Town of Whitchurch-Stouffville Council Report   Item 10.1

Subject:	**2023 Audited Financial Statements**
Staff Report No.:	**FI-009-24**
Commission:	**Finance Services Commission**
Date:	**June 26, 2024**

Recommendation:

1) **That Council receive the Audit Findings Report and presentation for information, presented as Attachment 1; and**

2) **That Council approve the 2023 Draft Audited Consolidated Financial Statements of the Corporation of the Town of Whitchurch-Stouffville, presented as Attachment 2; and**

3) **That Council approve the 2023 Draft Audited Financial Statements of the Town of Whitchurch-Stouffville Trust Funds, presented as Attachment 3; and**

4) **That Council receive the 2023 Statement of Reserves and Reserve Funds, presented as Attachment 5; and**

5) **That Council receive the 2023 Treasurer's Statement of Development Charges, presented as Attachment 6; and**

6) **That Council receive the 2023 Report on Building Fees, presented as Attachment 7.**

1. Purpose:

The purpose of this report is to seek Council approval of the draft 2023 audited financial statements for the Town Consolidated and the Trust Funds.

In addition, the Statement of Reserve and Reserve Funds, Treasurer's Statement of Development Charges and Report on Building Fees are provided for information purposes.

2. Executive Summary:

The 2023 Auditor's Report highlights that the financial statements present fairly, in all material respects, the financial position of the Town is in accordance with Canadian public sector accounting standards. The attached financial statements are considered draft until approved by Council.

The auditors have provided reasonable assurance over the following 2023 draft results from the various statements for disclosure relative to the audited 2022 comparatives:

		2023		2022		Difference
Financial assets	$	145,293,522	$	147,674,147	$	(2,380,625)
Less financial liabilities		115,250,748		118,006,255		(2,755,507)
Net Financial Assets	**$**	**30,042,774**	**$**	**29,667,892**	**$**	**374,882**
Revenues	$	97,357,943	$	90,409,239	$	6,948,704
Expenses		85,047,412		82,536,202	$	2,511,210
Annual Surplus	**$**	**12,310,531**	**$**	**7,873,037**	**$**	**4,437,494**

The net financial assets position and annual surplus are directly related to favourable interest rates on a growing investment portfolio, increase in property taxation revenue due to approved 2023 tax levy increase, and a significant grant earned for the Memorial Park Skating Trail project. The Town also repaid a portion of long-term debt owing and saw a minimal increase in expenses compared to the prior year, mainly in the area of salaries. Overall, this resulted in an annual surplus of $12.3 million. The ending net financial assets position saw a small positive change, indicating the stability and consistency of the Town's financial performance.

The Town was also required to adopt new accounting standards during the year per Public Sector Accounting Standards (PSAS). The standards that impacted the financial statements for 2023 included PS 3450 *Financial Instruments*, which resulted in the addition of the statement of remeasurement gains and losses to track unrealized gains and losses on certain types of portfolio investments. PS 3280 *Asset retirement obligations* also required the Town to recognize a liability for assets with legal obligations at end of life, which included a restatement of 2022 numbers to reflect the change. For more details on the impact of the changes in accounting standards, please refer to section 4.1 within the report.

The annual surplus per the Consolidated Financial Statements differs significantly from the operating surplus reported in Fourth Quarter Financial Results, FS-003-24, April 17, 2024, of $644,600. The operating surplus identifies how well the Town performed against the approved operating budget. The annual budget is used to determine the cash requirements for the coming year. In contrast, the annual surplus per the Consolidated Financial Statements includes non-cash items such as amortization and contributed assets that are not included in the operating budget, resulting in significantly different outcomes.

The benchmarking analysis, using the draft 2023 results, shows improvement of the debt indicators and maintenance of tax rates that are low relative to the Town's peers. Reserves and Sustainability ratios indicate the need for ongoing focus on collection of the outstanding receivables and increased allocation of funds to capital reserves to help to shrink the infrastructure gap over time and move the Town towards its long-term financial-sustainability objectives.

Overall, the upward trend in net financial assets position and annual surplus indicate strong fiscal management. The Town has sufficient resources to support the provision of municipal services in the future and to cover settlement of its debt. The Town's commitment to strategic planning and financial policies will guide decision making and support the Town's financial health, sustainability and stability and will create a solid foundation for long-term financial planning, particularly as it relates to the growing gap between reserves and future funding requirements for repairs and rehabilitation of the Town's expanding capital asset portfolio. Management and Council are working proactively together to ensure each reserve is trending to its optimal target as defined in the reserve and reserve fund policy.

Within their audit report, KPMG noted an immaterial out of period adjustment related to the timing of revenue recognition on development charge funded debt, as well as a reclassification between categories within the Town's Tangible Capital Assets (TCA). Management, in concurrence with KPMG, did not adjust the financial statements for the timing of revenue recognition. The TCA reclassification was updated as suggested by KPMG. This did not have an impact on the Statement of Financial Position or annual surplus. Aside from this, no control deficiencies, audit risks, or other findings were noted in KPMG's report.

3. Background:

The Municipal Act, 2001 requires all municipalities to undertake an annual audit of accounts and transactions and that the external auditors express an opinion. Management of the Finance Services Commission has prepared the financial statements. The external auditors, KPMG LLP, have audited the statements and expressed an unqualified audit opinion that the statements present fairly, in all material respects, the financial position of the Town. The draft audited financial statements are provided as Attachment 3 to this report; the statements become final with Council approval.

The accompanying Financial Statements are prepared in accordance with the Canadian Public Sector Accounting Standards published by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The format and purpose of the Consolidated Financial Statements under such standards differ significantly from the operating and capital budgets approved by Council. Section 4.7 of this report reconciles the operating surplus to the Financial Statement annual surplus at year end.

Budgets contain fiscal plans for the coming year(s). They are used to determine the cash requirements of the Town for the year, and to monitor performance throughout the year. In line with municipal standard practice, the operating budget is prepared on a modified accrual basis. Tax rates are set such that the operating budget surplus or deficit is $Nil. The year-end operating surplus or deficit provides important information about how well the Town performed in relation to what was planned at the time the budget was approved.

In contrast, the financial statements are prepared on a full accrual basis. Accrual accounting attempts to match revenues and expenses to the period in which the relevant decision occurs. It also attempts to capture, in revenue and expenses, all items that potentially impact the capacity to deliver services. These items are non-budgeted, non-cash items such as amortization, post-retirement benefits and contributed assets from developers. The difference between revenue and expenses is the resulting annual surplus or deficit, which represents the change in the Town's net worth for the year.

The annual surplus reported in the financial statements indicates that the Town has accumulated net positive resources in the year, some of which are in the form of cash and investments, as well as other non-cash assets such as taxes receivable and tangible capital assets, that can be used to support the provision of municipal services in the future.

Management is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. Management monitors and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the Consolidated Financial Statements.

Auditors are responsible to express an opinion based on their audit findings. The audit plan and performance must provide reasonable assurance that the financial statements are free from material misstatement.

4. Analysis and Options:

The auditors have issued an unqualified audit opinion on the draft 2023 Consolidated Financial Statements.

The annual audit was performed by KPMG LLP. The Auditor's Report is issued without reservation and reflects their unqualified opinion that the financial statements present fairly, in all material respects, the financial position of the Town in accordance with Canadian public sector accounting standards.

The financial statements include the five statements listed below. These statements provide information on the cost of all Town activities, how they were financed, investing activities, as well as the assets and liabilities of the Town. The financial statements are consolidated, reflecting the combined operation of the Town, Whitchurch-Stouffville Public Library, and the Latcham Art Centre.

Consolidated Statement of Financial Position – provides key details about assets, liabilities and accumulated surplus for a given year. It provides a snapshot of the Town's financial position as of December 31, 2023. The remaining statements provide details of how key balances from the Statement of Financial Position are arrived at as summarized in Figure 1.

Consolidated Statement of Cash Flows – details the sources and uses of cash by tracking changes in the cash balance since the last reporting period as reported on the Statement of Financial Position as well as information about significant cash transactions not included in the Statement of Operations.

Consolidated Statement of Change in Net Financial Assets – illustrates the difference between annual surplus per the Statement of Operations and the change in net financial assets as reported on the Statement of Financial Position. Net financial assets are the difference between the Town's financial assets and its liabilities. A net financial asset position means that the Town has sufficient financial assets to settle existing liabilities /debt.

Consolidated Statement of Operations and Accumulated Surplus – provides information about revenues, expenses and the year-end results (e.g. surplus or deficit) for the twelve (12) months ended December 31, 2023. This statement also provides information regarding transactions that have impacted accumulated surplus during the year.

