

FINANCIAL REPORT

The Township of King is pleased to present its 2020 Financial Report and Consolidated Financial Statements, for the year ended December 31, 2020. This report has been prepared in accordance with the Municipal Act, 2001 and based on the reporting standards set by the Public Sector Accounting Board of Chartered Professional Accountants of Canada and the best practices in financial reporting by the Municipal Finance Officers Association (MFOA).

The 2020 Financial Report and Consolidated Financial Statements are the responsibility of Management of the Corporation of the Township of King. The financial statements have been examined by BDO Canada LLP Chartered Professional Accountants, the external auditors for the Corporation. The responsibility of the external auditor is to express an opinion on whether the financial statements are fairly presented, in all material respects, in accordance with public sector accounting standards.

The Financial Highlights have been extracted from the Township's Audited Consolidated Financial Statements.



King Township Municipal Centre (KTMC)

The Township of King prepares its budget on a fund accounting basis where budgeted operating expenditures and capital are balanced with revenues. Like all other municipalities, the Township of King is required under the Public Sector Accounting Board rules to prepare financial statements on the full accrual basis accounting, including amortization, tangible capital assets, landfill closure, and future employment benefits.

The Consolidated Financial Statements in the 2020 Financial Report have been prepared in accordance with general accepted accounting principles for local government as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. By converting the Township's statements to a full accrual basis, it changes the budget from a balanced budget to recognize either a surplus or deficit. The statements and related information are the responsibility of management and include the financial activities of all deemed to be controlled by the Township of King.

Some highlights of the 2020 financial statements include:

- An investment in Tangible Capital Assets of \$20.2 million which included but not limited to infrastructure, roads, equipment and the King Township Municipal Centre (KTMC)
- An increase in developer contributions of \$1.8 million
- An increased use of development charges and usage of Federal Gas Tax Funding and cash in lieu of parkland for \$5.8 million.
- A reduction in the long-term liabilities of \$2.6 million related to payments to the Region of York for Township debenture payments.
- A reduction in user fees of \$2.8 million in the statement of operations as a direct relation to the closure of facilities due to COVID-19 pandemic.
- Increase in Government grants of \$1.4 million related to OCIF funding of \$608,548 and Safe Restart funding for Phase 1 of \$817,400 for COVID-19.
- Decrease in our Taxes Receivable related to the start of our Township Arrears Program.

Financial Assets

As at December 31 (\$ millions)	2020	2019	Change in 2020 Increase / (Decrease)
Financial Assets			
Cash	\$50.1	\$49.4	\$0.7
Taxes receivable	\$10.2	\$10.5	\$(0.3)
Trade and other receivables	\$5.4	\$4.4	\$1.0
User charges and sewer receivable	\$9.1	\$8.4	\$0.7
Total	\$74.8	\$72.7	\$2.1

The increase of \$2.0 million in financial assets for the Township is mainly attributed to the following:

- \$0.7 million increase in cash mainly due to timing of deposits received at year-end and additional Safe Restart funding received late in the year.
- Decrease of \$0.3 million from an arrears program started at the latter part of the year for the Township. During 2020, the Township held off on taxes in arrears due to COVID however, started to re-establish this program for properties in 3 years in arrears or more.
- Increase of \$0.7 million in user charge and sewer receivable with the additional levies for sewer connections in Nobleton for Phase 2.
- \$1.0 million increase from additional maintenance receivable to be established for 2021 for the Holland Marsh related to drain 15 and 16. These charges will be a local improvement added to the 2021 final tax billing once final allocations are received from the Holland Marsh. This also includes additional recovery for billing of fire response time for motor vehicle accidents and recovery for developments.

Taxes Receivable

The Township is working on an arrears program for property owners to help reduce its property taxes receivable over the years by offering special payment plans for residents in arrears and proactively conducting tax sales on properties for a period of 3 years or more. Next steps involves title searches, to see if property owners have mortgage companies which provides an option to have the arrears paid by the mortgage lender.

Tax arrears has been an issue with the Township over the years as indicated on the table below that shows the tax arrears from 2016-2020 which does not appear to be impacted by COVID directly but rather a lack of collection. The funds in arrears could be re-invested to the municipality for additional interest investment and generate additional income for the municipality.

