Town of Huntsville Staff Report

Division: Treasury
Date Prepared: April-28-15
Meeting Date: April-29-15
To: General Committee
Author: Julia Finch, Manager of Finance / Treasurer
Choose an item.
Choose an item.
Subject: Unfunded Deficit 2009-2010

Report # TREA-2015-11
Confidential: No

RECOMMENDATION: For Information Only

n/a

Background

During the years 2009 and 2010 the Town of Huntsville undertook several capital projects that were funded through grants as well as long term debt. As the project expenditures and funding spanned a period of two years, it was not clear in the 2009 financial statement whether these projects were, or would be, fully funded.

The projects were completed in 2010 and reference to the "deficit" was included in the "Draft 2010 Consolidated Financial Statements & 2009 Financial Indicator Review" power point presentation, which was presented at the Corporate Services Committee Meeting on July 5, 2011. The following comments were made in the presentation:

"Notes to Statements

- Decrease in deficit (from 2009)
    - Financing received in 2010 through debentures
    - Still an unfinanced amount because we didn't draw down as much as anticipated from reserve to fund capital projects
    - Balance between growing reserves, value and paying down the deficit (PLAN)
- Further discussion and analysis will be required as part of our budget planning"

It was also noted under a "cautionary note" that "the balancing of reserves/deficit was required"

The financial statements for the year ended December 31, 2010 were audited by BDO Canada LLP and were presented by Senior Staff at the July 5, 2011 meeting and included in note 7 – Accumulated Surplus a "deficit" of $3,066,232.

A Deficit in the amount of approximately $3,000,000 has continued to show on the audited financial

statements under the accumulated surplus note.

Discussions have been held with our current auditor, Grant Thornton, and the follow explanation was provided as to how this amount likely arose:

"Included in accumulated surplus is the total net book value for Capital Assets. If the asset addition is financed by long-term debt, then the debit would be to "amounts to be recovered". If the asset addition is financed by a transfer from reserves, then the debit is to reserves (i.e. a reduction in reserve balances). If the additions were fully financed by grants or property taxation, then the statement of operations would show a large surplus (since the revenue is reported but the capital asset additions are not reported as expenses) and this annual surplus would then "close" to the operating fund and would therefore result in no deficit. If the addition is financed by cash or short term bank indebtedness, then there is no offsetting component of accumulated surplus to debit so the debit defaults to operating fund deficit."

Discussion

Staff has further investigated this deficit which is an amount of $3,003,650 as of December 31, 2013 per the Town's consolidated financial statements, and have found the following breakdowns in the shortfalls in funding in 2009 and 2010:

G8 Capital (Summit Centre, Deerhurst Drive, Port Sydney Beautification, University Building)
Total Funding $37,912,470
Total Expense $39,788,649
Unfinanced Capital **$1,876,178**

Hanes Road
Total Funding $2,778,289
Total Expense $2,837,270
Unfinanced Capital **$58,980**

Brunel/Conroy
Total Funding $1,989,583
Total Expense $2,115,613
Unfinanced Capital **$126,029**

Arena Debenture
Total Funding $0
Total Expense $1,036,000
Unfinanced Expense **$956,842**

In 2010 Debenture 2000-67 to fund the Arena ended and required a balloon payment of $1,036,000. Town of Huntsville By-law 2010-15 being a by-law to authorize a debenture for the G8 and other certain capital projects, in the amount of $9,000,000 was approved. Of this amount, $1,036,000 was to be used to fund the payment of this balloon payment. In the financial statements $8,133,302 of the debenture was allocated to the G8 Projects and $866,698 was allocated to the Conroy/Brunel Project. No portion

of the debenture was allocated to the repayment of the 2000-67 Arena Debenture. At the March 25, 2010 Finance & Administration Committee a motion was carried to pay $891,888 of the Debenture 2000-67 from reserves and payment on the borrowings to be paid back to reserves over the next 12 years. This accounting transaction of transferring the reserves did not take place in 2010 and reserves were not used to fund the payment.

Port Sydney Fire hall

The amount of unfinanced expense for the Port Sydney Fire Hall reported in 2009-2010 is approximately $105,000 however $73,000 of this was due to the fact that a GIC that belonged to the Volunteer Fire Fighters that was budgeted to be transferred to this project was not transferred until 2012.

Per the Municipal Act,(S.290) (4) "Allowance - In preparing the budget for a year, the local municipality,
(a) shall not include in the estimated revenues described in paragraph 1 of subsection (2) the estimated proceeds of any borrowing during the year;
(b) shall treat as estimated revenues any surplus of any previous year that resulted because,
(i) revenues for that year were greater than the amount described in paragraph 1 of subsection (2) for that year, or
(ii) expenses for that year were less than the amount described in paragraph 3 of subsection (2) for that year;"

Based on this, the shortfall in funding for these capital projects should have been added to the 2011 Town Budget in the amount of approximately $3,000,000. The 2011 approved budget did not include amounts for the previous year's deficit.

In speaking with the Ministry of Municipal Affairs and Housing it is not uncommon for Municipalities to have unfunded capital on the books, however, a plan should be in place to fund the balance. Unfunded operations are not permissible and must be included in the subsequent budget.

Financial Implications

Capital:

Capital Item?	☐	Yes	☒	No
If yes, is there a Capital Asset Plan?	☐	Yes	☐	No

If no, explain:

Operational:

Current Implications

Council must determine how this unfinanced capital should be funded, some options are outlined below:

1. Increase tax levy
2. Debenture
3. Utilize Reserves
4. Reduction in service level and staffing

5. Selling capital assets
6. Or a combination of the above

Future Implications
To be included in the 2016 budget.

Funding Source
To be determined.

Insurance / Risk Management Implications

1. n/a

Human Resources Implications

1. n/a

Sustainability Implications

1. n/a

Accessibility Implications

1. n/a

Council Strategic Direction (i.e. Approved Plans)

1. *Community Master Plan – Section 4.1 Improve communications between Council, staff and the public*
2. *Community Master Plan – Section 5.0 Maintain Excellent Low Tax Rate*

Relevant Policies / Legislation / Resolutions

1. *Accountability and Transparency Policy, By-law 2007-120 -To ensure that all actions are transparent to the public*
2. *Municipal Act, 2001 S.O. 2001, CHAPTER 25, Section 290 (4) – Yearly Budget Local Municipalities*

Public Notice Required

☐ Yes ☒ No

Attachments

1. n/a

Consultations

1. Judy Kleinhuis, CPA-CA Principal Grant Thornton
2. Michael Went, Senior Municipal Financial Advisor, Municipal Services Office, Central Region,

Ministry of Municipal Affairs and Housing

Respectfully Submitted,

Julia Finch, Manager of Finance / Treasurer

Approved for Submission

Denise Corry, Chief Administrative Officer

Report Reviewed by:

Human Resources Implications (Executive Director of Human Resources & Corporate Information): ☐

Financial Implications (Manager of Finance/Treasurer): ☒

Insurance / Risk Management Implications (Risk Management & Purchasing Coordinator): ☐

Sustainability Implications (Sustainability Coordinator): ☐