Consolidated Statement of Remeasurement Gains and Losses – provides the unrealized change in the value of financial instruments, such as investments, being measured at fair market value in the Consolidated Statement of Financial Position. This is a new statement included in the Town's financial statements for 2023 due to the mandatory adoption of PS 3450 *Financial Instruments,* as certain portfolio investments (principal protected notes – PPN's) are required to be valued at fair value. Refer to section 4.1 below for more information and notable changes to the financial statements in 2023 as a result of mandatory new accounting standards.

Figure 1 – Relationship between the Financial Statements

Statement of Financial Position (millions)		2023	2022
Financial Assets	Cash and cash equivalents	$ 11.638	$ 37.606
	All other financial assets	133.656	110.068
		145.294	147.674
Liabilities		115.251	118.006
Net Financial Assets		30.043	29.668
Non-financial Assets	Inventory and prepaid	0.711	0.499
	Tangible capital assets	332.750	320.881
		333.461	321.380
Accumulated surplus		$363.504	$351.048

Statement of Cash Flow (millions)	2023	2022
Operating transactions	$ 15.002	$ 25.761
Capital transactions	(21.370)	(10.332)
Investing transactions	(17.694)	(10.268)
Financing transactions	(1.905)	(1.840)
Increase in cash & cash equivalents	(25.967)	3.321
Cash and cash equivalents, beginning of year	37.606	34.285
Cash and cash equivalents, end of year	$ 11.638	$ 37.606

Statement of Net Financial Assets (millions)	2023	2022
Annual surplus	$ 12.311	$ 7.873
Change in TCA	(11.848)	0.931
Change in other non-financial assets	(0.213)	(0.135)
Increase in net financial assets	0.250	8.669
Net assets, beginning of year	29.668	21.514
Remeasurement gain on investments (PPN)	0.146	-
PSAS Adjustment - ARO Liability	(0.022)	(0.515)
Net financial assets, end of year	$ 30.043	$ 29.668

Statement of Operations (millions)	2023	2022
Revenues	$ 97.358	$ 90.409
Expenses	85.047	82.536
Annual surplus	12.311	7.873
Accumulated surplus, beginning of year	351.048	343.631
Remeasurement gain on investments (PPN)	0.146	-
Accumulated surplus PSAS adjustments	-	(0.457)
Accumulated surplus, end of year	$ 363.504	$351.048

Statements describing the change in financial position

Statement of Remeasurement Gains and Losses (millions)	2023	2022
Accumulated remeasurement gains, beg of year	$ -	$ -
Unrealized gains (losses) attributable to investments	0.146	-
Accumulated remeasurement gains, beg of year	$ 0.146	$ -

4.1 Change in Accounting Policies – 2023

For the 2023 year-end, new Public Sector Accounting Standards (PSAS) requirements came into effect that resulted in changes to the values and structure of the financial statements.

Firstly, PS 3450 *Financial Instruments* was adopted. Previously, all the Town's investments were recorded at cost. Under the new standard, any financial instruments that are derivatives or portfolio investments with quoted prices in an active market must be recorded at fair value. The Town and its external auditors performed a review of the types of portfolio investments held and noted that the principal protected notes (PPNs) held met the criteria to be measured at fair value rather than at cost. The remeasurement gain or loss represents the change in fair value, and this is recorded separately on the statement of remeasurement gains and losses as it is an unrealized gain. When the PPNs are sold or mature in the future, the realized gain or loss will be reclassified to the Statement of Operations, and ultimately impact the annual surplus.

PS 3280 *Asset retirement obligations* (ARO) was also adopted by the Town in 2023. This standard required recognition of a liability for tangible capital assets (TCAs) with associated legal obligations related to the retirement of the asset. For more details on the

Town's process for identifying and recognizing the AROs, please refer to PS 3280 Asset Retirement Obligation – 2023 Adoption, FS-005-24, May 15, 2024.

The Town adopted PS 3280 on a modified retrospective basis, which included a restatement of 2022 values. The impact of the prior year restatement has been summarized in Note 2 of the financial statements. Refer to Table 1 below for the impact on the line items for each specific financial statement.

Table 1 – Impact of Prior Year Restatement

2022	As previously reported	Adjustments	As restated
Consolidated Statement of Financial Position			
Asset retirement obligations	-	515,280	515,280
Tangible capital assets	30,845,425	35,340	30,880,765
Accumulated surplus	351,527,346	(479,940)	351,047,406
Consolidated Statement of Operations and Accumulated Surplus			
Amortization of TCA - ARO and accretion expense (included in Environmental services)	17,250,947	8,681	17,259,628
Amortization of TCA - ARO and accretion expense (included in Recreational and cultural services)	21,339,968	14,529	21,354,497
Annual surplus	7,896,247	(23,210)	7,873,037
Consolidated Statement of Changes in Net Assets			
Annual surplus	7,896,247	(23,210)	7,873,037
Amortization of TCA - ARO	13,692,843	2,583	13,695,426
Accretion expense	-	20,627	20,627
Consolidated Statement of Cash Flows			
Annual surplus	7,896,247	(23,210)	7,873,037
Amortization of TCA - ARO	13,692,843	2,583	13,695,426
Accretion expense	-	20,627	20,627

4.2 Consolidated Statement of Financial Position

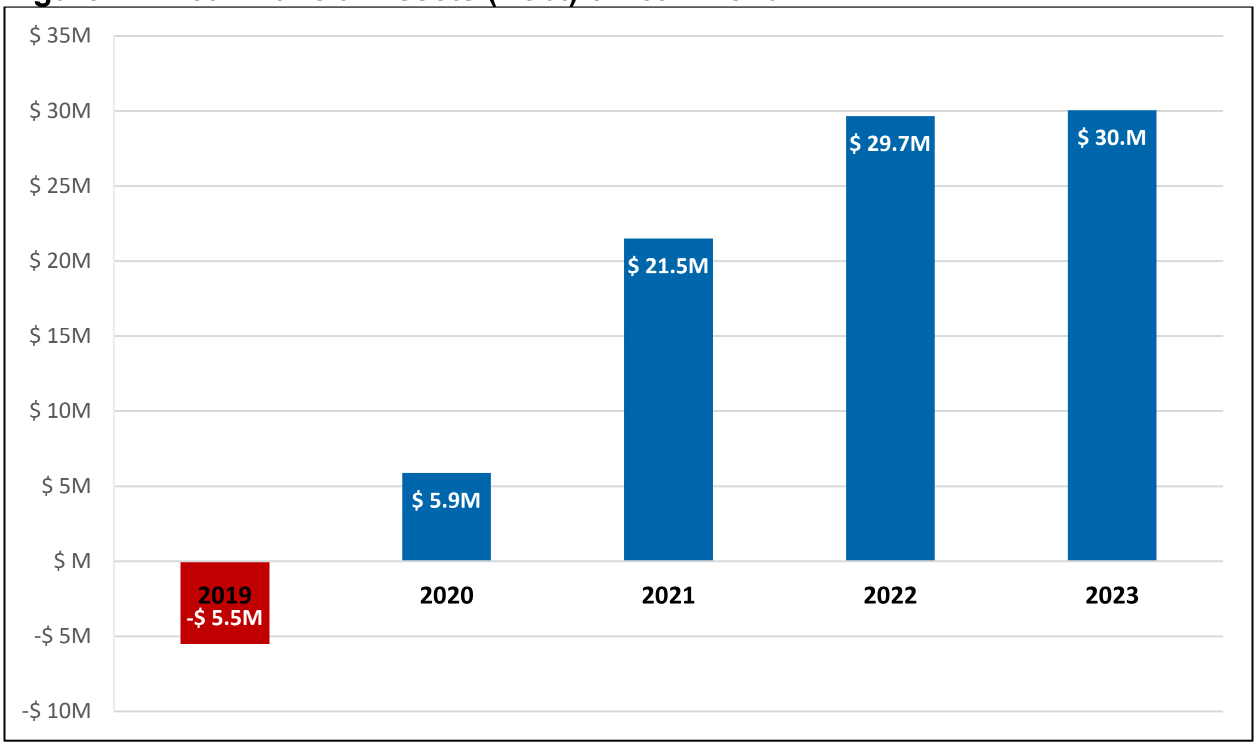
The Town ended the year in a net financial asset position of **$30.0 million**, an improvement over the prior year of $0.37 million. This is a result of a decrease in financial assets of **$2.4 million** net of a decrease in liabilities of $**2.8 million**.

