

Staff Report 2019-2

Meeting Date: Tuesday, January 15, 2019

Subject: Ontario Regulation 284/09 2019 Budget

Submitted By: Heather Haire, Treasurer, Finance and Infrastructure Services

RECOMMENDATION

That the full accrual accounting items identified in Staff Report 2019-2 be approved and included as budget figures in the December 31, 2019 audited financial statements; and

That the Treasurer be authorized to make the required amendments to the budget figures in the Town's audited financial statements for any amendments to the Town's budget approved by Council.

REPORT HIGHLIGHTS

- The Town of Caledon prepares its budget on a fund accounting basis where capital and operating budgets are balanced. Most municipalities have continued to prepare budgets on the fund accounting basis with additional disclosure requirements, as per Ontario Regulations, prior to the approval of the budget
- The Town of Caledon, like all other municipalities, is required under the Public Sector Accounting Board rules to prepare financial statements on the full accrual basis of accounting, including amortization, post-employment benefits, solid waste landfill closures and post-closure.
- The *Ontario Regulation 284/09*, requires that municipalities, that have excluded full accrual revenue and expenses in the budgets, must prepare a report to Council providing the anticipated full accrual accounting impact of the revenues and expenses proposed in the budget.
- There are no direct financial implications associated with this report. However, the information contained within this report will be reflected in the 2019 audited financial statements.
- The proposed 2019 Budget adjusted for full accrual basis of accounting is estimated to result in a \$22.5 million surplus.
- Similar to private sector financial statements, the Town's financial statements must be prepared on the full accrual basis of accounting. The full accrual figures in this report, based on the proposed Budget, will be used as 2019 budget figures in the 2019 financial statements.
- The Treasurer will adjust the (full accrual basis of accounting) budget figures in the Town's financial statements to reflect any Council-approved adjustments to the Town's budget.

DISCUSSION

In 2009, accounting standards and financial reporting requirements changed dramatically, with the most significant change being that municipalities were required to report on their tangible capital assets and switch to the full accrual method of accounting for financial statements. This resulted in financial statements, for municipalities, that are similar to financial statements prepared by private-sector businesses. However, the new accounting standards do not require budgets to be prepared on the same basis.

The Town of Caledon, like many municipalities, continues to prepare budgets on the traditional fund basis. Annually, Council approves a (fund accounting) budget where revenues and expenses must balance. The tax rate is set based on a fund basis of accounting and therefore does not include the Public Sector Accounting Board (PSAB) requirements of accrual accounting and accounting for non-financial assets and liabilities.

Ontario Regulation 284/09, requires municipalities, that have excluded full accrual revenues and expenses in budgets, to present a report to Council providing the full accrual financial impact of the proposed budget prior to Council's consideration and approval of the budget prepared on the fund accounting basis. For year-end purposes the Town will include all full accrual basis of accounting to prepare and present the financial statements in accordance with PSAB. The items below are to be included in the December 31, 2019 financial statements:

- Amortization of tangible capital assets
- Accumulated Surplus/(Deficit) from Operations
- Revenue – Grants/Other - for Capital
- Revenue/Expenditures – Transfer from/to the Obligatory Reserves

FINANCIAL IMPLICATIONS

The Public Sector Accounting Board has several requirements for financial reporting that all municipalities have to comply with, from 2009 onwards after the introduction of PSAB 3150-Tangible Capital Assets.

In addition to other full accrual accounting calculations and disclosure, the Public Sector Accounting Board's financial reporting requirements for the 2009 and future reporting periods incorporates the capitalization of tangible capital assets and amortization expenses in the financials for municipalities. As per *Ontario Regulation 284/09*, Ontario municipalities may continue to exclude TCA amortization, post-employment benefits, and solid waste landfill closure and post-closure costs for budget purposes but must annually prepare a report to Council to inform Council of the impacts of these items before Council considers and approves the budget. For the Town of Caledon, only TCA amortization applies and the projected impact of amortization was excluded from the 2019 budget.

Staff Report 2019-2

The following table outlines the high level adjustments that convert the balanced 2019 Budget, prepared on the fund accounting basis, to an estimated \$22.5 million surplus. The full accrual surplus will increase to the Town's budgeted accumulated surplus in the 2019 financial statements, which is to be prepared in accordance with PSAB full accrual accounting rules.

