

Consolidated Statement of Operations - Variance Analysis

| | 2018 | 2017* | \$ Change | % Change | Note |
|--|----------------------|----------------------|---------------------|------------|------|
| Revenue: | | | | | |
| Taxation | \$ 16,426,521 | \$ 15,493,001 | \$ 933,520 | 6% | 1 |
| Water and sewer charges | \$ 4,876,737 | \$ 4,710,258 | \$ 166,479 | 4% | |
| Fees and user charges | \$ 3,026,546 | \$ 2,976,165 | \$ 50,381 | 2% | |
| Grants | \$ 3,027,231 | \$ 2,143,033 | \$ 884,198 | 41% | 2 |
| Other income | \$ 4,767,854 | \$ 3,965,781 | \$ 802,073 | 20% | 3 |
| Obligatory reserve fund revenue recognized | \$ 1,387,591 | \$ 226,989 | \$ 1,160,602 | 511% | 4 |
| Equity earnings from Westario Power | \$ 317,480 | \$ 212,994 | \$ 104,486 | 49% | 5 |
| Equity earnings from Bruce Telecom Holdings Inc. | \$ 711,186 | \$ - | \$ 711,186 | 100% | 6 |
| Total Revenue | \$ 34,541,146 | \$ 29,728,221 | \$ 4,812,925 | 16% | |
| Expenses: | | | | | |
| General government | \$ 3,332,859 | \$ 3,256,646 | \$ 76,213 | 2% | |
| Protection services | \$ 4,182,376 | \$ 4,242,779 | -\$ 60,403 | -1% | |
| Transportation services | \$ 6,427,113 | \$ 5,986,737 | \$ 440,376 | 7% | 7 |
| Environmental services | \$ 5,762,934 | \$ 5,499,093 | \$ 263,841 | 5% | 8 |
| Health services | \$ 742,654 | \$ 730,688 | \$ 11,966 | 2% | |
| Recreation and cultural services | \$ 5,108,213 | \$ 4,890,164 | \$ 218,049 | 4% | 9 |
| Planning and development | \$ 1,021,344 | \$ 992,608 | \$ 28,736 | 3% | |
| Transfers to building permit reserve funds | \$ 202,607 | \$ 232,961 | -\$ 30,354 | -13% | |
| Total Expenses | \$ 26,780,100 | \$ 25,831,676 | \$ 948,424 | 4% | |
| Annual Surplus (Deficit) | \$ 7,761,046 | \$ 3,896,545 | \$ 3,864,501 | 99% | |

* For comparative purposes, 2017 figures have been adjusted to remove Bruce Telecom results

Notes:

Note 1 - Taxation revenue has increased by \$933K, or 6%, since the prior year. This is a result of the increase in the tax rate of 4.05%. The rate increase combined with an increase in the assessment base has resulted in an increase in the tax levy of 7.5% (\$1.02 million).

Note 2 - Grant revenue has increased by \$884K or 41% since the prior year. Of this amount, \$757K (86%) represents CWWF and OCIF funding that has been allocated for the Connaught Park Trunk Sewer project. In addition, the OMPF grant has increased by \$108K (10%) since 2017, which accounts for the remainder of the increase.

Note 3 - Other income has increased by \$802K, or 20% since the prior year. The primary reason for this increase is due to the release of the payments held in trust by OPG under the low-level waste hosting agreement, which amounted to \$1.668 million. In addition, \$750K represents the proceeds of the sale of the former Westario building. There was an offsetting decrease due to sirens that were transferred as assets from Bruce Power to the Municipality in 2017, valued at \$668K and recorded as revenue.

Note 4 - In 2018, obligatory reserve fund revenue of \$1.388M was recognized. This is primarily due to transfers from the gas tax reserve fund of \$710K and from Sewer Development Charges of \$661K relating to the Connaught Park sewer project. There was also \$203K transferred to the Building Permit Reserve Fund due to an increase in permit revenues which exceeded operating costs for the building department.

Note 5 - The Municipality's 13.5% share of Westario Power's net income has increased by \$104K since the prior year. This is a direct result of the increase in the net income as reported in the financial statements of Westario Power. Actual dividends received in 2018 amounted to \$61K, compared to \$81K in 2017 representing a decrease of \$20K (25%).