Table 2 – Net Financial Assets

	2023	2022	Difference
Financial assets	$ 145,293,522	$ 147,674,147	$ (2,380,625)
Less financial liabilities	115,250,748	118,006,255	(2,755,507)
Net Financial Assets	**$ 30,042,774**	**$ 29,667,892**	**$ 374,882**

Figure 2 displays a steady net financial asset position. The increase can be attributed to a number of factors including an average annual surplus of $10.5 million over the last five years and financial assets, as described below, consistently increasing at an average rate of 13.2% higher than the five-year average increase in financial liabilities. This is an indication of strong financial management, as the Town has sufficient resources to support the provision of municipal services in the future and to cover the settlement of its debts.

Figure 2 – Net Financial Assets (Debt) 5-Year Trend



4.2.1 Financial Assets

Table 3 – Financial Asset Detail

	2023	2022	Difference
Cash and cash equivalents	$ 11,638,386	$ 37,605,639	$ (25,967,253)
Portfolio investments	101,928,192	84,087,475	17,840,717
Taxes receivable	18,222,450	16,271,871	1,950,579
Accounts receivable	13,504,494	9,709,162	3,795,332
Financial Assets	**$ 145,293,522**	**$ 147,674,147**	**$ (2,380,625)**

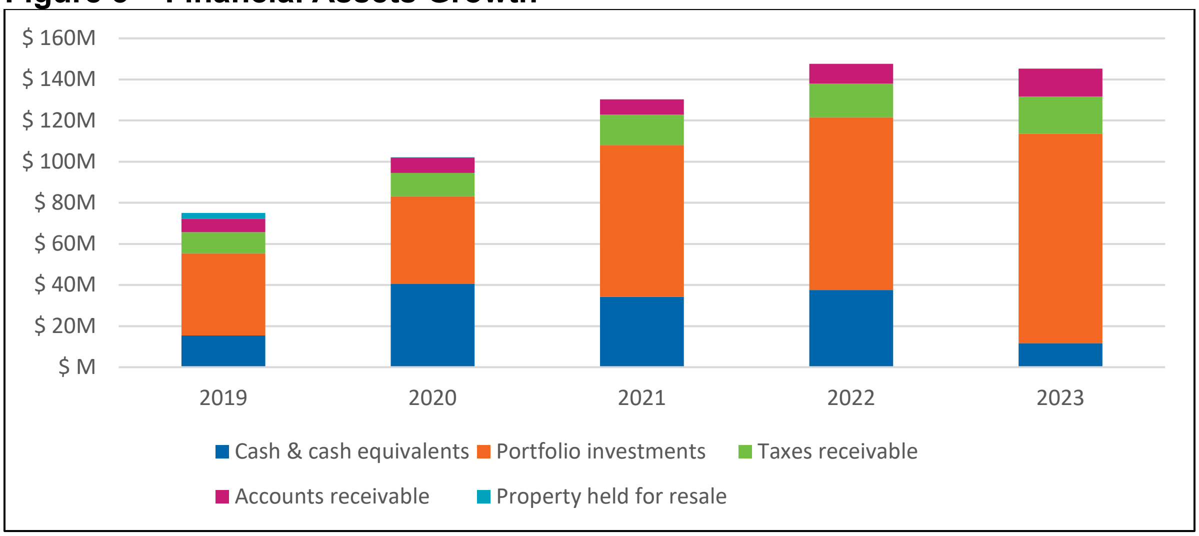
Cash flows are routinely examined to ensure short term requirements are met and any cash deemed as not required in the short term is invested to maximize returns. The Town was able to invest an additional $15.7 million in 2023 and has seen the benefits through increased investment income. The Town's current Investment Policy provides flexibility in investment choice, protection from interest rate decreases, and aligns with a growing investment portfolio.

Further investment details will be provided in the Treasurer's annual report on investments and additional changes in cash are explained in section 4.4 Statement of Cash Flows below.

Other differences in financial assets include the $3.8 million increase in accounts receivable and $1.95 million in taxes receivable. Notable increase in accounts receivable can be attributed to a $3.8 million increase in grant receivable from Investing in Canada Infrastructure Program for the Memorial Park Skating Trail project. Details regarding taxes receivable can be found in section 4.6.2 Sustainability Indicators and the 2023 Fourth Quarter Financial Results report presented on April 17, 2024.

Figure 3 has been provided as a five-year visual of financial asset growth.

Figure 3 – Financial Assets Growth



4.2.2 Financial Liabilities

Financial liabilities decreased $2.7 million in 2023.

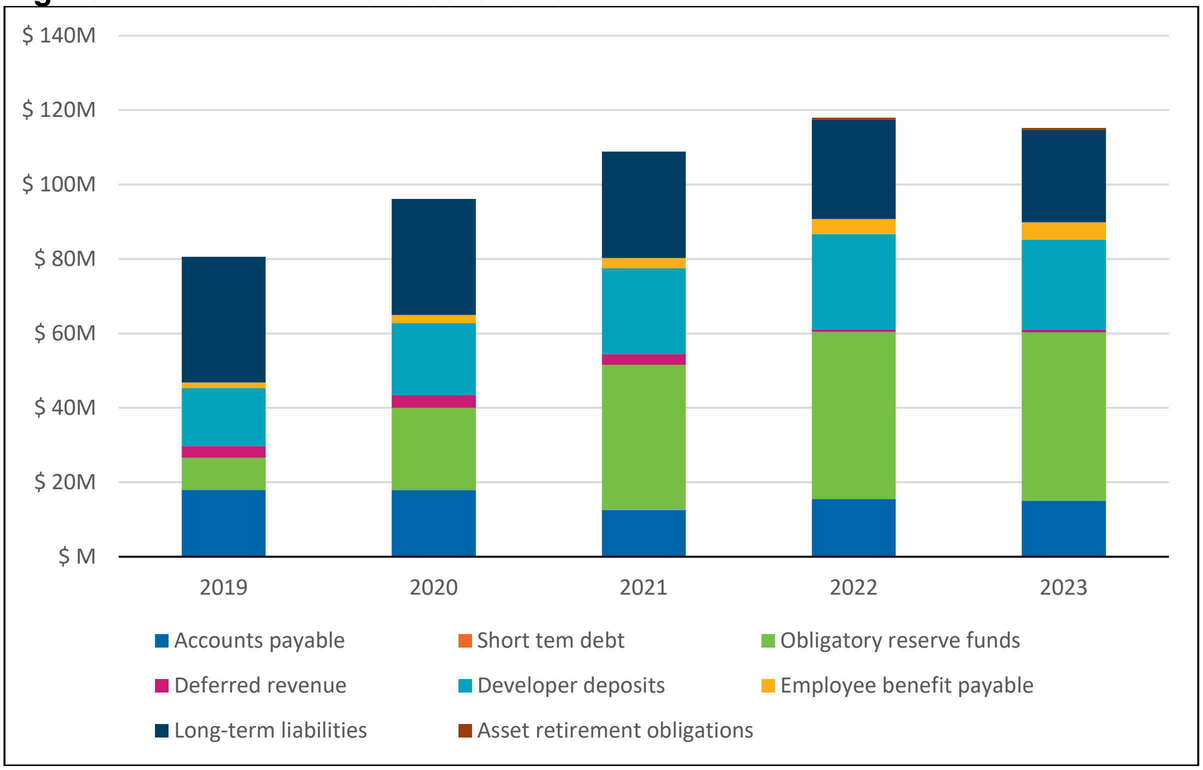
Table 4 – Financial Liabilities Detail

	2023	2022	Difference
Accounts payable	$ 15,003,203	$ 15,463,915	$ (460,712)
Asset retirement obligation	536,767	515,280	21,487
Deferred revenue - obligatory	45,351,129	44,913,004	438,125
Other deferred revenue	637,828	702,098	(64,270)
Developer & other deposits	24,154,195	25,587,947	(1,433,752)
Employee benefits payable	4,740,488	4,091,381	649,107
Long-term liabilities	24,827,138	26,732,630	(1,905,492)
Financial Liabilities	**$ 115,250,748**	**$ 118,006,255**	**$ (2,755,507)**

The largest contributor to the decrease in financial liabilities was $1.9 million decrease in long term liabilities. This line item represents annual repayment of debt as no new debt was acquired. A corresponding decrease of $1.4 million in developer and other deposits is seen as mandatory inspections are completed and securities are released.

Figure 4 has been provided as a five-year visual of financial liabilities growth.

