

# Audited Financial Statements

For the year ended  
December 31, 2023

# Presentation Content



- Understanding the Financial Statements
- New Accounting Standard: Asset Retirement Obligations
- Key Financial Indicators
- Audit Findings Report (presented by KPMG)

# Understanding the Financial Statements



Key differences in these financial statements:

- Consolidated
- Include operating, capital and reserves
- Reported in compliance with Canadian public sector accounting standards
  - New in 2023: asset retirement obligations and financial instruments

# Annual Surplus Reconciliation



## ***Reconciliation of Operating Surplus to Consolidated Annual Surplus***

	Year Ended Dec 31, 2023	Year Ended Dec 31, 2022
Tax supported surplus (deficit)	3,061,315	1,234,927
Enterprise surplus (deficit)	2,747,877	6,037,951
<b>Total operating surplus (deficit)</b>	<b>5,809,192</b>	<b>7,272,878</b>
<b>Consolidation</b>	<b>8,155,286</b>	<b>13,390,081</b>
<b>Revenues not included in operating surplus</b>		
Gain on dilution from prior interest in Kitchener Power Corp. and its affiliates	1,503,675	71,288,452
Reserve fund revenue	40,038,669	43,749,511
Contributions of tangible capital assets	22,638,316	20,157,534
Gain (loss) on sale of tangible capital assets	156,410	(1,854,020)
Other capital revenue	10,360,845	10,135,022
	<b>74,697,916</b>	<b>143,476,499</b>
<b>Items in operating surplus, not in consolidated statements</b>		
Net transfers to capital and reserves	112,285,025	92,730,228
Various PSAB adjustments	4,993,282	4,099,189
	<b>117,278,307</b>	<b>96,829,417</b>
<b>COK expenses not included in operating surplus</b>		
Amortization of tangible capital assets	(62,174,528)	(62,634,282)
Other capital expenses	(24,105,822)	(21,626,744)
Change in actuarial estimate for employee future benefits	(9,620)	(415,195)
Reserve fund expenses	(6,039,379)	(4,128,026)
Other adjustments	929,494	946,479
	<b>(91,399,855)</b>	<b>(87,857,768)</b>
<b>Annual surplus per consolidated financial statements</b>	<b>114,540,846</b>	<b>173,111,106</b>

# New Accounting Standard: ARO - Definitions



An **asset retirement obligation** is a legal obligation associated with the retirement of a Tangible Capital Asset (TCA).

**Asset retirement activities** include, but are not limited to:

- decommissioning or dismantling a TCA that was acquired, constructed or developed;
- remediation of contamination of a TCA created by its normal use;
- Post-retirement activities such as monitoring; and
- Constructing other TCA to perform post-retirement activities

They **do not include** TCA replacement costs, maintenance costs, or remediation of contaminated sites.

# New Accounting Standard: ARO – Impact on the Financial Statements



## Excerpt from Note 2 Change in accounting policy:

	2022 Before	Adjustment	2022 As Restated
Tangible capital assets	1,467,695,615	35,521,558	1,503,217,173
Asset retirement obligations	-	(102,915,713)	(102,915,713)
Accumulated operating surplus, beginning of year	(1,705,198,678)	59,872,770	(1,645,325,908)
Materials and services	176,455,871	(1,070,617)	175,385,254
Amortization expense	56,628,375	8,535,758	65,164,133
Loss on disposals of tangible capital assets	1,617,558	56,244	1,673,802

# New Accounting Standard: ARO - Breakdown



## Excerpt from Note 15 Asset retirement obligations:

	<b>Buildings and Leasehold Improvements (Asbestos)</b>	<b>Machinery and Equipment (Storage Tanks)</b>	<b>Linear Assets (Gas Mains and Service Lines)</b>	<b>Total</b>
Balance, January 1, 2023	13,073,303	474,072	89,368,338	102,915,713
Liabilities incurred	-	-	1,301,374	1,301,374
Liabilities settled	-	-	(1,195,776)	(1,195,776)
Change in estimate	916,961	25,928	7,371,449	8,314,338
Balance, December 31, 2023	13,990,264	500,000	96,845,385	111,335,649

# Key Financial Indicators



- 1) Taxes receivable to taxes levied
- 2) Reserves to expenses
- 3) Debt charges to total revenues (less donated TCAs)
- 4) Debt to reserve ratio
- 5) Financial assets to liabilities



# Key Financial Indicators



## INDICATOR #1: TAXES RECEIVABLE TO TAXES LEVIED

**Overview:** This ratio is a strong indicator of the strength of a local economy and the ability of residents to pay their annual taxes. The Ministry of Municipal Affairs and Housing (MMAH) has recommended a maximum ratio of 10%.