2020 MANAGEMENT DISCUSSION AND ANALYSIS



Below is a chart to show the history of arrears over the last 5 years.

Table 1:

	2020	2019	2018	2017	2016
Tax Arrears	10,234,774	10,447,875	9,976,152	8,786,543	7,851,843
Total Levy	84,149,175	81,151,920	78,000,696	74,048,174	66,657,074
% of Arrears	12%	13%	13%	12%	12%

The Township reports our financial indicators to the Province with the yearly reporting in the Financial Information Return (FIR). The Township's tax arrears is over the 10% limit which indicators a moderate to high risk and was recently flagged by Ministry staff.

This arrears program was started towards the end of 2020 and will continue for 2021. Staff will continue to report back on the progress of that plan later in the year.

Financial Liabilities

As at December 31 (\$ millions)	2020	2019	Change in 2020 Increase / (Decrease)
Financial Liabilities			
Accounts payable and accrued liabilities	\$15.7	\$13.9	\$1.8
Developer and other deposits	\$8.0	\$6.2	\$1.8
Deferred revenue (General & Obligatory Reserves)	\$14.3	\$20.1	\$(5.8)
Employee future benefits and other liabilities	\$3.1	\$2.8	\$0.3
Solid waste landfill closure and post closure liability	\$1.0	\$1.3	\$(0.3)
Long-term debt	\$20.0	\$22.6	\$(2.6)
Total	\$62.1	\$66.9	\$(4.8)

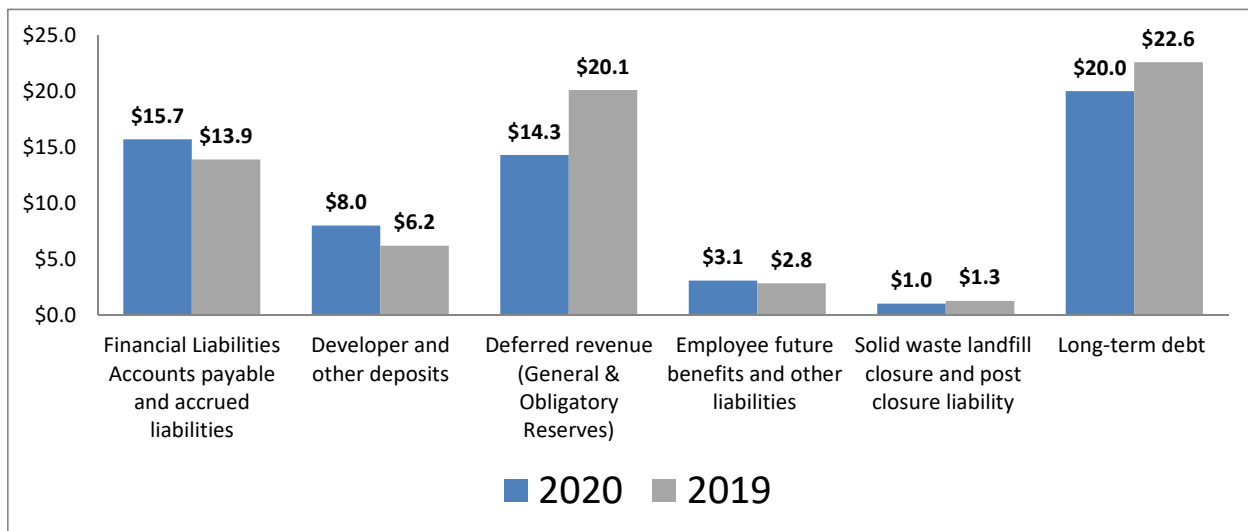
The decrease of \$4.8 million in financial liabilities for the Township is mainly attributed to the following:

- \$1.8 million increase in accounts payable and accrued liabilities to account for potential Local Planning Appeal Tribunal (LPAT) appeals related to the Official Plan, outstanding legal matters, and increase in payables related to timing of invoices received.
- \$1.8 million in additional developer contributions for planning and subdivision applications currently being constructed.