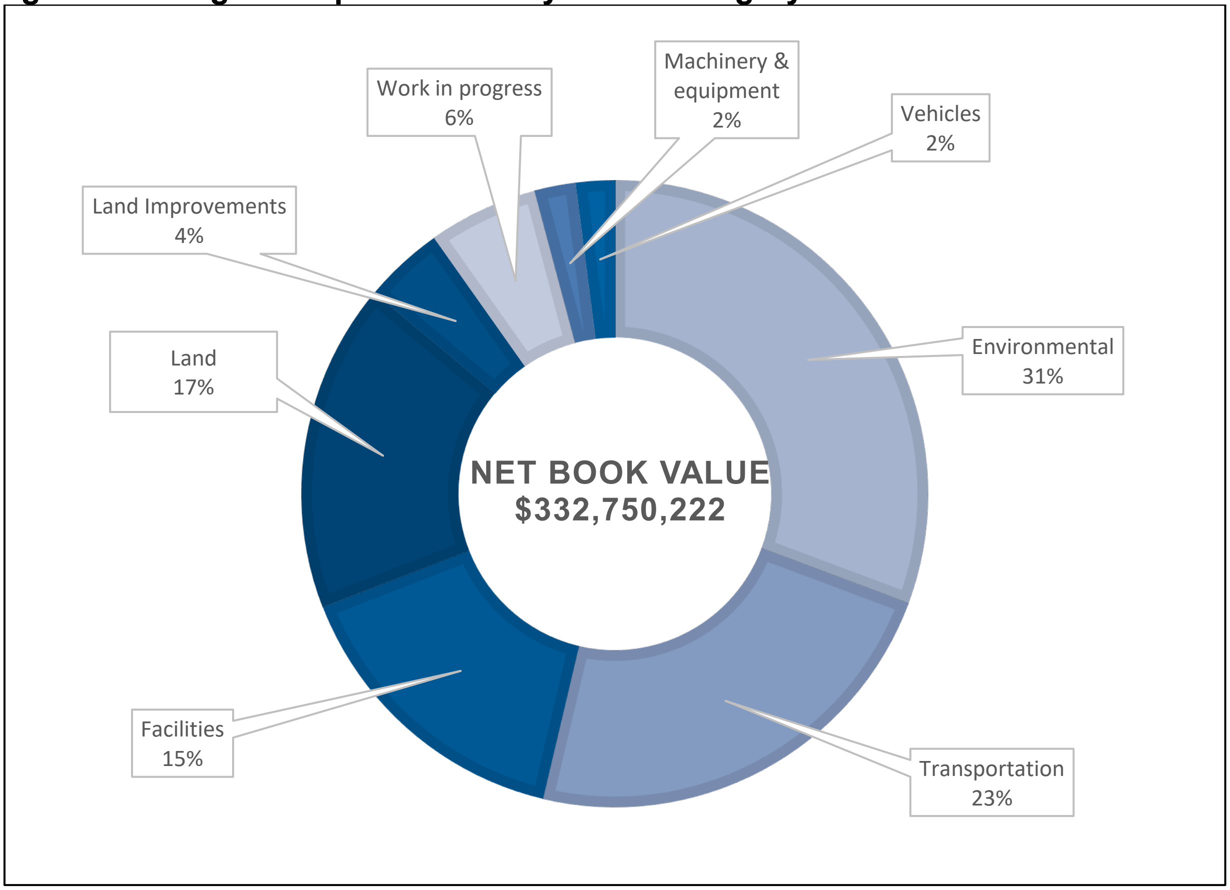
Figure 4 – Financial Liabilities Growth



4.2.3 Non-Financial Assets

Non-financial assets include tangible capital assets (TCAs), prepaid expenses and inventories of salt, sand and fuel. TCAs represent the Town's largest asset. TCAs are recorded at their net book value – actual cost less accumulated amortization. The net book value of TCAs increased by $11.9 million in 2023. Note 11 to the financial statements provides information about the original cost, additions, disposals and amortization by asset category. Figure 5 shows the percentage of net book value held by each asset category at year end.

Figure 5 – Tangible Capital Assets by Asset Category



Tangible capital assets represent the Town's investment into capital infrastructure. Amortization is the process of incrementally charging the initial cost of an asset to an expense over the useful life of the asset. This can be thought of as a financial representation of the asset's usage in any given year. 2023 is the first year since 2019 that the Town's investment into repair and replacement of capital infrastructure and the value of new assets being added to the Town's inventory, $21.6 million (2022 – $10.4 million) has exceeded annual amortization costs of $13.7 million (2022 - $13.7 million).

Refer to Fourth Quarter Financial Results, FS-003-24, April 17, 2024, for further discussion on capital project progress.

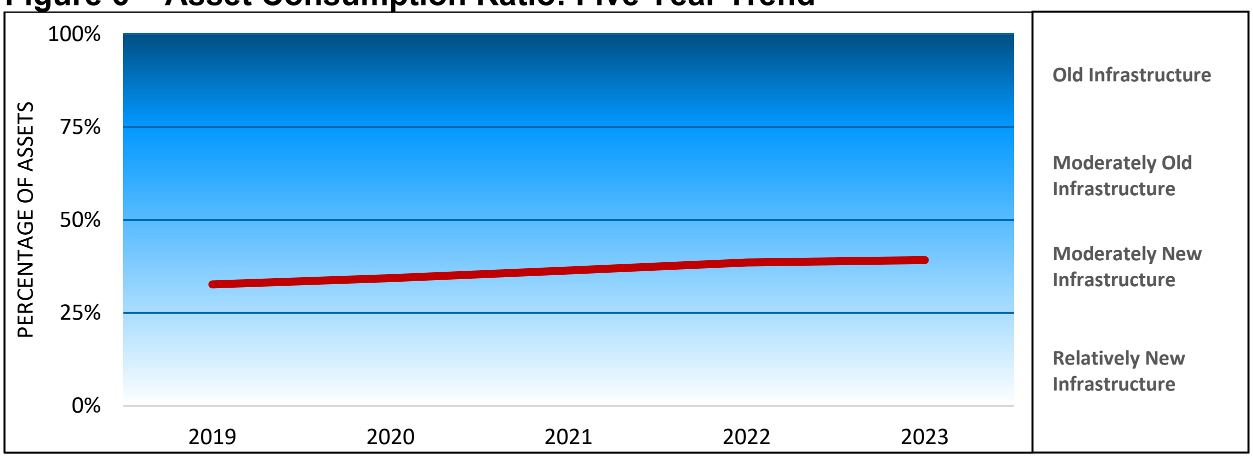
It is critical to ensure there are adequate capital funds to repair, rehabilitate or replace all capital assets as they age through their expected lifecycle, especially as the Town continues to grow in population and infrastructure needs. The Town continues to identify unfunded projects beyond the current funding capacity. The consequence, if this trend continues, is extensive funding gaps resulting in the deterioration and failure of the Town's infrastructure, increasing need to issue debentures, and repair/rehabilitation decisions based on critical failure and safety concerns.

One way to measure the state of the Town's infrastructure is to look at how much of the Town's depreciable assets have been used and need to be replaced or repaired, compared to the original cost. The asset consumption ratio is a measure of the value of TCAs that have been consumed. Total accumulated amortization is calculated as a percentage of the gross cost of depreciable assets. This ratio highlights the aged condition of the Town's physical assets and potential asset replacement needs. A higher ratio may indicate significant replacement needs. If assets are being maintained, the ratio will be relatively low. The ratio indicates the Town's assets are moderately new, though aging. Although within target range, the year-over-year trend is declining, indicating a greater percentage of assets need to be repaired or replaced annually. The Town's 10 year capital plan continues to focus on repair and renewal of existing assets.

Table 5 – Asset Consumption Ratio

	Target	2023	2022	2021	Trend
Asset Consumption Ratio	<50%	36.9%	35.2%	33.2%	Declining

Figure 6 – Asset Consumption Ratio: Five Year Trend



The Town's strategic plan outlines "Areas of Focus" under seven (7) service themes. Providing Good Governance focuses on sound financial planning principles to ensure fiscal sustainability and responsibility, including:

- Manage capital funding to ensure necessary investments are made to existing assets while investing in new assets related to growth,
- Continue to build reserve balances to ensure money is available to repair and replace existing assets to optimize their service level and limit down time and
- Improve linkage between asset management plan and capital forecasting to provide a more detailed capital plan to aid decision making, prioritization and debt management.

To reduce the trends seen above, investment into capital reserves, resource allocation and project completion is imperative in future budgetary discussions.