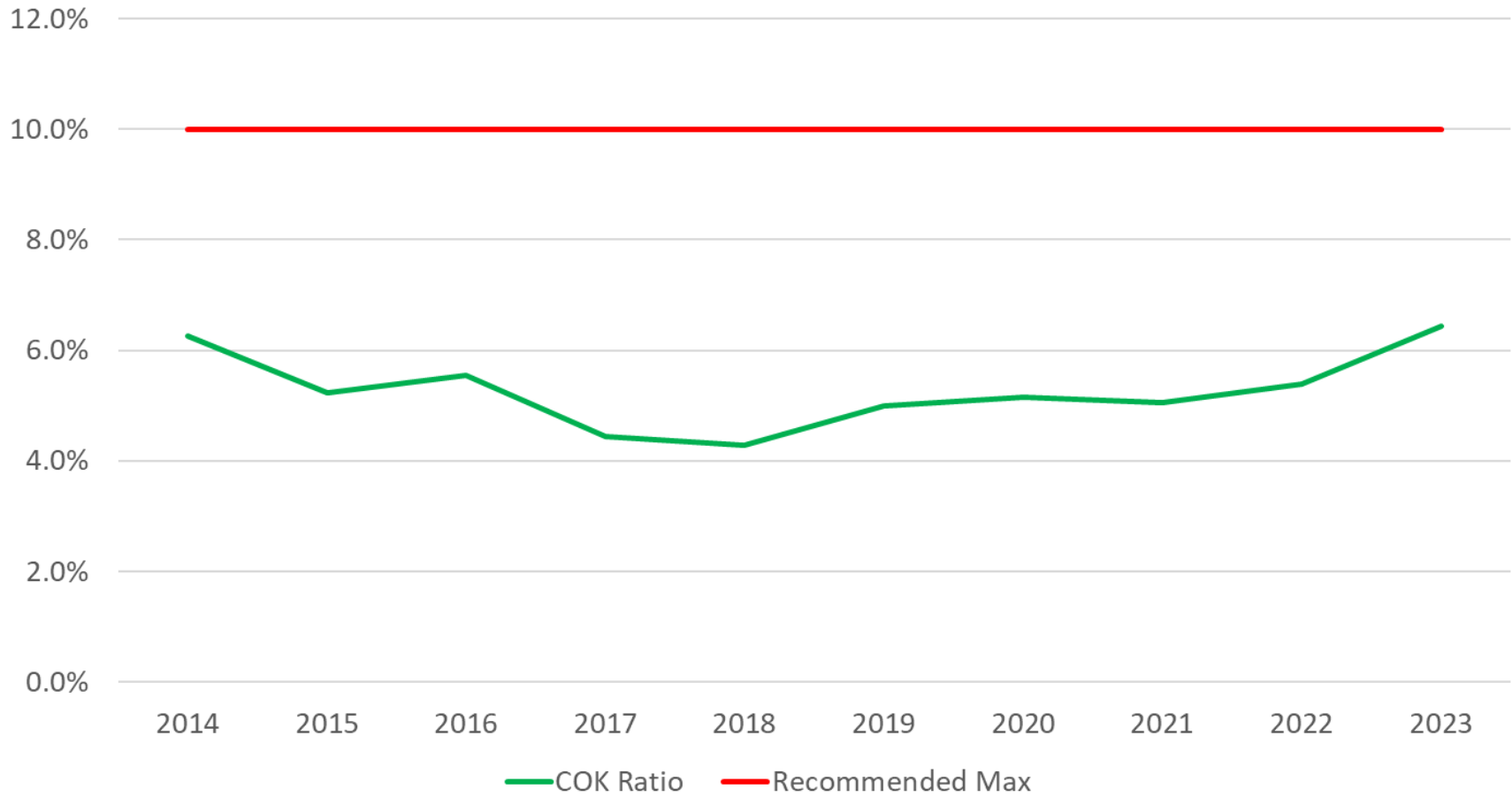
**Calculation:** Taxes receivable / (Total taxes levied - Tax adjustments)

**Considerations:** If this percentage increases over time, it may indicate a decline in the municipality's economic health.