2020 MANAGEMENT DISCUSSION AND ANALYSIS



- Decrease of \$5.8 million related to funding of capital projects for 2020 in particular the new King City Seniors Centre and Library, roads infrastructure projects with development charges and Federal Gas Tax funding.
- \$0.3 million from updating the Township's Post-Retirement non-pension benefits and Sick leave benefit by our actuarial review which is required every 3 years.
- Decrease of \$2.6 million related to debenture payments to the Region of York for long term debt obligations for various projects. More details further in this report.



Non-Financial Assets

As at December 31 (\$ millions)	2020	2019	Change in 2020 Increase / (Decrease)
Non-Financial Assets			
Tangible capital assets	\$278.1	\$265.5	\$12.6
Inventory held for own use	\$0.1	\$0.2	\$(0.1)
Prepaid expenses	\$0.1	\$0.2	\$(0.1)
Total	\$278.3	\$265.9	\$12.4

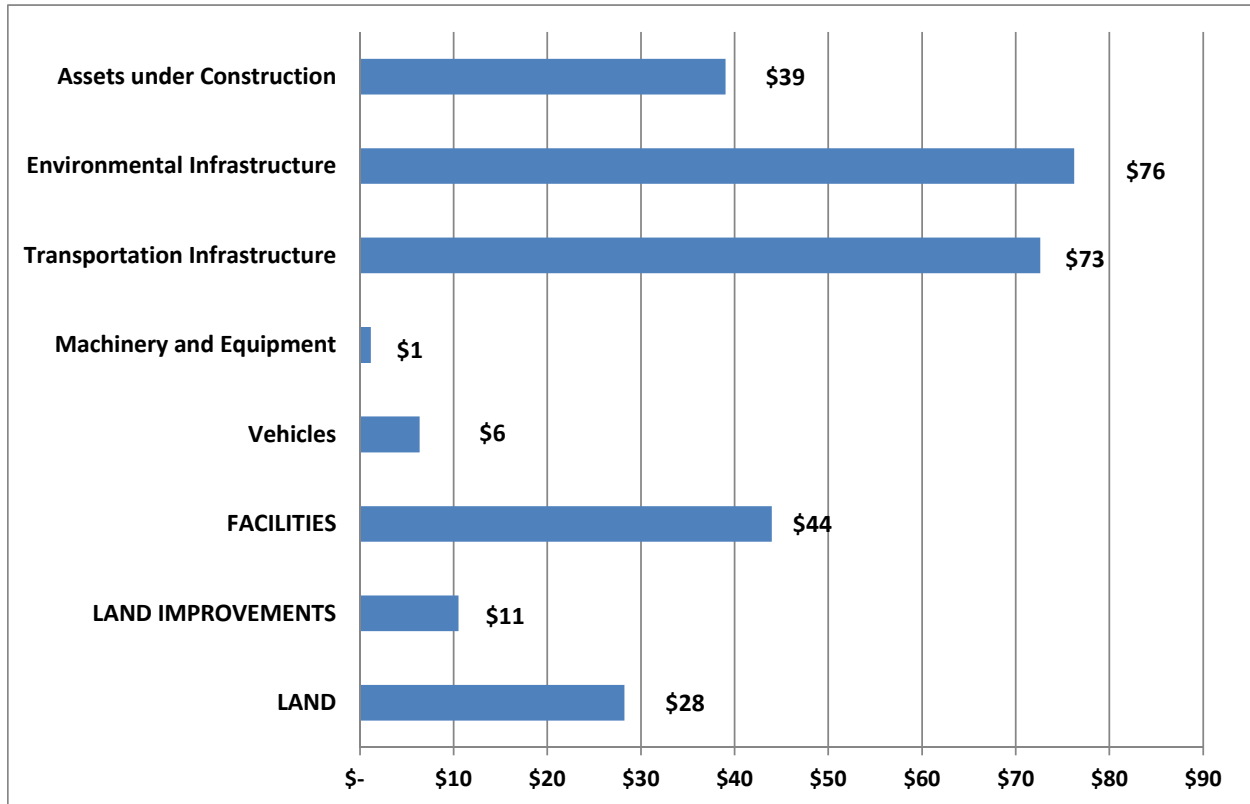
The majority of the change within Non-Financial Assets is recognizing new assets with the Township made significant investment in tangible capital assets of \$20.2 million in 2020 with a net increase of \$12.6 million once amortization of \$7.6 million and gain on disposal of \$10 thousand are accounted for.

