

To: David Creery, Chief Administrative Officer

From: Stephanie Harper, Chief Financial Officer

Re: Expenses Not Included in 2026 Preliminary Revenue Fund Budget

AIM

To advise and seek Council's approval of expenses not included in the 2026 Preliminary Revenue Fund Budget.

BACKGROUND

Municipal governments are required to follow the accounting standards established by the Public Sector Accounting Board (PSAB) related to the use of full accrual accounting in their annual financial statements. Under Ontario Regulation 284/09, expenses related to amortization, post-employment benefits and solid waste landfill closure and post-closure can be excluded from the annual operating budget. In our situation, expenses related to solid waste landfill closure and post-closure expenses are the responsibility of the upper tier with the exception of some legacy monitoring expenses which are included in the preliminary budget.

Preparing the annual budget is an important exercise which considers plans for current and future activities and acquisitions. An important result of the annual budget is a tax rate which Council approves. This tax rate is based on annual cash requirements and therefore does not include the PSAB requirements around full accrual accounting and accounting for nonfinancial assets and liabilities. The capital portion of the lifecycle requirements for nonfinancial infrastructure assets is captured in the operating budget through contributions to reserves and reserve funds and debt charge payments with the related expenditures included in the capital budget.

As we do not include amortization expense in our operating budget, we are required to report to Council the amount of the excluded expense as well as the estimated impact on the accumulated surplus and our ability to fund future capital assets. This report must be approved by Council before the current revenue fund budget can be adopted.

COMMENTS

Amortization can be used as an estimate of the amount required to replace assets in the future. The assumption is that over the useful life of an asset, funds equivalent to the noncash expense can be set aside to provide funds to replace that asset. While setting aside the amount of the amortization expense provides some of the financing for the replacement of assets, a number of factors such as the age of the asset, inflation, tariffs, timing of

replacements and changes in technology can impact the replacement cost. An asset may be replaced before or well after it has been fully amortized.

An asset that is fully amortized no longer attracts any amortization expense resulting in funds no longer being set aside for that asset. Examples of fully amortized assets in our portfolio would include older buildings and vehicles as well as a number of storm sewer laterals. It is also important to note that amortization expense is based on the historical cost of the currently owned assets and does not represent the financing requirements that are identified in our most recent asset management plan.

In the revenue fund budget, we provide for asset replacement by budgeting annual contributions to various reserves and reserve funds. In 2026, the proposed contributions to the various reserves and reserve funds for asset replacement total \$10,073,260. Using the most recently audited financial statement, the 2024 amortization expense was \$11,379,174. Increasing the expenditures in this budget to the amount of the amortization would result in a reduction of \$1,305,914 to the accumulated surplus based on the difference in the amount currently being raised and the amortization expense. It is important to reiterate that this shortfall indicates that our current reserve and reserve fund contributions are not sufficient to replace the amortization on the historical cost of our assets and if amortization was calculated on current replacement values that the impact on the surplus would be much greater.

The cost of post-employment benefits is included in the 2026 preliminary budget with only sick leave payouts being excluded from the budget. These payouts are difficult to predict in any particular year however an estimated liability is recorded in the City's audited financial statements and therefore any payout would result in minimal impact on the accumulated surplus. To support financial reporting and planning, regular actuarial reviews are conducted to maintain a current estimate of the liability with the most recent actuarial review completed in early 2024. In addition, contributions are made to the Sick Leave and Salary Reserves periodically, to fund any payments that employees may become entitled to upon retirement or termination.

We do not believe the exclusion of any of these expenses will impact the operations or the capital program of the City. Staff have an excellent understanding of the future capital replacement needs of the City. Five-year capital forecasts and long-term financing plans have been in place for many years.

RECOMMENDATION

That Woodstock City Council approve the report regarding expenses excluded from the 2026 Preliminary Revenue Fund Budget.

Authored by: Stephanie Harper, CPA, Chief Financial Officer

Approved by: David Creery, P. Eng, MBA, Chief Administrative Officer