# Key Financial Indicators



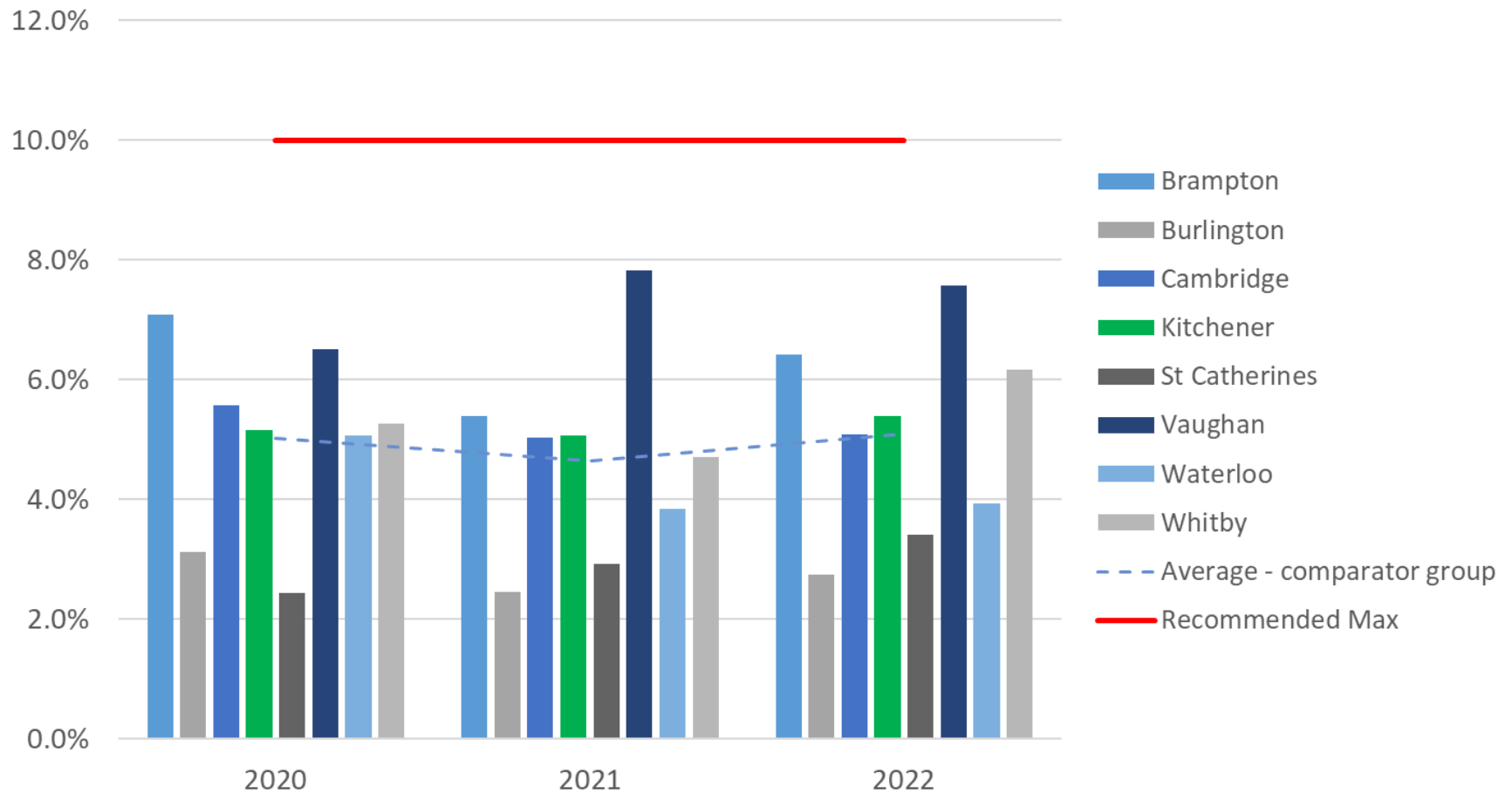
## TAXES RECEIVABLE TO TAXES LEVIED - TREND ANALYSIS



# Key Financial Indicators



## TAXES RECEIVABLE TO TAXES LEVIED - COMPARISON WITH PEERS



# Key Financial Indicators



## INDICATOR #2: RESERVES TO EXPENSES

**Overview:** This financial indicator provides an indication of how much money is set aside for future needs/contingencies. MMAH has recommended a minimum ratio of 20%.

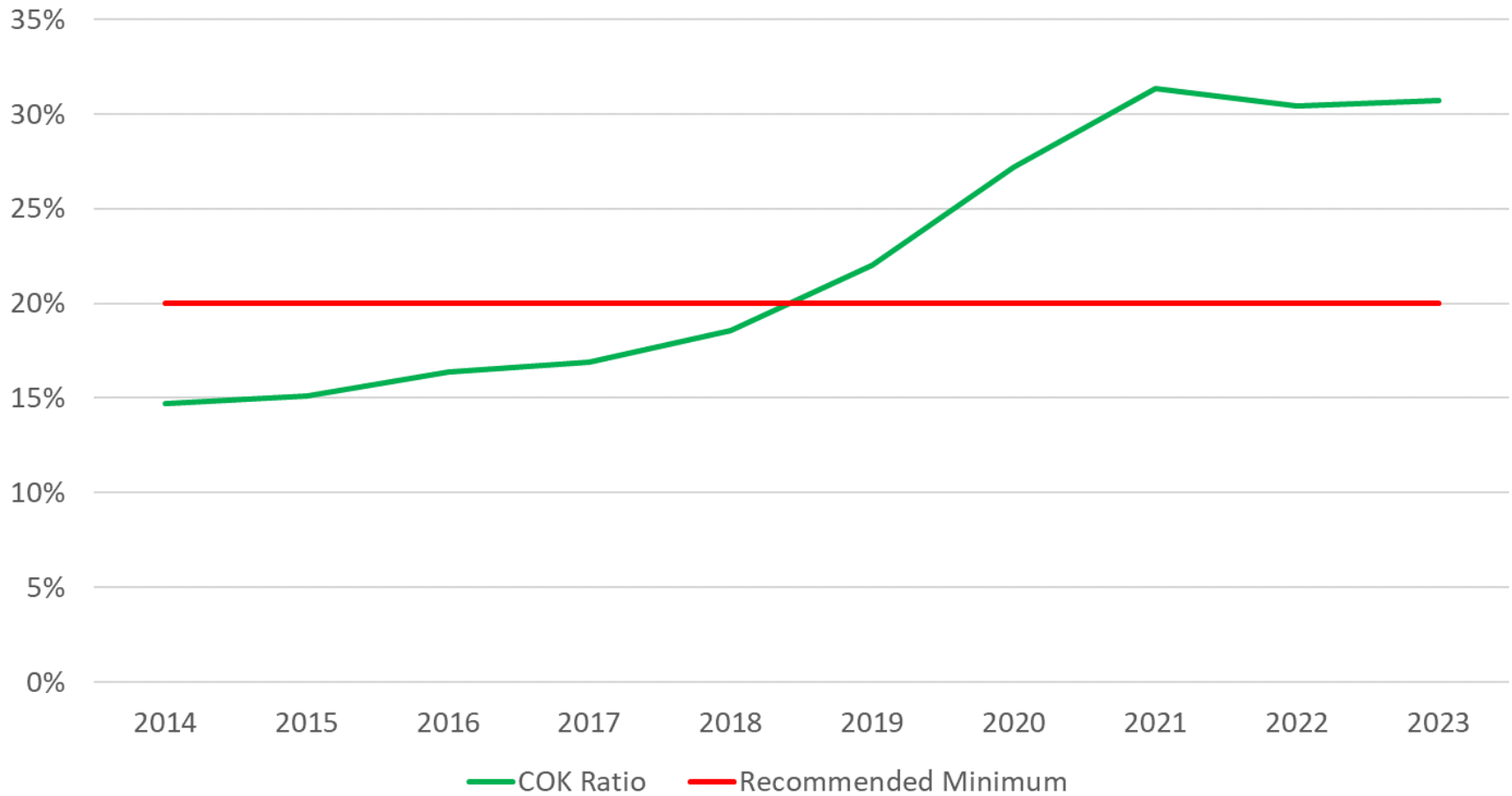
**Calculation:** Total reserves and reserve funds / Total expenses

**Considerations:** Each reserve and reserve fund was set up to fund specific activities. Reserves would not be combined and used to fund general expenditures.