2020 MANAGEMENT DISCUSSION AND ANALYSIS



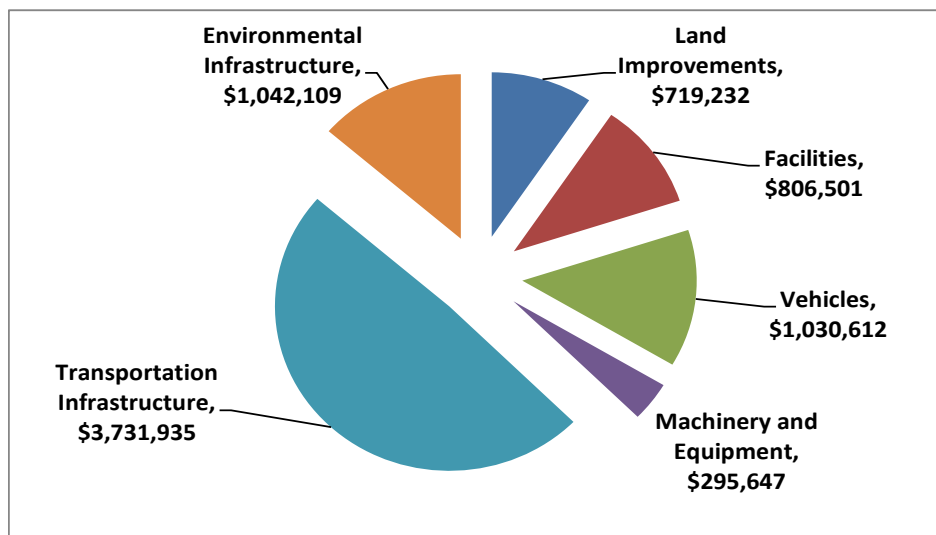
The following table represents the Net Book Value (NBV) of assets in millions:

Total NBV \$278.1 million



The value of amortization per class of assets is listed below:

Total Amortization is \$7.6 million



2020 MANAGEMENT DISCUSSION AND ANALYSIS



For 2020, the Township recognized \$20.2 million in Tangible Capital Assets. Below are some high level projects for reference and is not the full list of projects recognized in the 2020 year-end

Additions for 2020	Value \$ (millions)
<ul style="list-style-type: none"> The King Township Municipal Centre (KTMC) 	\$21.3
<ul style="list-style-type: none"> Various Road Improvements 	\$1.5
<ul style="list-style-type: none"> Conversion of Gravel Roads to Paved Roads 	\$3.0
<ul style="list-style-type: none"> Ansnorveldt Park Upgrades 	\$0.4
<ul style="list-style-type: none"> Various new Vehicles and Equipment 	\$0.7
<ul style="list-style-type: none"> Nobleton Arena Building improvements & Arena Rubber Flooring replacement 	\$0.3
<ul style="list-style-type: none"> Trail Improvements 	\$0.3