	<u>\$ Millions</u>	
2019 Proposed Budget - Fund Accounting		
2019 Proposed Operating Budget Revenues	\$100.5	
2019 Proposed Operating Budget Expenses	<u>(\$100.5)</u>	
2019 Operating Budget Surplus/(Shortfall) - Fund Accounting		\$0.0
Proposed 2019 Tangible Capital Asset Amortization	(\$17.2)	
2019 Proposed Budget Tax Levy Funded Capital Program	\$19.6	
2019 Proposed Capital Budget Items not considered TCA	(\$3.6)	
2019 Proposed Budget Transfer from Reserves considered		
Deferred Revenues & Other external Funding (e.g. grants)	<u>\$19.8</u>	
		<u>\$18.6</u>
Revised surplus after accounting for TCA		\$18.6
Other Full Accrual Adjustments		
Net 2019 Budget Transfers to Reserves not considered as		
Expenses	\$0.5	
Long Term debt Principle Payment (External)	<u>\$3.4</u>	
		<u>\$3.9</u>
Estimated Impact on the ending 2019 Accumulated Surplus		<u>\$22.5</u>

As shown in the table above, the Tax Levy Funded Capital and Transfers from Reserves are the main drivers of the projected full accrual surplus. TCA amortization, at \$17.2 million is a significant full accrual adjustment that historically has resulted in a full accrual budget deficit. For 2019 we have more transfers from reserves which is causing a \$22.5 million projected surplus and an overall increase to the Town's accumulated surplus.

- 1) Amortization of TCA, is estimated at \$17.2 million for 2019 based on:
 - the 2019 proposed capital budget (assumed ½ year of amortization on 2019 tangible capital assets);
 - projections on 2018 amortization for current TCA projects/work-in-progress items still open from previous years.
- 2) Since amortization is included in the full accrual budget process, the impact of amortization is an estimated \$17.2 million reduction to the Town's accumulated surplus. However, offsetting amortization is the Town's tax levy funding of tangible capital assets and TCA funding from other sources such as deferred revenues and grants. We have assumed all the TCA funding from other sources such as grants and transfers from Development Charge reserves will be earned in 2019.
- 3) Further reducing the Amortization of TCA impact on the Town's accumulated surplus are other adjustments such as:

Staff Report 2019-2

- Adjusting for the Town's 2019 budget transfer to reserves for internal debt repayments and other transfers, such as the facility repairs and replacements. These transfers are considered expenses under the fund accounting basis but will contribute to a 2019 surplus under the full accrual basis of accounting.
- Adjusting for principle debt payments on the external debt, held at the Region of Peel and internal debt payments. These payments/transfers are considered expenses under the fund accounting basis but will contribute to a 2019 surplus under the full accrual basis of accounting.

Overall, the estimated impact of the proposed 2019 Budget is an estimated \$22.5 million increase to the Town's accumulated surplus.

The Town's projected accumulated surplus is as follows:

2017 Ending Full Accrual Accounting	
Accumulated Surplus	\$354.3 million
Projected Impact of 2018 Budget	26.0 million
Projected Impact of 2019 Budget	22.5 million
2019 Estimated Ending Accumulated Surplus	<u>\$402.8 million</u>

Finance and Infrastructure Services staff will monitor the impact of full accrual basis of accounting in the 2019 actual results and report to Council of these adjustments. Staff will continue to prepare and present future budgets to Council in both the traditional fund basis of accounting and in the full accrual basis of accounting (including TCA amortization).

Until the financial statement and budget models have been refined to enable the Town to add the impact of TCA amortization into future budgets and to convert future budgets, this report will be prepared for Council to show the impact of excluding amortization expense on the Town's accumulated surplus and the estimated capital funding implications, prior to the adoption of future budgets, in accordance with *Ontario Regulation 284/09 of the Municipal Act, 2001*.

The full accrual figures noted in this report were calculated based on the proposed 2019 Budget and will be used as the budget figures in the Town's 2019 financial statements. As part of the budget approval process, Council may adjust the budget prior to approval. It is recommended that the Treasurer be authorized to make required amendments to the full accrual basis of accounting budget figures as a result of any budget amendments approved by Council.

COUNCIL WORK PLAN

The matter contained in this report is not relative to the Council Work Plan.

ATTACHMENTS

None.