# Key Financial Indicators



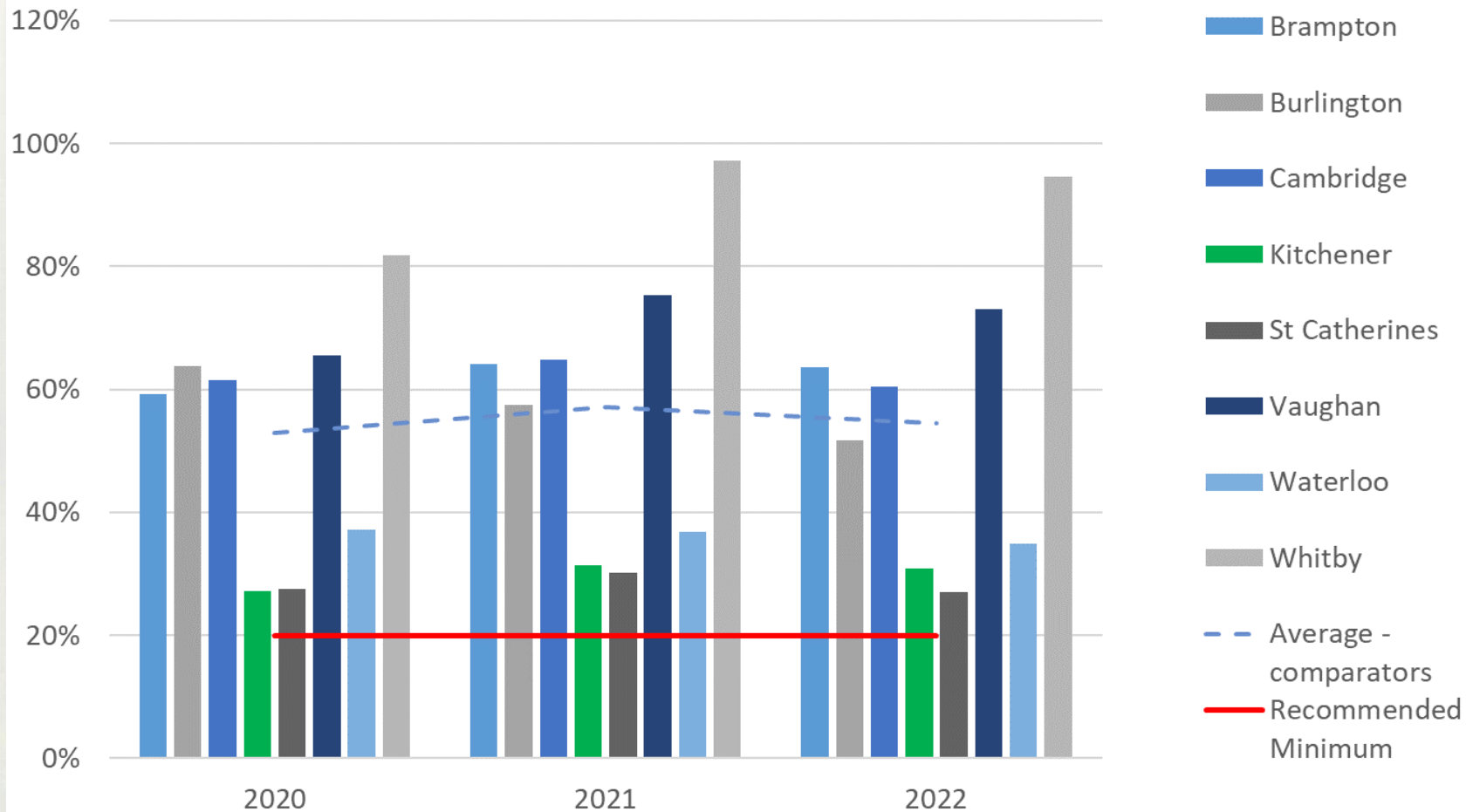
## RESERVES TO EXPENSES - TREND ANALYSIS



# Key Financial Indicators



## RESERVES TO EXPENSES - COMPARISON WITH PEERS



# Key Financial Indicators



## INDICATOR #3: DEBT CHARGES TO TOTAL REVENUES (LESS DONATED TCAs)

**Overview:** This ratio indicates how much of each dollar raised in revenue is spent on paying down existing debt. MMAH has recommended a maximum ratio of 5%.

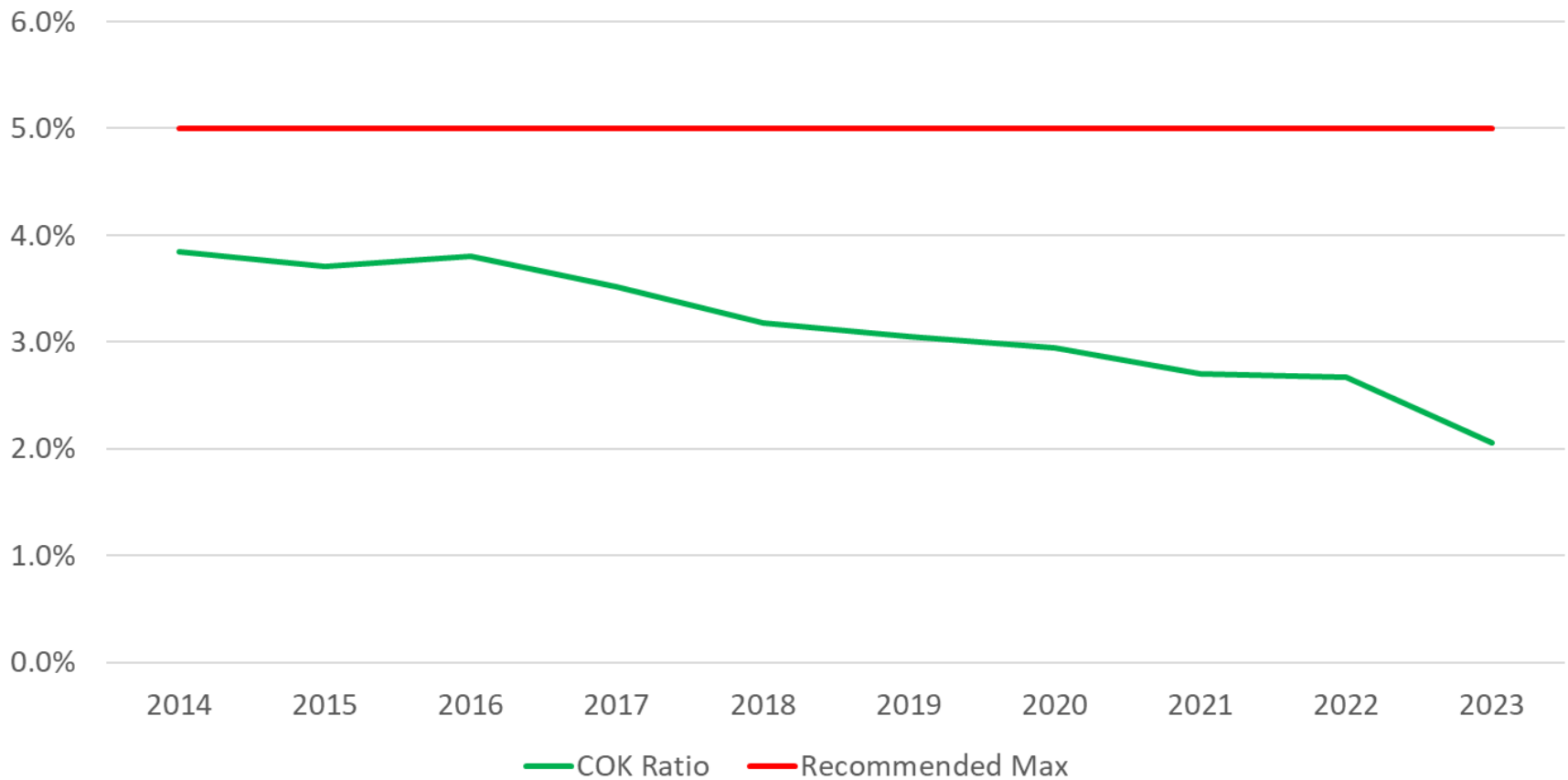
**Calculation:**  $(\text{Total principal charges} + \text{Total interest charges}) / (\text{Total Revenues} - \text{Donated TCAs})$