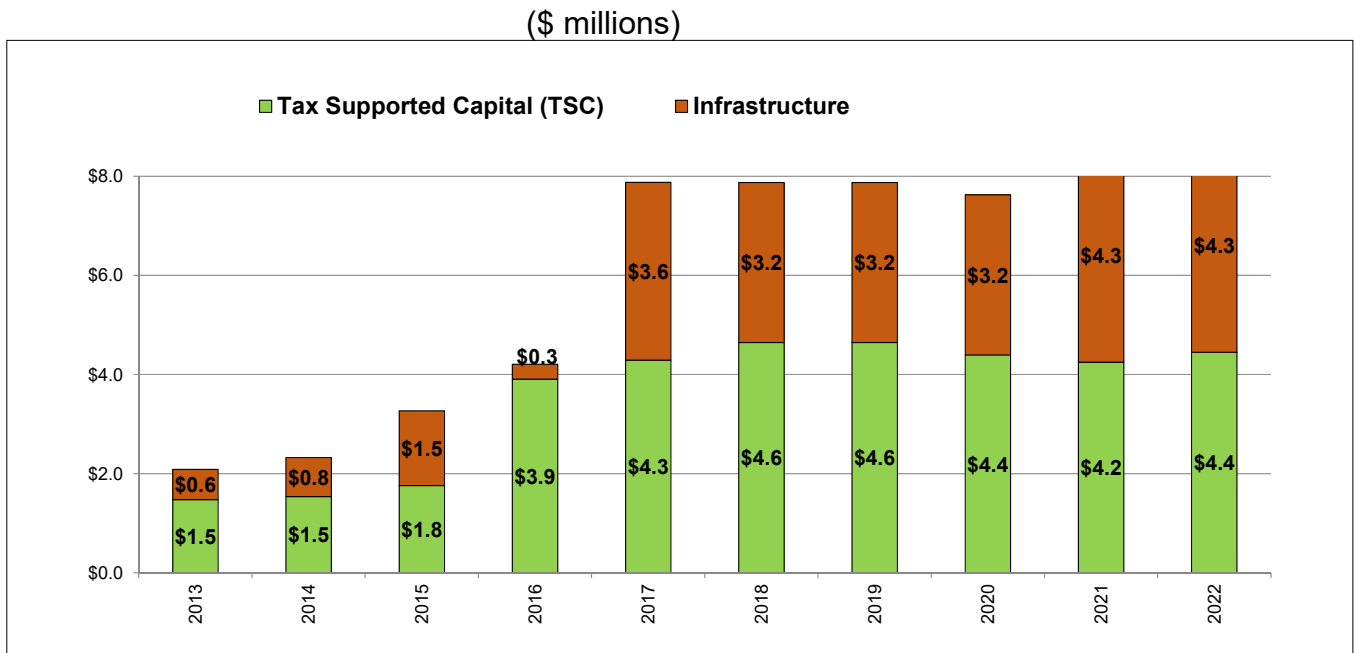
The Township’s sustainable funding source for capital offsets the projected amortization expenses of approximately \$7.6 million per year. With amortization providing an indication of how much should be set aside / spent each year to repair and replace the Township assets. However, amortization is based on historical cost of assets and the future cost to replace an asset (such as a road or bridge) will cost more than what the Township paid for it more than 50 years ago. The difference between the historical cost and the replacement cost is called the infrastructure funding gap.

The Township needs to build-up sustainable funding for capital. In recent years, the Township has actively worked to reduce the infrastructure funding shortfall by levying more property tax dollars for capital purposes.



The plan is to build up our tax funded capital which is \$4.4 million in 2020 and \$4.2 million in 2021 plus, our contribution for infrastructure which is now \$4.3 million to cover the estimated annual depreciation or amortization of all assets. By forecasting our capital expenditures, we can plan for funding from both reserves and stabilize the tax rate.

This chart shows the balance of using the two funding sources to support the repair and replacement of Township assets with using both tax supported capital reserve and infrastructure reserve.



As the Township continues to work towards a comprehensive Asset Management Plan (AMP), the average annual investment required will be adjusted, and the infrastructure gap will be quantified with the goal of creating a long-term strategy to fund the gap. This strategy will continue to look at best practices to maintain assets to avoid large replacement costs and ensure a proactive approach is adopted for proper maintenance and repairs.



2020 MANAGEMENT DISCUSSION AND ANALYSIS



As part of the Township’s Fiscal Strategy, we must look at our 10-year capital forecast and balance the needs of growth and non-growth. In conjunction with our Asset Management Plan (AMP) we must include the various studies to help formulate the 10-year plan. These include but, not limited to the Community Service plan that looks at the various amenities for parks, recreation, and culture. The Fire Master Plan that looks at community risk assessment, the Official Plan for population growth for both residential and commercial / industrial, the Development Charge Study which is a 5-year plan that was recently adopted by Council in January 2021 and the Paving strategy.



Accumulated Surplus

As at December 31 (\$ millions)	2020	2019	Change in 2020 Increase / (Decrease)
Financial Assets	\$74.8	\$72.7	\$2.1
Financial Liabilities	\$62.1	\$66.9	\$(4.8)
Net Financial Assets	\$12.7	\$5.8	\$6.9
Non- Financial Assets	\$278.3	\$265.8	\$12.5
Total Net Assets	\$291.0	\$271.6	\$19.4
Accumulated Surplus - End of Year	\$291.0	\$271.6	\$19.4

The 2020 accumulated surplus change is equal to the 2020 annual surplus from operations from the statement of operations. In 2020, the Township’s change represents an increase of \$19.4 million to the accumulated surplus at the end of December 31, 2020. Details are provided in the financial statements under note 9 for more information.

