



Council Report

Report Number: CORP2024-014
Meeting Date: June 25, 2024
Title: 2023 Audited Financial Statements
Description: 2023 Audited Financial Statements
Author and Title: Carolyn Daynes, CPA, CA

Recommendation(s):

That Report CORP2024-014, 2023 Audited Financial Statements, be received; and
That the financial statements for 2023 be approved as circulated.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

This report provides Council with the final 2023 financial position as the audit is complete and a draft audit opinion has been issued by Deloitte and Touche. Staff presented the 2023 Surplus Disposition Report on April 30, 2024 through Report CORP2024-011. In that report staff documented the variances rationale between the 2023 budget and 2023 actual results. Additionally, Staff recommended various reserve and deferred revenue transfers and received Council approval on the reserves utilized to offset the 2023 General Operating Surplus of \$3,204,262.62.

On April 30, 2024 the following resolution was passed:

11.1.4 CORP2024-011

Surplus Disposition

Carolyn Daynes, Treasurer

CR2024-222

Moved By Councillor Ashmore

Seconded By Councillor Richardson

That Report 2024-011, **2023 Surplus Disposition**, be received;

That Council approve the creation of a new reserve titled Environmental Disaster Recovery Reserve;

That Council approve the creation of a new reserve titled Primary Care Recruitment and Retention Reserve;

That Council approve the creation of a new reserve titled Water and Sewer User Rate Stabilization Reserve; and

That Council authorize the transfer of the 2023 Surplus of \$3,204,262.62 as follows:

- \$150,000.00 donation to Kawartha Art Gallery
- \$28,000.00 donation to Contingency Reserve – held for Community Foundation funding decision scheduled for June 2024
- \$100,000.00 donation to Kawartha Lakes Healthcare Initiative (KLHCI)
- \$100,000.00 be transferred to Environment Disaster Recovery Reserve
- \$1,100,000.00 be transferred to Asset Management Reserve committed to Victoria Manor lifecycle extension capital improvements
- \$500,000.00 to Primary Care Recruitment and Retention Reserve

- \$1,226,262.62 be transferred to General Tax Stabilization Reserve

That Council approve the reclassification of the following reserves:

- 911 Atlas Reserves (1.32075) of \$16,134.50 be transferred to General Contingency Reserve – committed to Planning (1.32090), and;
- Somerville Heritage Reserve (1.24065) of \$8,539.63 be transferred to City Heritage Reserve committed to Somerville Heritage (1.32275); and,
- Economic Development Reserve (1.32080) of \$576,743.34 be transferred to Tax Stabilization Reserve, committed for Economic Development (1.32285) and the Economic Development reserve category be eliminated; and,
- Fire Grant commitment in General Contingency Reserve (1.32090) of \$14,512.85 be transferred to Fleet Reserve – committed to Fire (1.32070); and,
- Employee Survey commitment in General Contingency Reserve (1.32090) of \$24,429.25 be moved to People Services Rate Stabilization Reserve (1.32040); and,
- Agriculture Land Lease commitment in General Contingency Reserve (1.32090) of \$125,702.81 be moved to Property Development Reserve. (1.32035); and,
- Lindsay Tree Levy Reserve (3.24085) of \$18,656.77 be transferred to Tree Canopy Reserve (3.32272); and,
- General Contingency Reserve – committed to Winter Control (1.32090) of \$2,131,473.12 be transferred to General Tax Stabilization Reserve (1.32285) - committed to Winter Control; and,
- Social Committee Reserve (1.32240) of \$10,661.03 be transferred to People Services division 2024 Budget; and,
- Legacy CHEST Funds totaling approximately \$23 Million be transferred to a new Reserve Category entitled Legacy CHEST Funds; and,
- Building Reserve (1.32205) of \$3,712,985.13 be categorized as an obligatory reserve with interest applied annually and placed in Obligatory Reserve category; and,