**Considerations:** Every municipality and Council will have a different appetite for debt. The City's ability to issue additional debt may be limited if debt charges are excessively high. The City's borrowing is also limited by Ontario Regulation 403/02: Debt and Financial Obligation Limits and by the City's Capital Financing and Debt policy.

# Key Financial Indicators



**DEBT CHARGES TO TOTAL REVENUES (LESS DONATED TCAs) - TREND ANALYSIS**

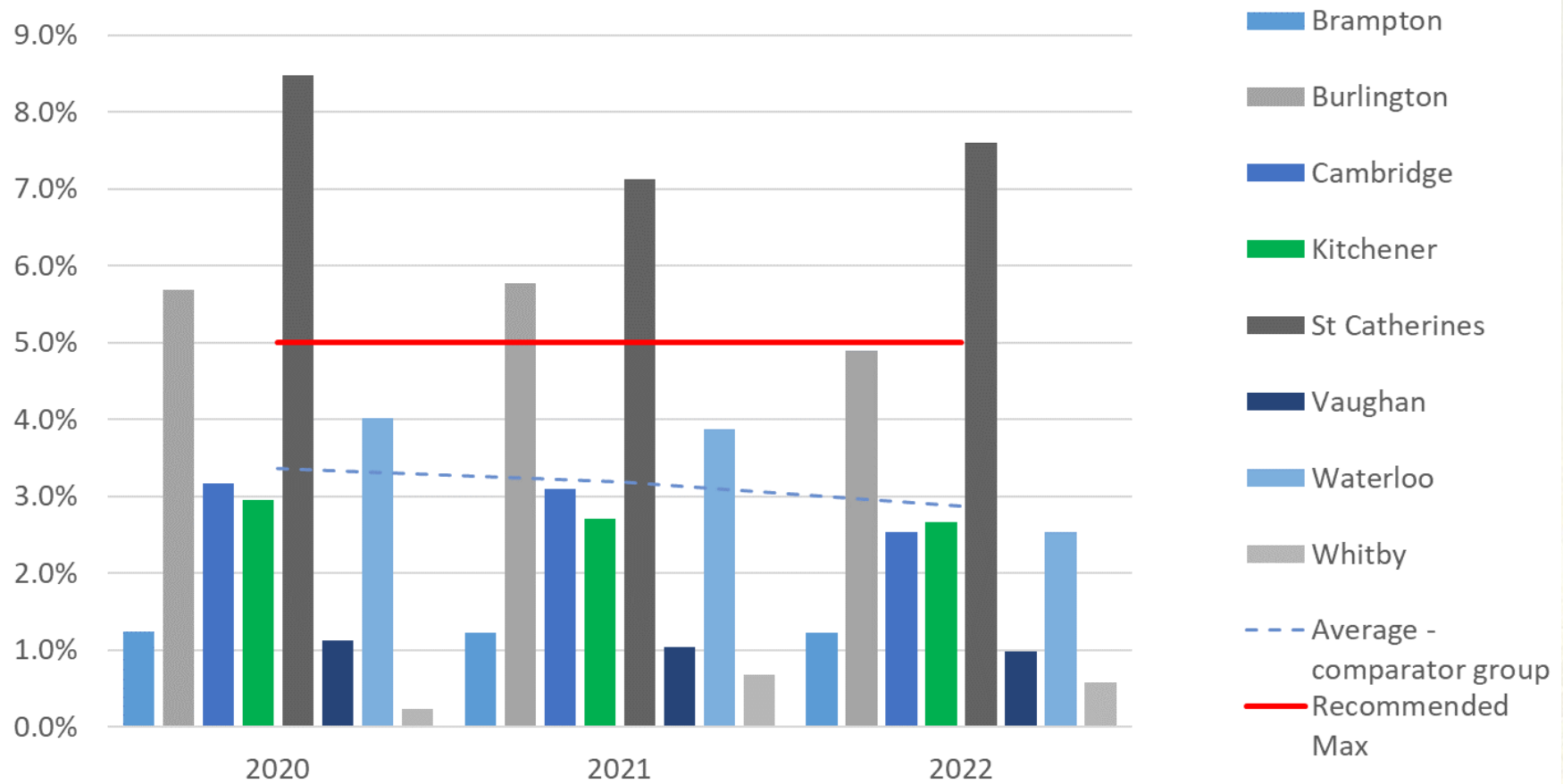




# Key Financial Indicators



**DEBT CHARGES TO TOTAL REVENUES (LESS DONATED TCAs) -  
COMPARISON WITH PEERS**



# Key Financial Indicators



## INDICATOR #4: DEBT TO RESERVE RATIO

**Overview:** This indicator provides a measure for financial prudence by comparing total debt to the total reserve balances. Generally, the benchmark suggested by credit rating agencies for this ratio is 1:1 or in other words, debt should not exceed total reserve and reserve fund balances. A 1:1 ratio reflects that for every dollar of debt there is a dollar of reserves.