See benchmarking section 4.6; 2022 Asset Management Plan, FTS-011-22, June 15, 2022; and the approved 2024 Operating & Capital Budget for additional ratios and information related to the sustainability of the Town's infrastructure. An updated asset management plan on non-core assets is due July 2024.

4.3 Consolidated Statement of Operations and Accumulated Surplus

The Town ended the year with an annual surplus of **$12.3 million**. An analysis of revenue and expenses is provided below.

Table 6 – Annual Surplus

	2023 Actual	2022 Actual	Difference
Revenues	$ 97,357,943	$ 90,409,239	$ 6,948,704
Expenses	85,047,412	82,536,202	2,511,210
Annual Surplus	**$ 12,310,531**	**$ 7,873,037**	**$ 4,437,494**

4.3.1 Revenues

The Town reported total revenues of **$97.4 million** in 2023. Revenues include property taxation, user fees, grants, investment income, penalties and interest on taxes, developer contributions and donations.

Table 7 summarizes 2023 revenue by type compared to 2022.

Table 7 – Total Revenues

Revenue	2023 Actual	2022 Actual	Difference
Property taxation	$ 43,063,980	$ 38,122,638	$ 4,941,342
User fees, licences and fines	31,955,999	36,776,015	(4,820,016)
Government grants	7,608,172	3,768,150	3,840,022
Investment income	3,017,711	1,321,643	1,696,068
Penalties and interest on taxes	2,504,854	2,178,231	326,623
Developer contributions	4,432,662	5,013,818	(581,156)
Contributed tangible capital assets	3,981,859	2,441,005	1,540,854
Donations and other	792,706	787,739	4,967
Total Revenues	**$ 97,357,943**	**$ 90,409,239**	**$ 6,948,704**

Notable variances from the prior year include:

- The increase in property taxation of $4.9 million is due to the tax levy increase as approved by Council November 29, 2022, during the 2023 budget deliberation process and new assessment recognized.
- Accounting for the largest decrease in revenue, $4.8 million decrease in user fees is largely attributed to the slowdown in residential permits.

- The town was successful in an application to the Investing in Canada Infrastructure Program for the Memorial Park Skating Trial for maximum funding of $4.1 million of which $3.8 million has been earned to date. This has contributed to the increase in government grants.
- Interest income on long-term investments increased due to favourable investment rates and further growth of the Town's investment portfolio.
- Developer contributions including development charges earned for funding of capital expenses in the year decreased by $0.5 million.
- Assets and infrastructure transferred on the assumption of subdivisions increased by $1.5 million.

During the audit, KPMG noted the Town's process for recognizing revenue related to developer contributions when used for debt repayments for completed capital projects. KPMGs interpretation under PSAS, is the full amount of the development charge revenue should be recognized when the capital project is complete. As the difference was below materiality level, adjustments were not required. The Town will investigate the full implications of this revenue recognition method before making any adjustment or changes to ensure both funding and accounting treatments are satisfied moving forward.

4.3.2 Expenses

The 2023 operating position of the Town resulted in actual expenses totalling **$85.0 million**, $2.5 million greater than 2022. Expenses are reported in the audited financial statements by functional segment, as summarized in Table 8, and by object type as displayed in Table 9.

Table 8 – 2023 Operating Expenses by Functional Segment

Expenses	2023 Actual	2022 Actual	Variance $	Variance %
General Government	$ 13,888,116	$ 13,566,546	$ 321,570	2.4%
Protection	10,047,676	9,238,796	808,880	8.8%
Transportation	15,037,760	15,354,437	(316,677)	-2.1%
Environment	17,902,579	17,259,628	642,951	3.7%
Recreation & Culture	22,797,070	21,354,497	1,442,573	6.8%
Planning & Development	5,374,211	5,762,298	(388,087)	-6.7%
Total Expenses	**$ 85,047,412**	**$ 82,536,202**	**$ 2,511,210**	**3.0%**

Table 9 – 2023 Operating Expenses by Object

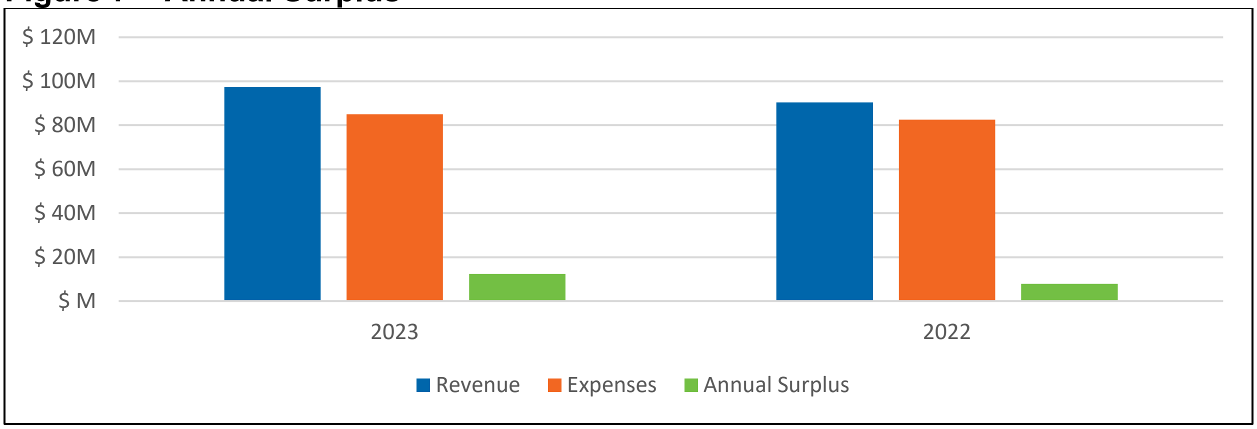
Expenses	2023 Actual	2022 Actual	Variance $	Variance %
Salaries	$ 38,024,254	$ 34,886,128	$ 3,138,126	9.0%
Materials	15,179,984	15,752,137	(572,153)	-3.6%
Contracted services	4,855,454	5,425,138	(569,684)	-10.5%
Rent/Financial	1,101,685	1,186,437	(84,752)	-7.1%
Transfers	12,160,100	11,570,308	589,792	5.1%
Amortization	13,725,935	13,716,054	9,881	0.1%
Total Expenses	**$ 85,047,412**	**$ 82,536,202**	**$ 2,511,210**	**3.0%**

By functional segment, Recreation & Culture and Protection have the greatest variance from prior year. Majority of increases are related to Salaries, refer to Table 9. Factors contributing to increased salaries include annualization, step increases and approved Full Time Equivalent (FTE) positions. Other contributing factors include COLA and vacation and lieu accruals.

4.3.3 Annual Surplus

The annual surplus for 2023 was **$12.3 million** compared to $7.9 million in 2022. Annual surplus shows whether revenues raised in the year were sufficient to cover the year's operating expenses and is a measure of the Town's overall financial results. The ability to end the year in a surplus position exhibits prudent financial management in areas of revenue and expenses where the Town has the authority to control.

Figure 7 – Annual Surplus



The annual surplus includes revenues and expenses that are not part of the Town's operating budget such as developer contributions, transactions required under Public Sector Accounting Board and capital related activity such as funding and amortization. It excludes contributions to/from reserves and debt principal repayments. As a result, the annual surplus for financial statement presentation is not equivalent to the operating budget. See section 4.7 for the reconciliation of the annual surplus.