Note 6 - The Municipality's investment in Bruce Telecom Holdings is now recorded as a government business enterprise. The amount of \$711,186 represents Bruce Telecom's net income as reported in its financial statements. Actual dividends received in 2018 amounted to \$500K as per the terms of the Shareholder Declaration.

Note 7 - Transportation service expenses have increased by \$440K (7%) since 2017. The majority of this increase relates to wages, which are \$158K (8%) higher than in the prior year. Approximately 57% of this increase is attributed to the 2018 weather conditions which required higher levels of winter maintenance than in 2017. This includes snow plowing, sidewalk maintenance, sanding and salting. The winter season also required increased purchases of sand and salt, which amounted to an increase of \$85K in comparison to the prior year. Fleet maintenance and repairs have also increased, with parts purchases being \$48K (22%) higher than in 2017. This includes repairs to the sweeper truck, vactor truck, and addressing computer issues with a grader of which none were planned. There were also planned repairs (sandblasting and painting) undertaken for a plow truck in order to extend its useful life. Diesel purchases are also higher by \$37K (28%) than in 2017, which is reflective of the increased winter maintenance. In addition, amortization expense is higher by \$51K due to one full year of amortization for the airport runway reconstruction (only 1/2 year recorded in 2017), as well as additional amortization costs attributed to the reconstruction of Broadway St.

Note 8 - Environmental service expenses have increased by \$264K (5%) since 2017. Approximately 44% of this increase is attributed to higher wages by \$68K and \$48K for the waste management centre and water operations respectively. Wage impacts at the WMC reflect staffing changes, and coverage required due to employee absences. In addition, \$101K is due to higher amortization expense for the Connaught Park sewer project, reconstruction of Broadway St. and the servicing of OPF lands. Combined, \$5.7M in new assets have been added in 2018 resulting in higher amortization expense than in 2017. An additional increase of \$97K is for engineering expenses for the review of the provision of water supply to Bruce Power, which is recoverable from Bruce Power.

Note 9 - Recreation and culture expenses have increased by \$218K, or 4% since the prior year. Of this increase, \$25K is attributed to marina operations, which is managed by the Kincardine Yacht Club. The marina budget is self-sustaining and is funded by dock rentals and has no impact on the municipal tax levy. The remaining increase is attributed to an increase in wages, which is due to a combination of factors. Daycamp wages increased by \$29K (23%) due to hiring additional camp leaders in order to reduce the number of children on the waiting list, which generated additional registration revenues of \$22K (18%). Additional wages for maintaining and operating the Tiverton S.C. has increased by \$45K as a result of the contract that ended with the external contractor in April 2018 for the operation of the facility. The net overall impact was only \$10K due to the offsetting reduction in contract costs.

Consolidated Statement of Operations - Budget Variance Analysis

| | 2018 Actual* | 2018 Budget | \$ Change | % Change | Note |
|--|----------------------|----------------------|---------------------|------------|------|
| Revenue: | | | | | |
| Taxation | \$ 16,426,521 | \$ 16,328,429 | \$ 98,092 | 1% | |
| Water and sewer charges | \$ 4,876,737 | \$ 4,450,232 | \$ 426,505 | 10% | 1 |
| Fees and user charges | \$ 3,026,546 | \$ 2,261,994 | \$ 764,552 | 34% | 2 |
| Grants | \$ 3,027,231 | \$ 3,315,029 | -\$ 287,798 | -9% | 3 |
| Other income | \$ 4,767,854 | \$ 2,695,960 | \$ 2,071,894 | 77% | 4 |
| Obligatory reserve fund revenue recognized | \$ 1,387,591 | \$ - | \$ 1,387,591 | 100% | 5 |
| Equity earnings from Westario Power | \$ 317,480 | \$ 50,000 | \$ 267,480 | 535% | 6 |
| Equity earnings from Bruce Telecom Holdings Inc. | \$ 711,186 | \$ 500,000 | \$ 211,186 | 42% | 7 |
| Total Revenue | \$ 34,541,146 | \$ 29,601,644 | \$ 4,939,502 | 14% | |
| Expenses: | | | | | |
| General government | \$ 3,015,255 | \$ 3,174,268 | -\$ 159,013 | -5% | 8 |
| Protection services | \$ 3,935,428 | \$ 4,011,870 | -\$ 76,442 | -2% | |
| Transportation services | \$ 4,510,711 | \$ 4,367,388 | \$ 143,323 | 3% | 9 |
| Environmental services | \$ 3,942,248 | \$ 4,134,825 | -\$ 192,577 | -5% | |
| Health services | \$ 527,645 | \$ 547,572 | -\$ 19,927 | -4% | |
| Recreation and cultural services | \$ 4,235,757 | \$ 4,189,357 | \$ 46,400 | 1% | |
| Planning and development | \$ 1,004,934 | \$ 787,071 | \$ 217,863 | 28% | 10 |
| Transfers to building permit reserve funds | \$ 202,607 | \$ - | \$ 202,607 | 100% | 5 |
| Total Expenses | \$ 21,374,585 | \$ 21,212,351 | \$ 162,234 | 1% | |
| Annual surplus (deficit) | \$ 13,166,561 | \$ 8,389,293 | \$ 4,777,268 | 36% | |