OPERATIONS AND ACCUMULATED SURPLUS

The budgets for the Township are prepared on the funding bases of accounting where revenues equal expenses for the budget / planning purposes. On the fund basis of accounting, the Township ended with a surplus of \$223 thousand due primarily to reductions in expenses with delay of purchases, gapping, staffing vacancies, and reduced spending to accommodate the closure of facilities, and loss of revenues during the COVID-19 Pandemic. Some additional revenue was recognized in relation to investment income, supplementary revenue related to taxes, and planning applications. A detailed reporting of the fund basis operating budget surplus will be provided in a separate report as part of the year-end process.

Overall the Township has a 2020 year-end full accrual surplus of \$19.4 million which is related primarily due to additional assets that were added by the Township of \$20.2 million which includes \$1.8 million of infrastructure assets that were assumed by development. The revenue from Township assumed infrastructure is captured under contribution from developers in the Statement of Operations. In 2020, the Township recognized \$6.8 million in development charges under contribution and \$1.8 million in Federal Gas Tax under the grant revenue section of the Statement of Operations.

Conversion to Full Accrual Accounting

In order to comply with PSAB reporting the Township converts its fund basis of accounting to the full accrual accounting for both revenues and expenses. For example, prior to 2009 there was no requirement to present tangible capital assets on the Township's Statement of Financial Position. At the time, all Ontario municipalities at the time expensed tangible capital assets (TCA) additions with revenues related to capital project additions shown to fully offset the expenses. Under the full accrual method of accounting, the TCA additions are now capitalized on the Township's Statement of Financial Position similar to other private businesses and organizations. Municipalities now show amortization expense as listed on the Statement of Operations which is one of the largest expenses for many municipalities due the volume of assets under a municipality's control such as roads, bridges, fleet, facilities, and equipment.

The items below are included in the December 31, 2020 financial statements:

- Amortization of tangible capital assets
- Accumulated Surplus/(Deficit) from Operations
- Net Book Value Gain / Loss on disposal of Tangible Capital Assets
- Revenue – Grants (including Federal Gas Tax)/Development Charges/Recoveries from other municipalities/ other - for Capital

2020 MANAGEMENT DISCUSSION AND ANALYSIS



- Revenue – Contributed Assets (assets assumed by the Township by developers)
- Transfer from/to Reserves are not considered Revenue or Expenses and are removed from the Township’s Surplus

The following is the adjustment from the Township’s fund accounting surplus of \$223 thousand to the actual full accrual surplus of \$19.4 million:

2020 Fund Accounting Operating Budget Surplus		\$223
Tangible Capital Asset (TCA) Adjustments		
	Tangible Capital Asset Amortization	(\$7,626)
	2020 Tax Levy Funded Capital Program	\$12,244
Assets	Capital Budget Items not considered Tangible Capital	\$61
	Net Book Value loss on Disposal of Tangible Capital Assets	(\$12)
		\$4,667
Surplus after accounting for TCA		\$4,890
Other Full Accrual Adjustments		
	Transfers to Reserves not considered an expense	\$14,414
	Transfers from Reserves not considered revenue	(\$2,660)
	Deferred Revenues and Other External Funding (grants)	-
	Long term debt (external) not considered as expenditures	\$2,447
	Change in Employee Future Benefits Liability	(\$158)
Liability	Change in Solid Waste Landfill Closure and Post Closure	\$255
	Consolidation of Library Board and Holland Marsh	\$217
		\$14,515
2020 Full Accrual Surplus		\$19,405

MUNICIPAL DEBT

King Township’s capital planning requirements may rely on the use of debenture financing to support investment in municipal infrastructure. This approach has been analyzed on the basis of the Township’s current debt structure, in conjunction with Ministry defined debenture capacity / annual repayment limits, and with a comprehensive understanding of current reserve and reserve funds.

Under section 401 of the Municipal Act, debentures are issued by the upper tier; therefore the Region of York issues debentures on behalf of the Township of King. Debenture issuance at the Township will only be undertaken in compliance with the provisions of the Municipal Act, 2001, specifically Part XIII Debt and Investment, as well as Ontario Regulation 403/02 (Debt and Financial Obligation Limit).