4.4 Statement of Cash Flows

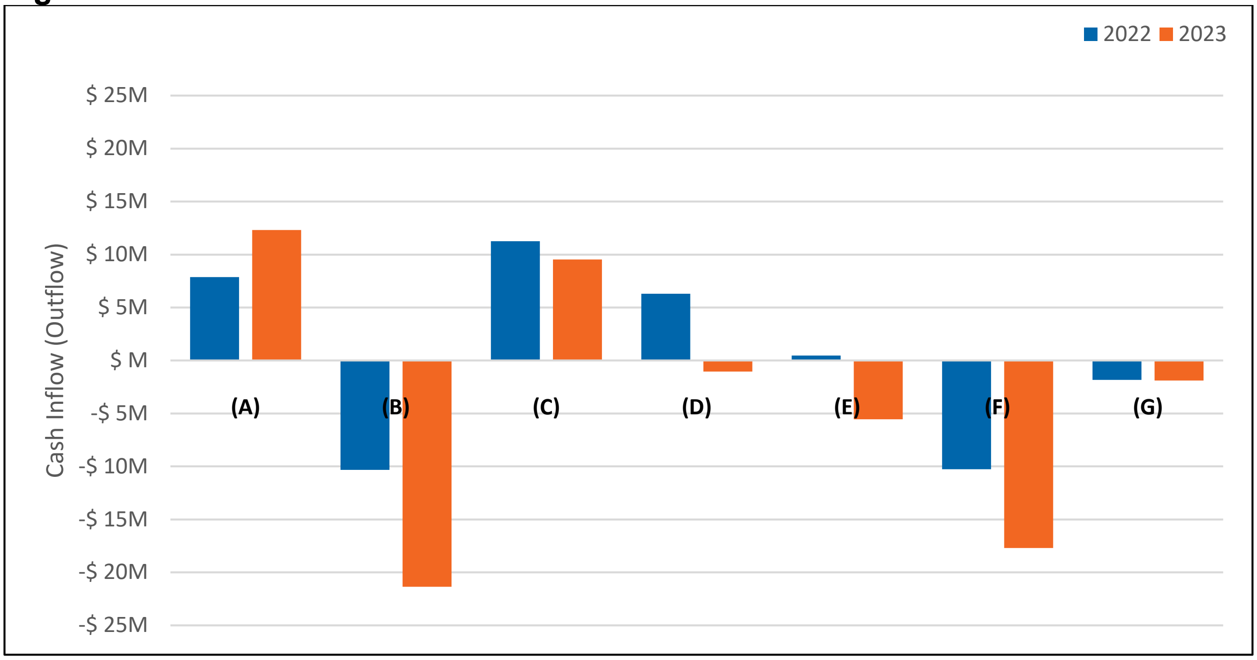
During the year, cash decreased by **$26.0 million**. The main driver of this decrease was the purchase of interest-bearing investments. The statement of cash flows reconciles the change in cash and cash equivalents from one year to another. A summary of this change is displayed in Table 10.

Table 10 – Cash and Cash Equivalents

	2023 Actual	2022 Actual	Difference
Balance, beginning of year	$ 37,605,639	$ 34,285,346	$ 3,320,293
Net Increase (Decrease)	(25,967,253)	3,320,293	(29,287,546)
Balance, end of year	**$ 11,638,386**	**$ 37,605,639**	**$ (25,967,253)**

Beginning with the annual surplus, the statement details the composition of the $26.0 million net decrease in cash and cash equivalents, explaining how the Town financed its activities and met its cash requirements. It also details items not involving cash such as annual amortization and contributed tangible capital assets, that are included in the Town's annual surplus. These inflows and outflows are displayed in Figure 8 with 2022 comparatives.

Figure 8 – 2022 and 2023 Cash Inflows and Outflows



(A)	Annual Surplus	**(E)**	Add increase in deferred revenue
(B)	Less acquisition of TCAs net of proceeds on disposal	**(F)**	Less net purchase of portfolio investments
(C)	Add non-cash TCA transactions	**(G)**	Less repayment of long-term debt
(D)	Add other operating transactions		

Cash inflow from operations totalled $15.0 million (2022 – $25.8 million). The decrease in the operating cash flows from prior year was largely due to contributed tangible capital assets of $3.9 million and an increase in accounts receivable of $3.8 million, as grant funds earned for the Memorial Park Skating Trail are to be received in 2024. In 2023, the most significant cash outflows were purchases of tangible capital assets of $21.6 million and the purchase of portfolio investments of $17.8 million.

4.5 Statement of Change in Net Financial Assets

The Town has net financial assets of **$30.0 million** as of December 31, 2023.

The statement of changes in net financial assets reconciles the change in this line item from one year to the next. It reports items resulting in the difference between the annual surplus and the change in net financial assets for the year. A summary of this change is displayed in Table 11.

Table 11 – Net Financial Assets

	2023 Actual	2022 Actual	Difference
Balance, beginning of year	$ 29,667,892	$ 21,514,491	$ 8,153,401
Annual Surplus	12,310,531	7,873,037	4,437,494
Net accumulation of TCAs	(11,847,970)	931,036	(12,779,006)
PSAS Adjustment - ARO Liability	(21,487)	(515,280)	493,793
Remeasurement gain on investments (PPN)	146,300	-	146,300
Change in other non-financial assets	(212,492)	(135,392)	(77,100)
Balance, end of year	**$ 30,042,774**	**$ 29,667,892**	**$ 374,882**

The statement begins with the Town's annual surplus of $12.3 million and tracks transactions used to acquire tangible capital assets and pay for non-financial assets during the reporting period. The net accumulation of TCAs includes purchases of TCAs plus contributed assets less annual amortization. As this figure is negative for 2023, this indicates that the Town's purchases of TCAs exceeded annual amortization, refer to section 4.2.3 for more information.

4.6 Benchmarking

The Town conducts an annual benchmarking analysis of key financial indicators to evaluate its financial condition against a benchmark group of municipalities and to assess progress toward established targets. For this report, the 2023 financial indicators and the dashboard (Attachment 4) have been updated with the latest data. The final financial indicators and comparative data from the benchmark group will be available when the 2024 BMA study is released at the end of the year. These financial indicators assess the Town's performance in three key areas: flexibility, sustainability, and affordability, with the goal of monitoring progress toward long-term fiscal sustainability.

4.6.1 Flexibility Indicators

Table 12 – Reserves

Indicator	Target	2023	2022*	2021*	Trend
Tax Reserves as % Own Source Revenue	93%	65%	73%	77%	Declining
Tax Reserves per Capita	$1,113	$725	$811	$753	Declining

* Source: BMA Municipal Study

In 2023, both the Reserves as a percentage of Own Source Revenue and Tax Reserves per Capita declined despite the approval of a 3% capital levy in the 2023 budget. The overall reserves balance was slightly lower at the end of the year due to increased capital spending on projects that had been postponed or delayed from prior years. Improved economic conditions, resolution of supply chain issues, and controlled inflation allowed these projects to move forward.

The reserve indicators are still under the benchmark group average and unable to fully meet the funding requirements in the 10-year capital plan and the annual investment recommendations outlined in the 2022 Asset Management Plan – core assets. This shortfall is expected to widen when considering the renewal needs of non-core service assets.

Looking ahead to the 2024 budget, the Council has again approved a 3% capital dedicated levy to replenish reserves and allocate funds for the Town’s aging infrastructure. To prevent the erosion of reserve balances' purchasing power, reserve contributions are indexed based on annual inflation rates.

The Town will continue to follow established principles, policies, and practices to achieve and maintain target reserve balances, aiming to enhance the Town’s financial health and achieve long-term financial sustainability.

Table 13 – Debt & Debt Servicing Costs

Indicator	Target	2023	2022*	2021*	Trend
Total Debt Servicing Cost	<4.3%	3.7%	3.8%	5.5%	Improving
Tax Supported Debt Servicing Cost	<2.8%	1.5%	1.5%	1.8%	Stable
Total Debt Outstanding per Capita	$479	$450	$494	$538	Improving
Debt to Reserve Ratio	<1.0	0.4	0.5	0.6	Improving

* Source: BMA Municipal Study

Debt Servicing Cost represents the principal and interest payments the Town must make annually to service the debt. The ratio is improving as the existing debt is repaid while no new debt has been issued in 2023. The Town’s debt policy limits debt servicing costs to 12.5% of revenues and is significantly more stringent than the Province’s upper limit of 25%. A policy limit of 12.5% is consistent with many municipal debt policies.

The Debt Outstanding per Capita and Debt to Reserve Ratio continues to improve. Debt to Reserve Ratio is better than the best practices benchmark of 1:1, indicating that the total reserves and reserve funds surpass total outstanding debt.

The Town continues to face funding pressures due to the cost of infrastructure associated with new growth as identified in the Town’s masterplans. Consequently, initiatives and projects identified in the masterplans may necessitate the consideration of new debt in the future.

4.6.2 Sustainability Indicators

Table 14 – Sustainability Indicators

Indicator	Target	2023	2022*	2021*	Trend
Taxes Receivable *	<6.0%	13.5%	13.1%	12.5%	Declining
Capital Reserves Contributions as a % of Amortization **	>100%	80.2%	71.3%	65.6%	Improving
Tax Capital Reserve Contributions as a % of Amortization **	>100%	51.9%	40.3%	42.4%	Improving

* Source: BMA Municipal Study
** Source: Finance Services Commission

The Taxes Receivable ratio shows an increase of outstanding taxes owed to the Town. A high level of uncollected property taxes reduces the Town's cash resources, as these funds are unavailable for day-to-day operations. The target is set at 6%, based on best practice recommendations.