- Developing Opportunities to Ontario Renters (DOOR) Reserve of \$1,325,191.73 be transferred from Rate Reserve Category to Obligatory Reserve category; and,
- Forbert Pool/Dike Downey Estate Reserve (3.24060) of \$211,203.44 be transferred to City’s Trust Fund as a separate fund; and,
- Smith Manvers Reserve (3.24075) of \$44,364.75 be transferred to City’s Trust Fund as a separate fund; and

That Council approve the transfer of deferred grant revenue of \$347,552.02 to the following reserves as per Table F below:

- Capital Contingency Reserve -1.32248 \$17,224.73
- Fleet Reserve –Committed to PW Fleet – 1.32070 \$7,364.88
- Fleet Reserve – Committed to Paramedics-1.32070 \$4,781.48
- Asset Management Reserve – 1.32045 \$318,180.93

The Financial Statement Audit resulted in no changes to the Operating (Surplus)/Deficit and the surplus amounts mentioned in the 2023 Surplus Disposition Report remain the same.. Please see below for the final overall surplus for 2023.

TABLE 1: 2023 OVERALL RESULTS		
	2023	2022
General Rate Surplus	\$ (3,204,262.62)	\$ (4,562,613.11)
Area Rate Deficit	381,823.06	(1,805.80)
Water and Wastewater	-	-
KLHHC	(382,494.11)	-
	\$ (3,204,933.67)	\$ (4,564,418.91)

The General Rate Surplus was dispersed as per Council resolution noted above on April 30, 2024. The Area Rate Deficit is addressed as per table below. Finally, the KLH HC Surplus will be transferred to the Operating Surplus Reserve in KLH HC as per past Council resolution.

As supplementary information the Area Rate Deficit was made up of the following balances:

TABLE 2 - AREA RATING		
Area Rating		
(Surplus)/Deficit	2023 Ending	2022 Ending
Fire Area A	61,442.80	(3,632.37)
Fire Area C	-	-
Transit	8,418.58	(5,173.43)
Lindsay Parks	(13,943.45)	-
Streetlighting	125,905.13	7,000.00
OPP	-	-
KLPS	200,000.00	-
	381,823.06	(1,805.80)

The deficits in the Table above will be raised by the 2024 Area Rate Tax Levy for each individual area as prescribed by Council Policy and the Municipal Act.

Rationale:

As Revenue and Expenditure accounts were highlighted in CORP2024-011 "2023 Surplus Disposition" this report will concentrate on the Balance Sheet variances.

Cash and Investments

Cash has reduced by approximately \$8M with investments increasing by \$11.7M. At the end of 2022 the City chose not to debenture approved capital projects as many projects were still ongoing and not complete. In 2023 the City debentured approximately \$15M in December and put this into investments to earn the higher interest at the end of 2023.

Tax Arrears

The 2023 balance in tax arrears of \$9.3M is down from the 2022 level of \$10.8M. This is higher than the pre-pandemic level of tax arrears of approximately \$5.6M in 2019. Collection efforts of tax arrears was halted throughout the pandemic and only re-instated in August of 2022. The effectiveness of collection efforts is evident in the decrease of the tax arrears from the height of the pandemic of \$12.1M to a reduction of \$1.3M in 2022 and \$1.4M in 2023. One key indicator that the Ministry looks at to inform whether tax arrears are reasonable is comparing the total taxes levied against the arrears balance. A ratio below 10% is consider Low Risk. Table 3 below depicts the ratio since 2018.