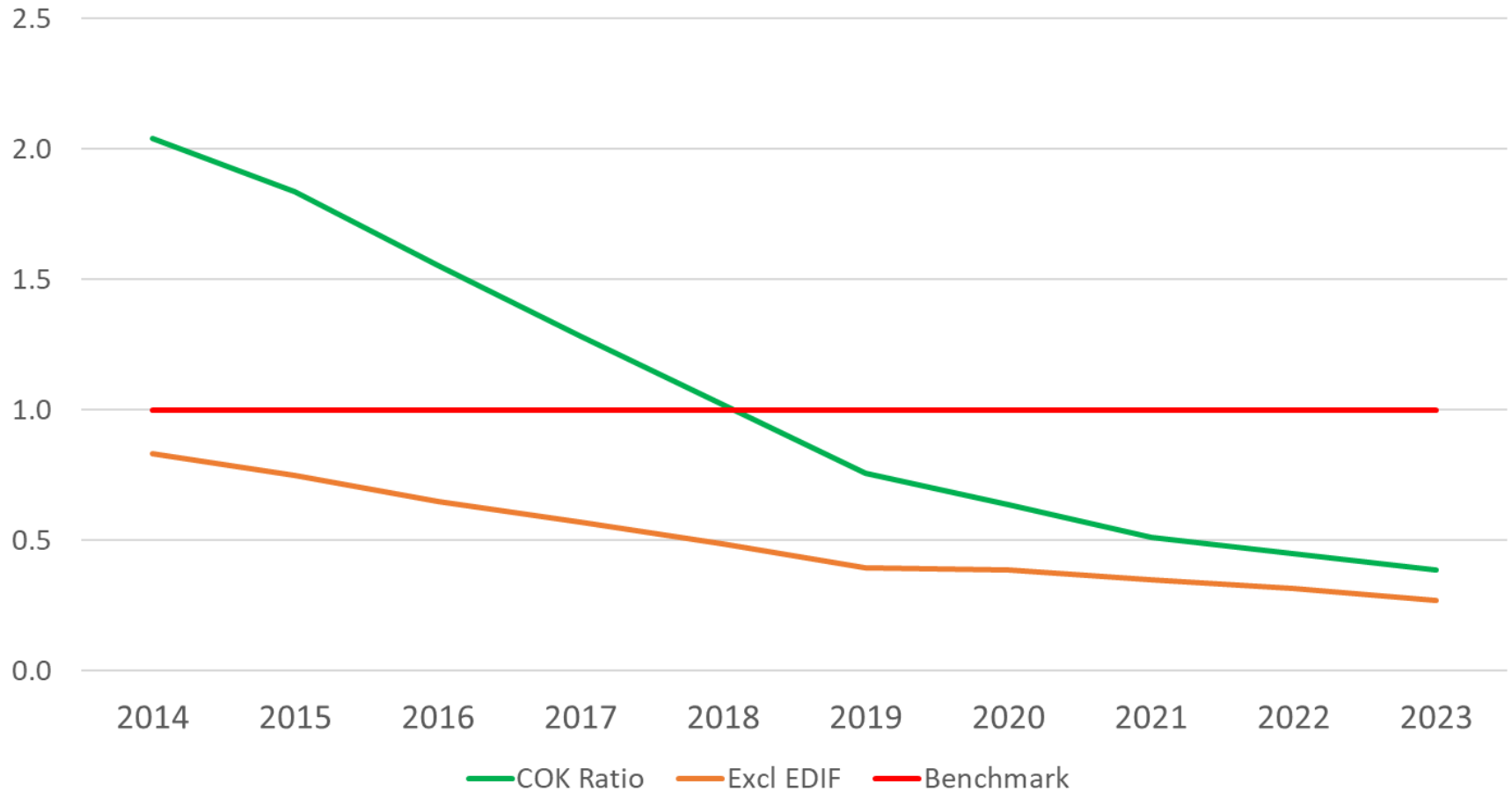
**Calculation:** Total debt / Total reserves and reserve funds

**Considerations:** This ratio can be improved by either increasing reserve balances or by reducing overall debt levels. Most debt has a fixed repayment term so municipalities often would not have the ability to pay down debt even if they held the funds to do so.