In late 2022 and throughout 2023, the Town resumed dedicated collection efforts, resulting in a noticeable decrease in outstanding property taxes. The balance of outstanding receivable from 2022 and prior years decreased from $15.6 million on December 31, 2022, to $8.9 million on December 31, 2023. However, the Taxes Receivable ratio has slightly increased due to the supplementary tax notices issued at the end of 2023, as well as accumulated penalties on the remaining delinquent accounts from 2022 and prior years. In summary, this indicates that the Town has been successful in collecting older taxes receivable balances, and the overall increase is attributable to newer charges and penalties that are growing at a faster rate. The constant increase of the ratio year-over-year indicates a need to reinforce a dedicated tax collection officer to ensure additional balances remain collectible in a timely manner.

The Capital Reserves Contributions as a Percentage of Amortization calculates the level of reserve funding for future capital purposes compared to annual amortization. It shows the extent to which the Town is setting aside enough funds to replace assets as required. Failure to adequately fund reserves can result in sudden increases of tax rates to pay for urgent repairs and rehabilitation of assets used in essential service delivery. Ideally, the amount should be set higher than amortization, to mitigate the impact of inflation as assets must be replaced at current costs. While both total and tax reserve contributions relative to annual amortization are below the target level, the trend is improving.

An ongoing focus on optimizing infrastructure investments, leveraging external capital funding and an increased allocation of funds to capital reserves through a dedicated capital levy will help to shrink the infrastructure gap over time and move the Town towards its long-term financial sustainability objectives.

4.6.3 Affordability Indicators

Table 15 – Cost and Affordability

Indicator	Target	2024**	2023*	2022*	Trend
Net Municipal Levy per capita	Below Average	$1,819	$1,791	$1,671	Mid

* Source: BMA Municipal Study
** Source: Finance Services Commission

Levy per Capita tracks changes in levies relative to changes in population. As the population grows, it might be expected that revenues and the need for services would increase proportionally, maintaining per capita revenues at least constant in real terms. However, this is not always the case, as the cost of providing services is influenced by various factors, including service levels, types of services, methods of service delivery, assessment compositions, service demand, location, demographics, infrastructure age, and user fee policies.

While the overall trend is increasing, the Town's levy per capita remains relatively stable and falls within the mid-range of municipal rankings.

Like other municipalities, the Town faces multiple annual pressures from costs that are not readily controllable. As expenditure demands rise, the Town's options to meet these demands are limited to efficiencies, user fees, and, ultimately, taxation. Additionally, levy increases are influenced by internal policies and programs, such as ongoing contributions to reserves. These policies may impact the levy in the short term but advance the Town's financial sustainability objectives in the long term.

4.7 Operating Surplus

The Town reported an operating surplus of $673,410.

The operating surplus, reported in Fourth Quarter Financial Results, FS-003-24, April 17, 2024, of $644,600 has been updated to $673,410. The change is attributed to adjustments required after detailed review of the general ledger in preparation of the audit.

According to the Reserve and Reserve Fund Policy, any operating surplus is first transferred to the Tax Stabilization Reserve to meet the target balance. The target balance for the Tax Stabilization Reserve is two (2) months of operating expenditures. For 2023, the target balance is $9.2 million. Any remaining balance can be transferred to Rehabilitation and Replacement, Fleet and Equipment, and/or Strategic Initiatives Reserves. In 2023, the entire operating surplus was transferred to the Tax Stabilization Reserve to help meet the established target level. See section 4.10 for further analysis of this reserve.

The following table provides a reconciliation between the operating budget surplus and the annual surplus reported in the financial statements.

Table 16 – Annual Surplus Reconciliation

Annual Surplus per Operating fund	$ 673,411
Add:	
Principal repayment on long-term debt	1,905,492
TCA Assumptions	3,981,859
Capital funding	3,041,367
Contribution to/from reserves	21,345,730
PSAB accruals	238,335
	30,512,783
Deduct:	
Amortization expense	13,725,936
Capital expense	1,415,352
PSAB accruals	410,174
Contribution to/from reserves	3,324,201
	18,875,663
Annual Surplus per Consolidated Statement of Operations	**$ 12,310,531**

4.8 Water & Wastewater - Rate Supported

With respect to the rate supported water and wastewater operations, the water division ended 2023 in a deficit position of $0.37 million, and wastewater division a deficit position of $0.2 million. These results can be primarily attributed to under recovery result and water loss between the Town (recoveries) and the Region (expenses).

The Reserve & Reserve Fund Policy sets minimum and target levels for water and wastewater stabilization such that surpluses can be attributed to Repair & Rehabilitation (R&R) Reserves to support the sustainability of the water/wastewater system, provided the respective Stabilization Reserve is within the target zone.

4.8.1 Stabilization Reserves

Target balance for stabilization reserves is two (2) months of operating expenditures. With both operations ending the year in a deficit position, there is a draw on rate stabilization. Funds were transferred to operations from the respective reserves to support the shortfall. Refer to Table 17 below for the trend in stabilization reserve balances.

Table 17 – Water & Wastewater Stabilization Reserves

	Range						
Stabilization	Min	Target	2023	2022	2021	2020	Trend
Water	808,568	1,617,317	1,088,076	1,460,622	1,337,762	1,337,762	Stable
Wastewater	835,000	1,670,002	776,042	975,304	1,271,550	909,130	Declining

Water is within the target range however wastewater is below the minimum target as of the end of 2023. Any resulting surplus in 2024 will be transferred to the Stabilization Reserve first to bring the balances closer to target levels before any remaining surpluses can be attributed to R&R.

4.8.2 Repair and Rehabilitation Reserves

Minimum levels for R&R, as established in the Reserve & Reserve Fund Policy, indicate the balance should be maintained at a level sufficient to provide for the 5-year average capital requirement included in the 10-year capital plan. R&R levels are above the minimum balances.

Table 18: Water & Wastewater Repair & Rehabilitation (Capital) Reserves

	Range						
Repair & Rehabilitation	Min	Target	2023	2022	2021	2020	Trend
Water	1,698,839	14,559,125	8,168,132	6,364,363	4,606,478	3,173,564	Improving
Wastewater	3,368,673	28,765,820	6,446,949	5,155,011	3,099,192	1,846,182	Improving

The water and wastewater rate structures are developed to ensure the rates remain fair to all customers, promote water conservation and provide financially sustainable revenue that ensures ongoing water and wastewater services and infrastructure reinvestment. The Town undertakes a Water Wastewater Financial Plan and Rate Study every five years. The plan analyzes future operating expenses and capital needs for growth and asset maintenance and determines rates that will meet those objectives. The year end results as discussed are consistent with these strategies.

4.9 2023 Financial Statements of Whitchurch-Stouffville Trust Funds

Trust funds administered by the Town amounting to $1,249,996 (2022 - $1,229,900), have not been included in the consolidated financial statements. The trust funds held in trust by Council are comprised of the following:

Table 19 – Trust Fund Continuity

Fund	Beginning Balance	Receipts	Transfer/ Expenses	Ending Balance
Alex Grubin	$ 2,120	$ 95	$ 95	$ 2,120
Thomas Williamson	60,553	1,980	1,980	60,553
Cemetery Perpetual Care & Maintenance	994,617	74,791	54,695	1,014,713
Museum	172,610	8,171	8,171	172,610
	$ 1,229,900	**$ 85,037**	**$ 64,941**	**$ 1,249,996**

Trust funds are held in perpetuity to maintain the conditions of bequests, endowments, and capital fees. The capital investment remains intact, and the investment income is distributed as intended.

The capital investment portfolio is administered and managed by the Town to the same level of prudence as the Town's own investment portfolio, with the strategic objectives of adherence to statutory requirements, preservation of capital, and earning a competitive rate of return. Maintaining liquidity is less pertinent regarding Trust investments as only income earned is distributed annually. To assist with these objectives and continued effective stewardship of the funds, Trust investments are held separately in their own accounts.

4.10 Reserves and Reserve Funds

Reserves and reserve funds decreased $0.9 million over 2022 to $101.8 million.

Reserves and reserve funds ensure the Town's ongoing long-term financial health, stability and flexibility. Reserves and reserve funds must be maintained at an adequate level to ensure the Town has sufficient cashflow to meet its future needs, mitigate the impact of unexpected financial or economic changes and manage risk.

The Reserve and Reserve Fund Policy, established in July 2019, categorizes reserves into four categories: obligatory, stability and flexibility, capital, and special purpose. The 2023 Statement of Reserves and Reserve Funds, Attachment 5 details the reserve and reserve fund balances by category as summarized below.