Table 3 - Tax Arrears versus Total Taxes Levied Ratio:

Year	Arrears vs Taxes Levied Ratio
2023	5.67%
2022	6.80%
2021	8.13%
2020	7.00%
2019	3.95%
2018	3.59%

Water and Wastewater (WWW) Billing Receivable

The WWW billing receivable is part of the Accounts Receivable in the Balance Sheet of the 2023 Audited Financial Statements in Attachment A. The arrears have increased from pre-pandemic levels of \$2.3M to the current balance of \$3.2M. Staff looked at a similar ratio to the Tax Arrears above and have applied this to the total WWW revenue collected in the year. The WWW billing arrear versus Total WWW Revenue Ratio and the ratio continues to track high at 23.58% in 2023 compared to a pre-pandemic ratio of 21.23%. Collection efforts were suspended in the pandemic years, however a pre-pandemic ratio of 21.23% is still a cause for concern given the level of tax arrears and the relatively low 2023 ratio of 5.67%. The City has collection processes to assist in keeping the WWW billed arrears down and had suspended these methods even prior to the pandemic. The City has the ability, as per By-Law 2021-162 to perform the following:

- 1) The City may shut off the water supply to a ratepayer. The bylaw states the following:

The City may shut off the supply of water to a property if:

- a. *The charges, fees or rates imposed by this By-law or any other City By-law providing for charges, fees or rates in relation to the treatment and supply of water or collection and treatment of wastewater are overdue.*
- 2) The City may offer the ratepayer various payment options to pay off their arrears; and
 - 3) The City can transfer the balance in the water arrears to the ratepayers' tax account where the collection becomes similar to tax arrears where the property could be sold if there are arrears and no payments on these arrears for three years.

Collection efforts have begun in 2023. Additionally, starting in early 2024, the City has instituted the water supply shut off option and the first batch of shut offs will be acted

upon shortly. This will assist with reducing the total WWW billing arrears vs the total WWW revenue billed to a more acceptable level by the end of 2024 and in the future.

Long Term Debt:

Long Term Debt increased in 2023 by approximately \$2.0M. Staff debentured approximately \$15M of capital projects in December 2023 but this was offset by approximately \$13M of debt principle repayments made throughout the 2023 year.

The long term debt balance of \$121,781,239 is a combination of debt raised for Tax, Water and Wastewater (WWW) and KLH HC capital projects. There is also a balance outstanding for Development Charge Reserve financing to build growth infrastructure.

Finally, there is the NWT debt that was utilized to finance the construction costs of NWT sewer infrastructure until the developers paid off the capital charge owing upon the start of their developments. This debt is fully funded by the developers in that benefitting area. The total debt in each category has a different funding source as per Table 4 below:

Table 4 – Long Term Debt

Type of Debt	Balance 2023	Source of Financing
Capital Budgets – Tax	\$ 34,469,347	General Tax Levy
Capital Budgets – WWW	\$ 42,575,777	WWW User Rates
Capital Budgets – KLH HC	\$ 10,864,850	General Tax Levy
DC Tax Levy/WWW	\$ 25,869,377	Development Charge Reserve from DC Collections
Northwest Trunk Debt(NWT)	\$ 8,001,888	Developers in the NWT
TOTAL DEBT	\$ 121,781,239	

As stated in the Long Range Financial Plan presentation in early June the City of Kawartha Lakes (CKL) is governed by a Ministry prescribed Annual Repayment Limit (ARL). CKL is legislated to stay within this limit and this includes tax, water and wastewater and KLH HC funded debt. There are two exceptions in the list above, as to the inclusion in the ARL. These are the DC Tax Levy/WWW debt as it is funded by Development Charge collection and the NWT Debt as the Developers are responsible for this debt.

The ARL is calculated using total revenue net of grants and obligatory reserve funds. The total result is multiplied by 25% to get the Total ARL for the City or the total debt and interest payments that the City can incur and still be within this limit. The Annual Repayment Limit in 2023 is \$51.75M in debt principle and interest (P and I) payments.

The City has incurred approximately \$14M in debt P and I payments in 2023. Therefore, there is still room for an additional \$37.75M in debt P and I payments that can be incurred and be compliant with this limit. This level of debt P and I payments transfers into approximately \$692M in debt over a 30-year term. Staff are not suggesting this level of debt be built into the City's long range financial plan (LRFP). Instead, when the LRFP comes forward in June 2025, along with the Asset Management Plan legislated update, Staff will be recommending a limit that is considerably lower than the ARL.