At the end of 2020, the Township’s net outstanding debt is \$20.0 million.

The long-term debt incurred by the Township and outstanding at the end of the year consists of the following:

By-law	Purpose / Description	Interest Rate	Maturity Date	2020	2019
2016-54	For the construction of sewage works in the community of Nobleton, in the amount of \$6,000,000, has annual principle payments of 400,000.	3.80%	2026	2,400,000	2,800,000
2015-62	For the construction of road and watermain in the community of Nobleton, in the amount of \$6,000,000. This is a sinking fund debenture.	2.60%	2025	6,000,000	6,000,000
2019-21	For the King Roads project in the amount of \$6,100,000. This is a sinking fund debenture.	2.65%	2029	6,100,000	6,100,000
2019-52	For King Buildings including the King Township Municipal Centre (KTMC), King City Library / Senior Centre and Graham Sideroad Bridge. This is a sinking fund debenture.	2.65%	2029	10,000,000	10,000,000
	Long-term liabilities			24,500,000	24,900,000
	Less: sinking fund assets			(4,539,749)	(2,312,967)
	Net long-term liabilities			19,960,251	22,587,033

Type of debentures:

Serial Debentures: Designed to pay equal, semi-annual principles amounts with interest calculated on the declining balances;

Amortized Debentures: Constructed to pay equal, semi-annual total payments with the interest component decreasing over the term;

Sinking Fund Debentures: Designed to pay equal, annual sinking fund contributions and equal, semi-annual interest payments to a fund that when combined with interest earned is used to repay the principal at the maturity.

2016-54 – Sewage Works in Nobleton

Issued in 2011, for the construction of the sewage works in the community of Nobleton in the amount of \$6.0 million. This is a traditional serial debenture with a principle payment of \$400,000 a year plus interest of 3.8% for a maturity date of July 6, 2026.

2015-62 – Construction of Road and Watermain in Nobleton

This debenture was issued in 2015 for the construction of a road and watermain in the community of Nobleton for a total of \$6.0 million. This was issued as a sinking fund debenture with an interest rate of 2.6% and a maturity date of June 15, 2025. Semi-Annual payments are made for interest payments and the principle paid at maturity.

2019-21 – King Road Projects

This debenture was issued in 2019 for the construction of various road projects throughout the Township for a total of \$6.1 million. This was issued as a sinking fund debenture with an interest rate of 2.65% and a maturity date of April 18, 2029. Semi-Annual payments are made for interest payments and the principle paid at maturity.

2019-52 – Various Town Projects

This debenture was issued in 2019 for the construction of Graham Sideroad Bridge, the King Township Municipal Centre (KTMC) and the King City Library / Senior Centre for a total of \$10.0 million. This was issued as a sinking fund debenture with an interest rate of 2.65% and a maturity date of April 18, 2029. Semi-Annual payments are made for interest payments and the principle paid at maturity.

Annual debt charges are included in the amount of the property tax rate, user rate, and area specific charge (benefitting landowner) calculations. The chart below summarizes the annual debt charges (principal and interest) for the Township's existing debt obligation; it does not include any new proposed debt.

Year	Principal	Interest	Total
2021	2,446,809	670,081	3,116,890
2022	2,446,809	654,881	3,101,690
2023	2,446,809	639,681	3,086,490
2024	2,446,809	624,585	3,071,394
2025	2,446,809	531,281	2,978,090
2026 - 2029	7,726,206	1,504,706	7,921,867
	19,960,251	4,625,215	23,276,421