* Amounts have been adjusted for amortization expense, which is not budgeted.

Notes:

Note 1 - Water and sewer revenue is higher than budget by \$427K or 10%, primarily because the budget is prepared conservatively and seasonal/temperature fluctuations are difficult to estimate. The budget is based on 2017 actuals, adjusted for the user fee increase of ~ 2%.

Note 2 - Fees and user charges are higher than budget by \$765K or 34%, primarily due to building and plumbing permit fee revenue which was higher than budget by \$273K resulting from several large construction projects that were not captured in the budget. Landfill fees and bag tag sales were higher than budgeted by a combined total of \$206K (32%) due to higher than anticipated usage, primarily due to the increase in construction activity. Health club memberships and pool admissions exceeded budgetary estimates by \$43K (27%), and summer daycamp registration fees exceeded budget by \$18K. There was also a revenue accrual recorded for drainage work to be recovered from landowners, which exceeded budget estimates by \$36K. In addition, \$32K of the variance is attributed to the operations of the WE Thompson building and the lease to Bruce Power, whereby the estimated billings of costs to Bruce Power exceeded estimates. A further \$23K of the variance is attributed to the Marina operations, which does not impact the overall budget for the Municipality as it is operated by the Kincardine Yacht Club on a user fee basis.

Note 3 - Grant revenue is \$288K (9%) lower than budget, primarily due to grants that were included in the budget for the CWWF and OCIF grants for the Connaught Park Sewer Upgrades project. The budget included the entire grant amounts in 2018, however only the equivalent of the actual project costs incurred in 2018 would be recognized as grant revenue.

Note 4 - Other income is \$2.07M (77%) higher than budget primarily due to the \$1.67M received under the OPG low-level waste agreement in 2018 which had not been included in the budget, and represents 81% of the overall increase. The proceeds from the sale of the former Westario building of \$750K were also not included in the 2018 budget, which also contributed to the favourable variance.

Note 5 - In 2018, obligatory reserve fund revenue of \$1.388M was recognized. This is primarily due to transfers from the gas tax reserve fund of \$710K and from Sewer Development Charges of \$661K relating to the Connaught Park sewer project. There was also \$203K transferred to the Building Permit Reserve Fund due to an increase in permit revenues which exceeded operating costs for the building department.

Note 6 - Dividends from Westario Power were budgeted at \$50,000, with the actual dividend being \$61K. The Municipality's share of 13.5% of Westario's net income in 2018 amounted to \$317K. This amount does not represent cash received, and therefore for operating budget purposes, the Municipality continues to budget only for anticipated dividends.

Note 7 - The Municipality's investment in Bruce Telecom Holdings is now recorded as a government business enterprise. The amount of \$711,186 represents Bruce Telecom's net income as reported in its financial statements. Actual dividends received in 2018 amounted to \$500K as per the terms of the Shareholder Declaration.

Note 8 - General Government expenses are below budget by \$159K (5%). The variance is due to a combination of several minor budgetary differences, including \$28K for sirens maintenance costs not incurred, \$27K for building maintenance costs not expended, and \$12K in insurance costs that were overbudgeted.