# Key Financial Indicators



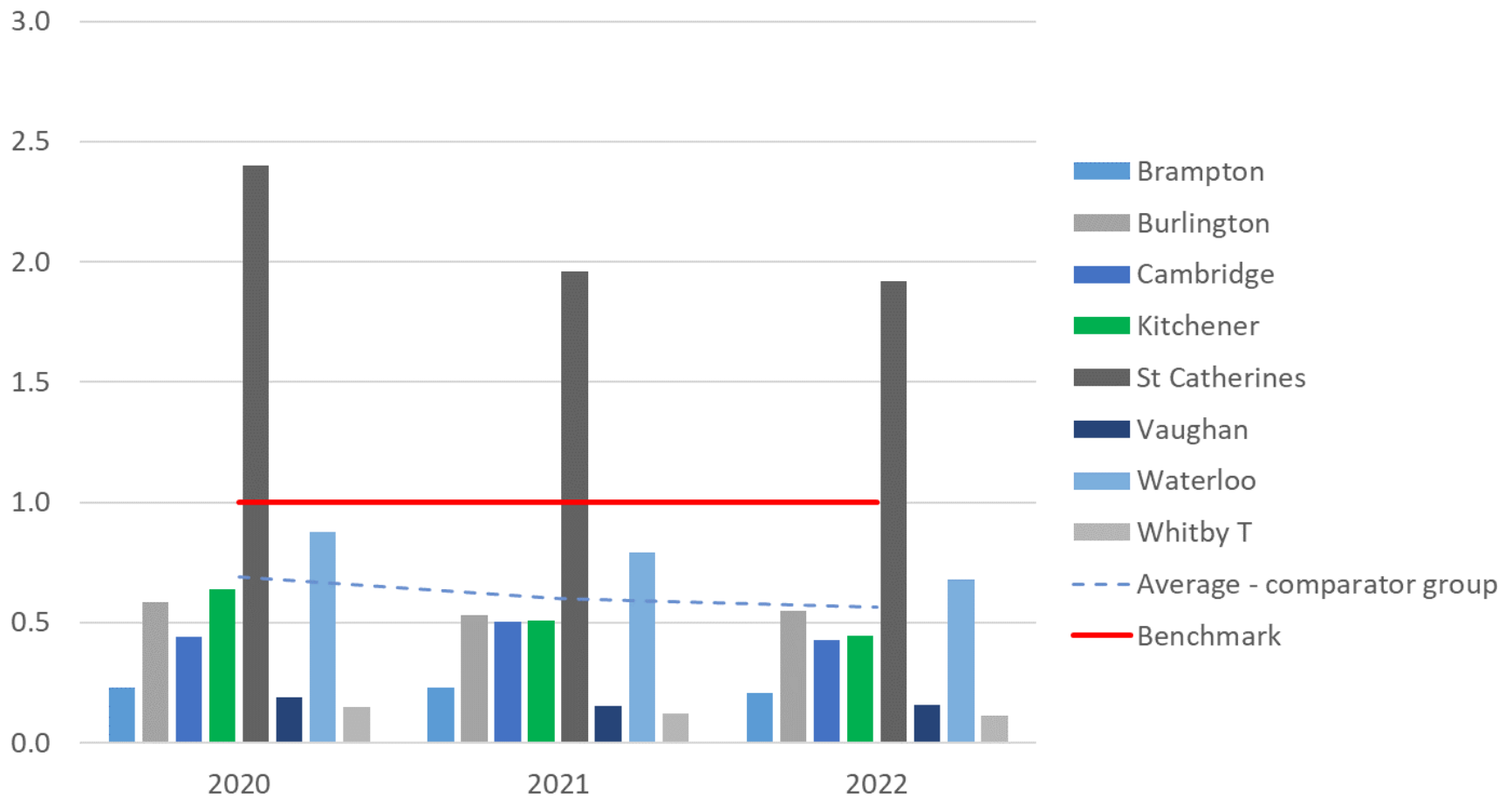
## DEBT TO RESERVE RATIO - TREND ANALYSIS



# Key Financial Indicators



## DEBT TO RESERVE RATIO - COMPARISON WITH PEERS



# Key Financial Indicators



## INDICATOR #5: FINANCIAL ASSETS TO LIABILITIES

**Overview:** This ratio compares financial assets (e.g., cash, investments, and accounts receivable) to the City's liabilities (e.g., accounts payable, deferred revenue, and municipal debt). A ratio of 1 to 1 ensures that there are enough financial assets to cover off all of the municipality's liabilities.

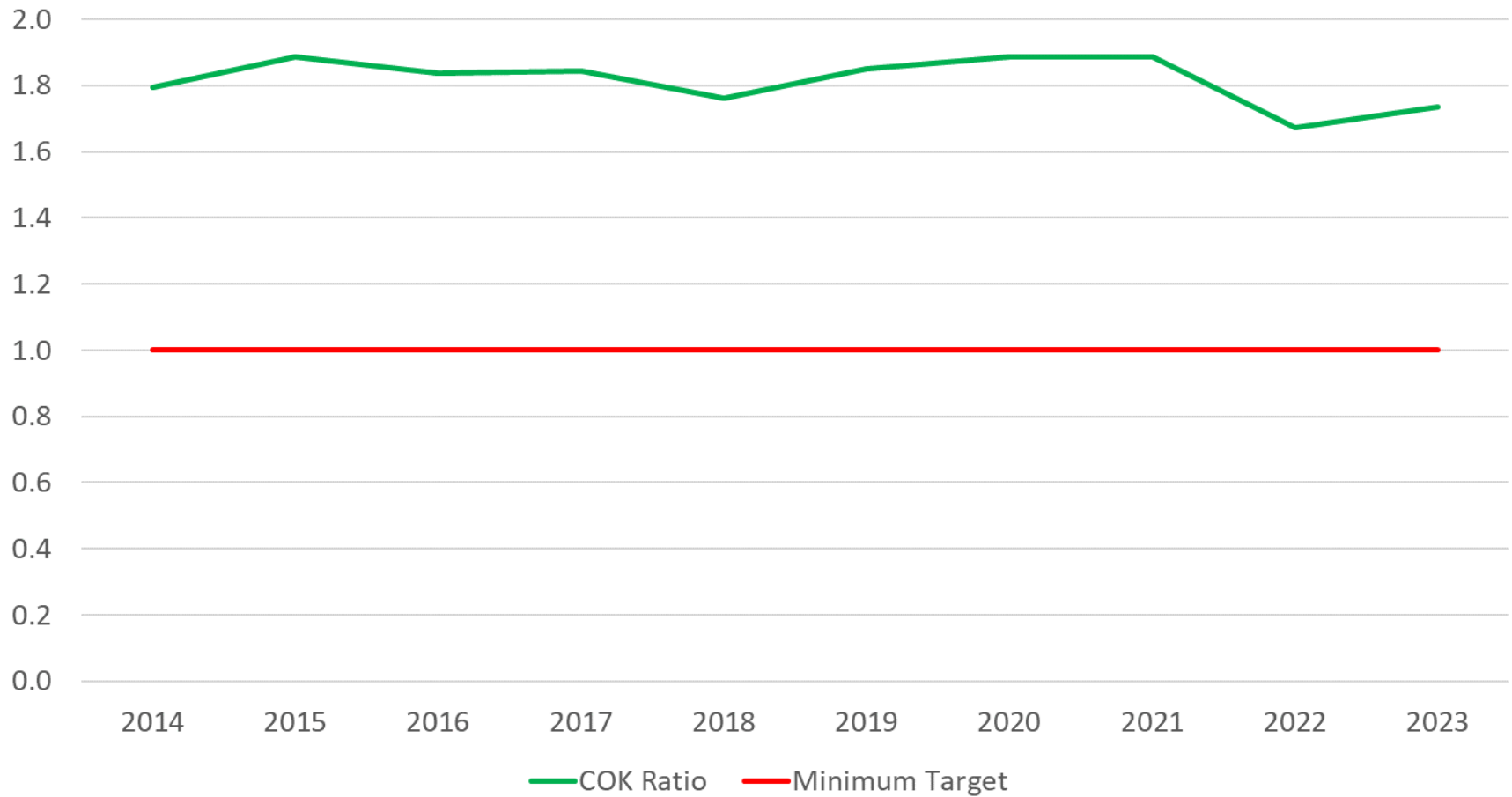
**Calculation:** Total financial assets / Total liabilities