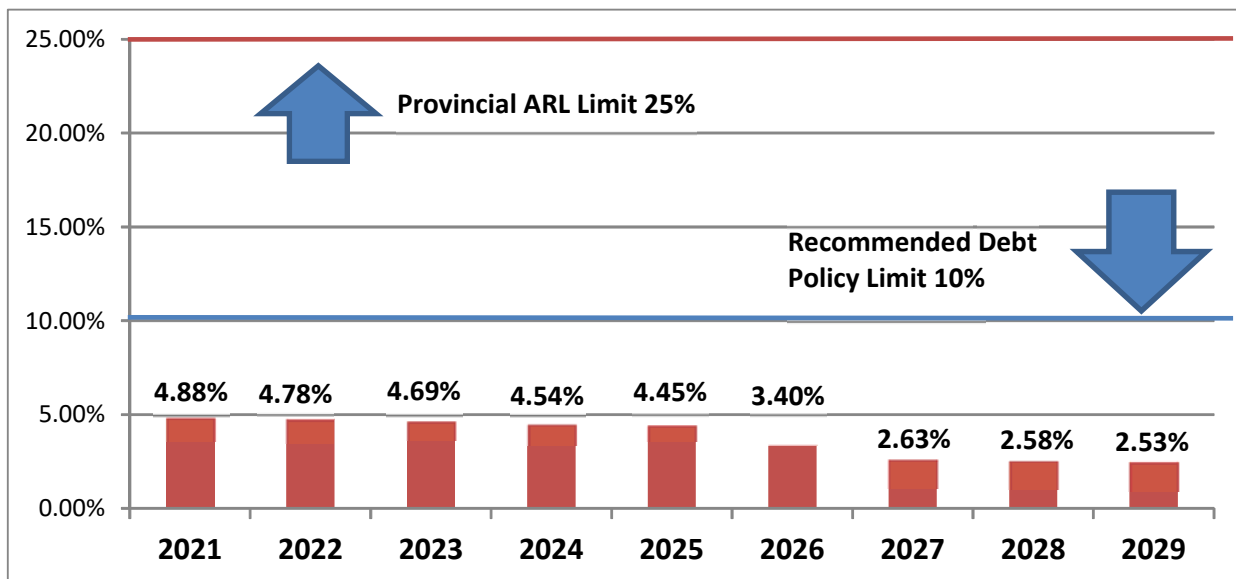
Annual Debt Repayment Limit

The Province of Ontario, through regulation, prescribes the Annual Debt Repayment Limit (ARL) for municipalities. The ARL is calculated based on 25% of the municipality’s own source revenues and represents the maximum amount which the municipality has available to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. As per the debt policy within the Township of King we have an approved limit of 10% for all debt.

Non-Material Leases are fixed payments over a term that the Township has agreements with which includes leases for the photocopiers. The amount is not material, however, is \$28 thousand per year from 2019-2023. These are financing agreements that the Township has entered into which are calculated as part of the ARL.

Based on debt financing the Township’s current debt limit is 4.88%. Below represents the forecasted projected debt limit for the remaining debentures not including any additional forecasted debt requirements.

2021-2029 ARL Debt Projections



Annual Reporting Requirements

The Director of Finance / Treasurer will determine the short and long term borrowing needs and report to Council annually on any outstanding debt balance, their use and measured to key financial indicators. Through the Capital Budget process, the Director of Finance / Treasurer will also seek Council approval on all new debt prior to works being formally undertaken and will advise Council of issuance of debt when it is appropriate.

The Corporate Debt Policy will be reviewed periodically and updated if necessary. Any required changes will then be submitted to Council for approval. Otherwise, the Corporate Debt Policy will be formally reviewed, at a minimum of every five (5) years from the date of the last review.

CONCLUSION

With consultation with Council, the Senior Leadership Team, and staff will continue to present a well-balanced annual budget and additional financial strategies to provide a fiscally responsible outlook for the Township of King.

Some of the principles staff take into consideration in developing its fiscal strategies are:

1. **FLEXIBLE** – Responsive financial policies allow for opportunities and changing circumstances. Being able to respond to change related to economic, social, environmental, and political conditions.
2. **BALANCE** – Service levels are equitable and supported by Council. Balance of growth and non-growth
3. **GOVERNANCE** – Maintain Integrity to ensure strong public funds and assets, to always spend within our means, to maintain a strong balance sheet, establish reserves and mitigate risk.
4. **CREDIBLE** – Maintaining public confidence and being accountable. Providing citizens with the best value for money, setting performance metrics, looking for areas of improvements, report to stakeholders, maintain a high level of transparency, and find methods to promote public education.

The overall Fiscal Strategy is intended to guide the financial policies and corporate strategies to ensure the goals and objectives of the Corporate Strategic Plan are achievable over the long-term.



Peggy Tollett, CPA, CGA,

Director of Finance / Treasurer