Town of Huntsville Staff Report

Meeting Date: February 25, 2019

To: Council

Report Number: CORP-2019-07

Confidential: No

Author(s): Julia McKenzie, Manager of Finance/Treasurer

Subject: Budget Matters – Excluded Expense 2019

Report Highlights

Requirements under Ontario Regulation 284-09

Recommendation


Background

The Corporation of the Town of Huntsville is required under Ontario Regulation 284/09 to report on certain expenses that have been excluded from the annual budget.

Municipalities may exclude from the budget for a year a portion or all of the following expenses:

- Amortization Expenses
- Post-employment benefits expenses
- Solid waste landfill closure and post-closure expenses

The report must provide the following information:

1. An estimate of the change in the accumulated surplus of the municipality or local board to the end of the year resulting from the exclusion of any of the expenses listed above, and
2. An analysis of the estimated impact of the exclusion of any of the expenses listed in the above on the future tangible capital asset funding requirements of the municipality or local board. O. Reg. 284/09, s.3

Discussion
Currently and historically, the Town of Huntsville budget has been prepared on a “modified accrual basis” which illustrates to the readers how the municipality is using the funds raised in any given year. Municipalities are required to prepare financial reporting on the “full accrual basis” of accounting to show the users of the financial information the changes in the value of the assets held by the municipality.

Because the annual budget and the annual financial statements are prepared using two different methods of accounting, these two methods need to be reconciled each year. Reconciling the annual budget using the “full accrual basis” of accounting explains how the budget would look if it was done on the same basis as the annual financial statements.

The accumulated surplus of the Town of Huntsville is comprised mainly of:

- Investment in tangible capital assets (TCA)
- Investment in Lakeland Holdings
- Investment in inventory of supplies
- Reserve and reserve funds
- Unfunded liabilities
- Capital funds

As per Schedule “A”, the estimated impact of the Draft 2019 budget on accumulated surplus is an increase of just over $730,000 over the estimated prior year’s accumulated surplus, bringing the total estimated accumulated surplus as at December 31, 2019 to approximately $95 million.

Amortization Expense:

The impact of amortization on the accumulated surplus for 2019 is an estimated reduction of $6.8M. However, offsetting amortization is the funding for the acquisition of tangible capital assets in the budget of $9.2M as well as $2.7M in funds set aside in reserves to repay for past or future purchases of tangible capital assets.

Post Employment Benefits Expense:

The impact of any liabilities and expenses relating to post-employment benefits not budgeted for would be nominal.

Solid Waste Landfill Closure and Post-Closure Expenses:

The Town of Huntsville does not currently have any liabilities associated with solid waste landfills as this function is performed by the District of Muskoka. The impact of excluding this type of expense in the budget would be nil.

Options

n/a

Capital
Currently the Town of Huntsville is “consuming” its existing tangible capital assets at a rate of approximately $6.8M per annum and proposing a budget of $9.2M for capital purchases with a significant portion of that funding coming from reserves. On average the amortization of capital assets is $7M per year, with capital spending on average $6M, based on historical rates there is a deficit in the replacement of existing capital of $1M. If current replacement costs are used, this deficit will likely be much greater. Additional funding will be required in future budgets to maintain existing tangible capital.

Council Strategic Direction / Relevant Policies / Legislation / Resolutions

Municipal Act, 2001 – O. Reg 284/09, Budget Matters – Expenses
Public Sector Accounting Standards, PS P3150

Attachments

Schedule A - Budget Matters - Excluded Expense 2019

Respectfully Submitted: Julia McKenzie, Manager of Finance/Treasurer

Manager Approval (if required): ________________________________

Director Approval: Yvonne Aubichon, Director of Corporate Services

CAO Approval: Denise Corry, Chief Administrative Officer
## Schedule A - Accrual-Basis Budget Reconciliation

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2019 Draft Budget</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>19,598,321</td>
<td>Operating</td>
</tr>
<tr>
<td>Capital</td>
<td>9,224,907</td>
<td>Capital</td>
</tr>
<tr>
<td>Less</td>
<td>Less</td>
<td>Less</td>
</tr>
<tr>
<td>Debenture Proceeds</td>
<td>-</td>
<td>xFr to (from) Reserves - Operating</td>
</tr>
<tr>
<td>Lakeland Div.</td>
<td>(424,000)</td>
<td>Capital Expenses</td>
</tr>
<tr>
<td>xFr to (from) Reserves - Capital</td>
<td>(3,558,608)</td>
<td>Debt Principle Pmt</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>24,840,620</td>
<td><strong>Total Expenses</strong></td>
</tr>
</tbody>
</table>

**Annual Surplus Before Exclusions** 6,120,034

### Exclusions

- Estimated amortization of TCA  
  (6,800,000)
- Estimated post-employment benefits  
  -
- Estimated solid waste landfill closure and post-closure  
  -
- Estimated Share of Income from Lakeland Holding  
  1,410,000

**Estimated Change in Annual Surplus/(Deficit) After Exclusions - 31 Dec 19** 730,034