term debenture with a fixed repayment schedule (By-law 52-2025 & By-law 53-2025). This debt will be repaid through the future collection of Development Charges.

## 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 found on municipal properties. This standard requires public sector bodies to estimate the future cost of abatement and to record the projected liability on their balance sheet. Please refer to Notes 16 of the financial statements for the noted liability.

**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 65<sup>th</sup> 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, 2024, the Town has fully funded the employer contributions required under the OMERS pension plan.

**Deferred revenue**

Deferred Revenue consists of the following;

	2024	2023	Increase (Decrease)
Development Charges	\$ 87,639	\$ 9,263	\$ 78,376
Unspent Grants	3,116,489	2,694,567	421,923
	<u>\$ 3,204,128</u>	<u>\$ 2,703,830</u>	<u>\$ 500,299</u>

During 2024 the Town collected \$2,590,891 (2023- \$1,105,423) 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 A 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, 2024.

Under PSAB, the Town is reporting a surplus of \$11,612,484 for 2024. This surplus includes \$2.2M from our share of UWSS Inc.’s 2024 profit.

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.	Abetment costs are budgeted for in the year they are incurred.
Water & Wastewater & Building Depts.	The Financial Statements include all of the Town’s water,	For budgeting purposes, each of these operations have separate stand-alone budgets.

	wastewater and building department activities.	
Union Water Supply System	The Financial Statements include the Town's proportionate share of 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 \$471,382 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.

For perspective, this general budget surplus equates to 1.2% of the Town's Operating and Capital expenses during the year.

This surplus is primarily the result of savings due to staffing vacancies and other leaves of absence which are difficult to predict during budget preparation.

### **Budget Surplus Allocation**

Administration recommends applying the 2024 surplus towards the Property Acquisition and Development Reserve. This will put the Town in a better financial position to respond to strategic investment opportunities and reduce pressure on future tax rate increases.

### **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 2024, the Town benefited from a general rise in interest rates. Between term deposits and interest on savings accounts, the Town earned \$791,736 (2023 - \$821,036) of general investment income. Please refer to Appendix C for a schedule of the Town's financial security activities for the year. This schedule does not include interest on all 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.

As the prime rate has decreased from 7.2% on January 1, 2024 to 4.95% at present, Council should expect a significant reduction in interest income in 2025.

### **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 summary of the Town's reserve balances at year end. Excluding

UWSS Inc, the Town's overall reserve balance increased by approx. \$2.9M in 2024 due to increased contributions lifecycle reserves and strategic investments in the property acquisition & development reserve. Based on the latest Provincial Financial Indicator review (Appendix D), 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 2024 Financial Statements indicate that the Town is in a relatively healthy financial position. Operating revenue and expenses have remained relatively stable with 2023 and municipal reserve balances are growing. 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 disclose any financial requirements to keep infrastructure in a state of good repair. 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 infrastructure funding. During the 2025 budget, Council approved a \$650,000 increase to its road, bridge and facility life-cycle reserves, which was certainly another meaningful step towards long-term financial sustainability.

Although debt levels were relatively low as of year-end, Council should expect these balances to rise in the near future as the Town finances its existing 'Unfinanced Capital' for the Road 2 E road and watermain construction projects. It is no secret that the Town is currently facing infrastructure challenges to support growth in both the Ruthven (sewer capacity) and the west side settlement areas (water infrastructure). The Town will need to take on additional debt to enable these development-related infrastructure projects to proceed. Please refer to Appendix E for a summary of Existing and Projected Debt Repayments.

Although the Town is well within the debt ceiling prescribed by the Province, Council will need to carefully prioritize its strategic projects to avoid over-extending itself.

## **ENVIRONMENTAL CONSIDERATIONS**

There are no direct environmental considerations associated with this report.

## **CONSULTATIONS**

Financial Services Team

PREPARED BY:



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Margaret Schroeder, CPA, CGA  
Manager of Financial Services/Deputy Treasurer & Customer Service

REVIEWED BY:



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Ryan McLeod, CPA, CA  
Director of Finance & Corporate Services



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John Norton, CAO