Table 20 – Reserve and Reserve Fund Balance by Category

Reserve & Reserve Funds	Beginning Balance	2023 Activity	Ending Balance
Obligatory	44,913,004	438,125	45,351,129
Stability and flexibility	20,028,016	(543,358)	19,484,658
Capital	36,301,390	(866,606)	35,434,784
Special purpose	1,482,916	58,052	1,540,968
	$ 102,725,326	**$ (913,787)**	**$ 101,811,539**

4.10.1 Obligatory Reserve Funds

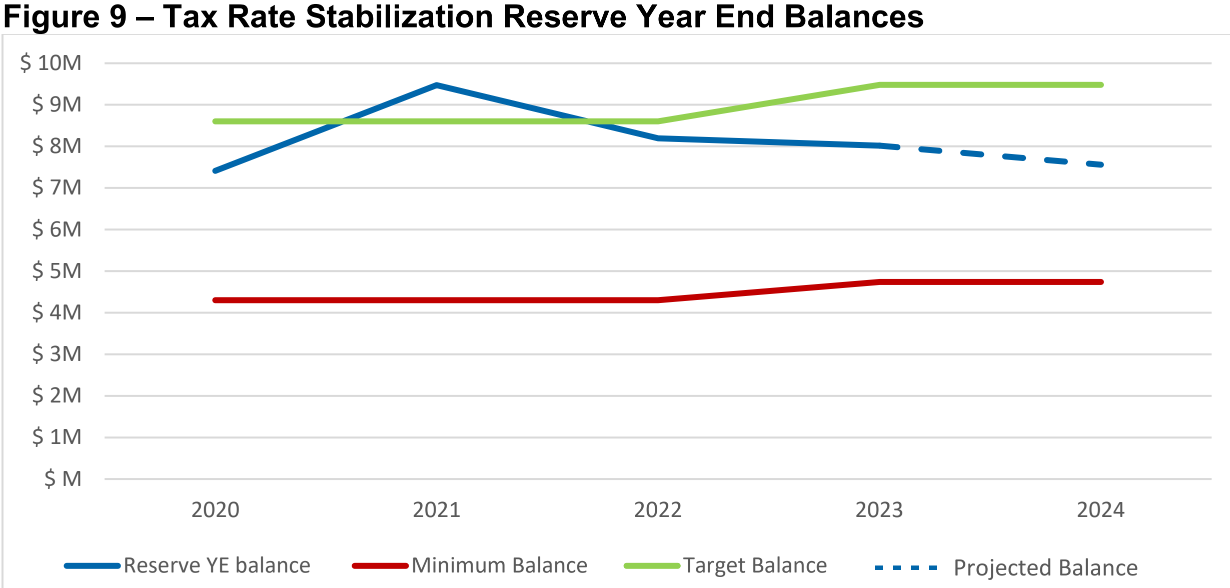
Obligatory reserve funds are established by statute or agreement where revenues received are designated for specific purposes. These are segregated from general reserves and can only be used for the prescribed purpose. Obligatory reserve funds include Park Trust, Development Charges and Canada Community Benefit Fund (CCBF). The net increase is driven by an additional $1.1 million in the Park Trust and $1.2 million in CCBF, offset by a decrease in development charges of $1.9 million.

4.10.2 Stability and Flexibility Reserves

Stability and flexibility reserves are established to ensure the Town has sufficient cash flow to meet its operational obligations, provide stability to tax rates in the event of unforeseen economic events and provide funding for one-time requirements. This category includes stabilization reserves for tax, water, wastewater, building, cemetery and library as well as the election and WSIB reserves.

Target levels are set for stabilization reserves at a minimum of one (1) month of operational expenses to a target of two (2) months. This year, stability and flexibility reserves decreased due to operating deficits for Building and Water/Wastewater. Tax Rate Stabilization also remained below the targeted balance in 2023. Figure 9 highlights the current balance against the target for tax rate stabilization.

Figure 9 – Tax Rate Stabilization Reserve Year End Balances



The 2023 operating budget approved $0.8 million in transfers from Rate Stabilization to fund operations. This was offset at year end as the operating surplus of $0.7 M was allocated back into the reserve. While this reserve is still within the established targets for 2023, the target range based on the approved 2024 budget is $4.7 million to $9.5

million. This indicates a surplus of $1.5 million would be required to attain the target balance in 2024 before further surplus could be directed to fund capital reserves.
Capital reserves are established to fund the rehabilitation and replacement of assets as set out in the Asset Management Plan and to support the Town's share of growth projects and other strategic initiatives. They are intended to provide flexibility to manage debt levels and make provisions to sustain the acquisition, rehabilitation, repair and replacement of core infrastructure through their lifecycle. Overall, capital reserves decreased $0.9 million due to utilization of reserve funds for capital projects.

As previously discussed in section 4.2, with Tangible Capital Assets being the Town's largest collection of assets, contributions to capital reserve funds are imperative to safely continue Town operations and exceed resident expectations regarding services and programming. Current contributions to the capital reserve, as a result of annual surpluses will not meet the future needs of the Town when considering growth expectations. In 2023, the Town set aside $2.3 million in R&R reserves and $1.8 million in fleet reserves while capital spending in the year was $3.1 million from R&R and $1.1 million from fleet. To fund the forecasted 10-year capital program, $48.6 million in R&R and $21.0 million in fleet reserves are required.

The Town's Asset Management Plan (AMP) is a valuable tool to evaluate the actions required to manage the Town's portfolio of assets in a way that supports established service levels, while managing risk and costs. The most recent AMP on core assets including roads, bridges & culverts, sidewalks, stormwater, water and wastewater assets, identifies an estimated annual funding gap of $2.9 million and makes recommendations to close the gap. This includes deferring capital projects, increasing reserves and/or increasing rates. Please see 2022 Asset Management Plan, FTS-011-22, June 15, 2022 for further details. An update on non-core assets is due July 2024.

While current reserve and reserve fund balances appear within target, long-term financial sustainability relies on sound reserve management, the importance of which cannot be overstated. Reserve planning allows the Town to accumulate funds needed to support large-scale infrastructure projects and support asset management. The use of reserves supports the development of realistic and achievable capital plans and ensures sufficient contingency funding in the event of unforeseen economic instability, that may impact taxation revenue.

4.11 Development Charge Reserve Funds

Pursuant to Subsection 43 of the Development Charges Act, 1997, S.O. c. 27 (DCA), the Treasurer shall provide Council with a Statement of Development Charge Reserve Funds. The Treasurer's statement must include, for the preceding year:

a) Statements of the opening and closing balances and of the transactions relating to the funds;
b) Statements identifying,

i. All assets whose capital costs were funded under the development charge by-law during the year,
ii. For each asset mentioned in subclause (i), the manner in which any capital costs not funded under the by-law was or will be funded;

c) Statement of Future Allocations;
d) A statement as to compliance with subsection 59.1 (v)

The Treasurer's statement is provided in Attachment 6 and provides greater detail.

4.12 Report on Building Fees

In accordance with Subsection 7 (4) of the Building Code Act S.O. 1992, c23 as amended, the municipality is required to prepare an annual report on the results of the Building Services division to administer and enforce the Building Code Act in its area of jurisdiction. As prescribed by the Building Code Act, if fees collected exceed expenditures to administer and enforce the Act, then the Municipality shall create/maintain a reserve balance. The reserve would be available to manage risk in a construction downturn. The balance in the building reserve at December 31, 2023 is $6.8 million. Further detail is provided in Attachment 7.

5 Financial Implications:

There are no immediate financial implications arising from this report. The financial statements and supplementary statements appended to the report provide a detailed overview of the financial performance for the fiscal year ending December 31, 2023.

Ongoing commitment to prudent financial planning practices will enhance the Town's financial health, sustainability and stability and will create a solid foundation for long-term financial planning.

6 Alignment with Strategic Plan:

1. <u>Good Governance</u>
   Provide Good Governance

7 Attachments:

1. Audit Findings Report
2. 2023 Draft Consolidated Financial Statements
3. 2023 Draft Trust Fund Financial Statements
4. Financial Dashboard
5. 2023 Statement of Reserves and Reserve Funds
6. 2023 Treasurer's Statement of Development Charges

7. 2023 Report on Building Fees
8. Glossary of Terms

8 Related Reports:

May 15, 2024 – FS-005-24: PS 3280 Asset Retirement Obligation - 2023 Adoption
Jul 16, 2019 – FTS-024-19: Reserve and Reserve Funs Strategy (F20) Report
Apr 17, 2024 – FS-003-24: 2023 Fourth Quarter Financial Results
Jun 15, 2022 – FTS-011-22: 2022 Asset Management Plan – Core Assets

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