**Considerations:** Financial assets may include investments in government business enterprises, which are not likely to be converted to cash in the short term. Liabilities may include costs that will not be repaid for a number of years (e.g., employee future benefits).

# Key Financial Indicators



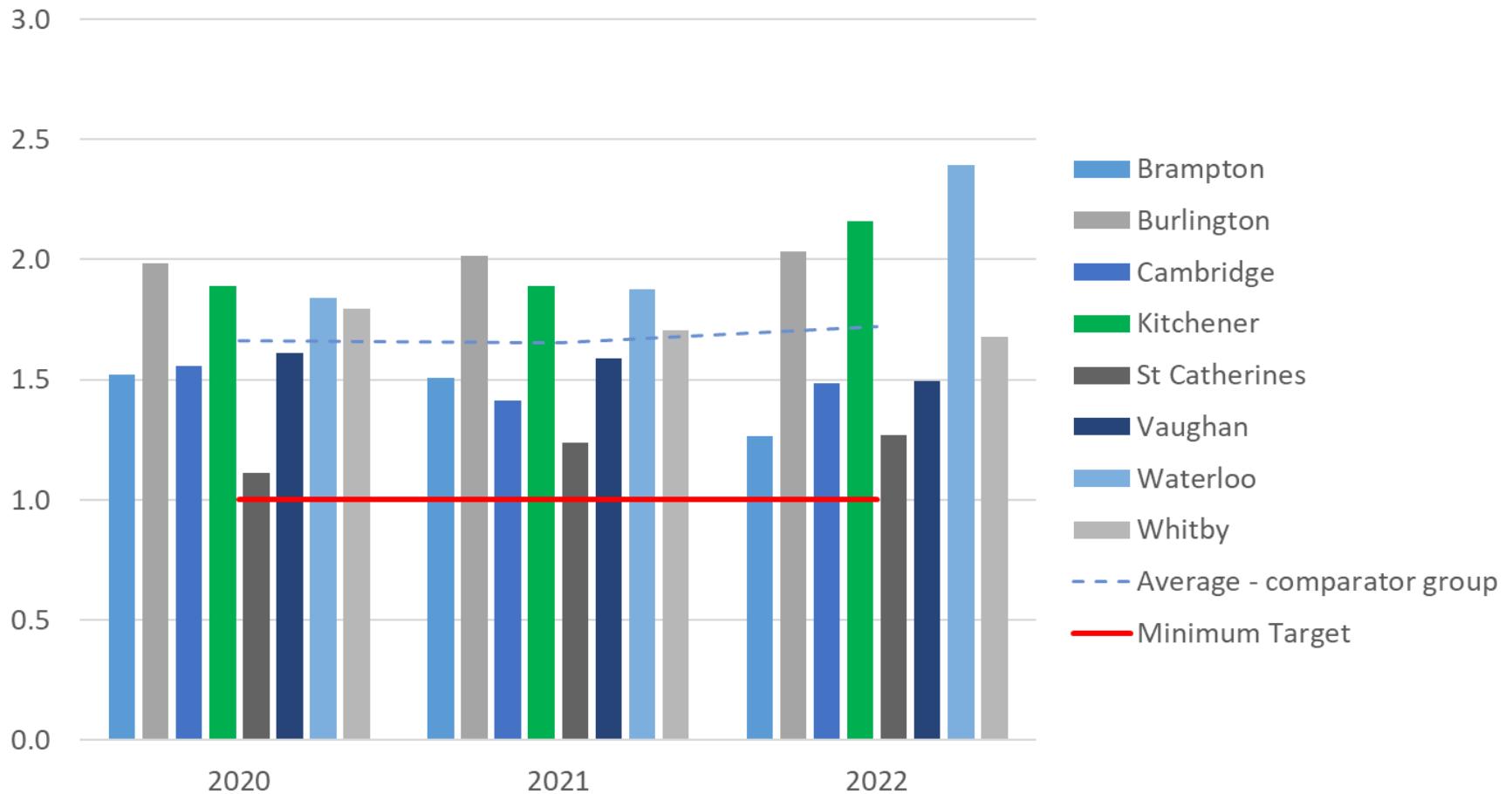
## FINANCIAL ASSETS TO LIABILITIES - TREND ANALYSIS



# Key Financial Indicators



## FINANCIAL ASSETS TO LIABILITIES - COMPARISON WITH PEERS



# Conclusion



- Key financial indicators show a stable financial position
- Questions?