A formal Debenture Policy and Strategy, will be brought forward at a later date. This Policy and Strategy will indicate the overall City debt repayment limit and how that limit will be split between Tax, WWW and KLH HC capital projects.

Reserves and Obligatory Reserves

Reserves are savings accounts for CKL in which money is put away to fund various capital and operating programs. Council can make motions to remove, add and change the use of reserves. Reserves are an essential part of the overall budget. A formal Reserve Policy and Strategy will be coming forward later. This policy and strategy will be built around the Asset Management Plan and the Operating portion of the LRFP and will include reserve optimal balances and use around each reserve.

The level of reserves at the end of 2023 can be found on page 17 of the 2023 Audited Financial Statements and in Note 9 which is Accumulated Surplus. Ending 2023 Reserves were approximately \$48.3M compared to a balance of \$50.5M in 2022. This reduction can be related to the reduction in pandemic grants that were placed in reserves in 2021 and 2022. The last of their balance was utilized in 2023. The 2024 and future budgets will be developed with an objective of building various reserves in order to support the Operating and Capital Long Range Financial Plan.

Obligatory Reserves are similar to reserves and can be found in the Deferred Revenue Note 6 on page 13 of the attached 2023 Audited Financial Statements. The balance in Obligatory funds at the end of 2023 are \$33.2M compared to a \$34.3M balance in 2022. This reduction is primarily centred around the use of the Gas Tax Reserves and Parkland-In-Lieu in the increased Capital budget in 2023. Obligatory reserves are more prescriptive in nature and are subject to government legislation which restricts their use to certain areas. Council has little control over these obligatory reserves.

Please see Attachment B for a list of the City of Kawartha Lakes General Reserves and Obligatory Reserves at December 31, 2023 and YTD values at April 30, 2024.

Change in Accounting Policies

In Note 2 on page 10 of the CKL Financial Statements there is a list of accounting policies that have changed in the year. The only policy that materially affects the financial statements is the PS3280 -Asset Retirement Obligation (ARO) Standard. Staff are planning to bring a report to Council in July to summarize the new standard and the ARO policy. This standard requires the City to recognize legally obligated costs associated with the retirement of tangible capital assets on acquisition, construction or development and expense those costs systematically over the life of the asset. This primarily related to asbestos in buildings and there is a reduction in the value of the asset but also a future liability on the Balance Sheet that will be drawn down on an annual basis.

Trust Fund Statements

The Trust Fund Financial Statements are included with the overall statements in Attachment A. Trust funds, in this statement, are specifically set aside by legislation. The largest trust fund that the City administers is the Cemetery Perpetual Care Trust Funds. The interest earned on the investment of the Cemetery funds is transferred to operations each year to assist with expenditures for the maintenance of the City cemeteries.

Other Alternatives Considered:

There are no other alternatives to consider. The City of Kawartha Lakes has a positive audit opinion and after the adoption of the financial statements the 2023-year end will be complete.

Alignment to Strategic Priorities

The 2023 Financial Statement Report supports the strategic goal of Good Government. This report brings accountability to the City of Kawartha Lakes in that a positive audit opinion indicates that the CKL 2023 Financial Statement is fairly stated according to all accounting regulations and there are no material misstatements.

Financial/Operation Impacts:

There is no financial impact to this report. Council approval is being sought for the successful completion of the 2023 Audit and the resulting Financial Statements.

Consultations:

Deloitte Touche
Treasury Staff

Attachments:

Attachment A – Draft CKL 2023 Audited Financial Statements



Appendix A

Attachment B – General Reserve and Obligatory Funds at December 31, 2023 and April 30, 2024



Appendix B

Department Head email: sbeukeboom@kawarthalakes.ca

Department Head: Sara Beukeboom

Department File: Corporate Services