Note 9 - Transportation expenses have exceeded budget by \$143K (3%). Fleet maintenance expenses have exceeded budgetary estimates by \$82K (40%) due to aging fleet and a higher number of unplanned maintenance for several vehicles. Major unplanned repairs were required on the sweeper's hydraulic pump, the vector truck required repairs, and the Underwood Grader's computer system needed to be repaired, which combined amounted to ~ 80% of this overage. Additionally, the MTO changed the status of the sweeper and vector which no longer classified them as road building units requiring both units to become plated vehicles, leading to additional expenses. Salt purchases exceeded budget by \$63K (111%) due to additional salt required as a result of the increase in winter maintenance required in 2018. Wages were over budget by \$99K (5%) primarily due to winter maintenance. Overtime incurred for winter maintenance amounted to 56% of the overall overage. Much of the remaining wage variance is due to differences between estimated budgetary allocations among departments versus actual hours spent in a given department. There was also unplanned maintenance required in the amount of \$10K for the airport fuel tanks, due to system malfunctioning.

Note 10 - Planning and development expenses have exceeded budget by \$218K (28%),. This is due to a combination of several variances which overall have no budgetary impact. This includes \$38K spent for decorative winter lighting which was unbudgeted, but was funded through the Mainstreet Revitalization Grant. The grant funding was announced after the budget was passed. Drainage maintenance and superintendent costs were underbudgeted by \$80K, which will be recovered through grants and benefitting landowners (timing difference). Site plan control and developer control expenses were higher than budget by \$21K (71%), however these expenses are directly offset by the associated fees, leaving no budgetary impact. There was also \$9K in legal fees incurred for amending the OPG LLW hosting agreement which was unbudgeted, however this has been reimbursed by OPG. Items impacting the overall budget include \$30K for consulting expenses relating to the natural gas project that was unbudgeted.

Consolidated Statement of Financial Position - Variance Analysis

| | 2018 | 2017* | \$ Change | % Change | Note |
|--|-----------------------|-----------------------|----------------------|-------------|------|
| Financial assets | | | | | |
| Cash | \$ 30,166,763 | \$ 29,896,282 | \$ 270,481 | 1% | |
| Taxes receivable | \$ 1,166,909 | \$ 1,407,026 | -\$ 240,117 | -17% | 1 |
| Trade and other A/R | \$ 2,870,448 | \$ 2,744,541 | \$ 125,907 | 5% | 2 |
| Inventory held for resale | \$ 61,195 | \$ 61,832 | -\$ 637 | -1% | |
| Long-term investments - other | \$ 4,936,339 | \$ 4,819,403 | \$ 116,936 | 2% | |
| Investment in Westario Power | \$ 4,608,980 | \$ 4,352,250 | \$ 256,730 | 6% | |
| Investment in BT Holdings | \$ 25,891,795 | \$ - | \$ 25,891,795 | 100% | 3 |
| Loans receivable | \$ 461,182 | \$ 620,706 | -\$ 159,524 | -26% | 4 |
| | \$ 70,163,611 | \$ 43,902,040 | \$ 26,261,571 | 60% | |
| Financial Liabilities | | | | | |
| A/P and accrued liabilities | \$ 4,452,014 | \$ 3,936,059 | \$ 515,955 | 13% | 5 |
| Deferred revenue | \$ 3,979,179 | \$ 4,590,828 | -\$ 611,649 | -13% | 6 |
| Long-term liabilities | \$ 3,021,614 | \$ 3,727,169 | -\$ 705,555 | -19% | 7 |
| Post-employment benefits | \$ 413,560 | \$ 378,795 | \$ 34,765 | 9% | |
| Solid waste landfill closure and post closure liability | \$ 428,849 | \$ 501,394 | -\$ 72,545 | -14% | |
| | \$ 12,295,216 | \$ 13,134,245 | -\$ 839,029 | -6% | |
| Non-financial assets | | | | | |
| Inventory of supplies | \$ 433,637 | \$ 414,969 | \$ 18,668 | 4% | |
| Prepaid expenses | \$ 180,922 | \$ 141,368 | \$ 39,554 | 28% | |
| Tangible capital assets | \$ 138,340,061 | \$ 128,230,971 | \$ 10,109,090 | 8% | 8 |
| | \$ 138,954,620 | \$ 128,787,308 | \$ 10,167,312 | 8% | |
| Accumulated Surplus | \$ 196,823,015 | \$ 159,555,103 | \$ 37,267,912 | 23% | |

* For comparative purposes, 2017 figures have been adjusted to remove Bruce Telecom results

Notes:

Note 1 - Taxes Receivable have decreased by \$240K or 17%. This is primarily due to a change in legislation which now provides municipalities the authority to register tax arrears certificates after a property is 2 or more years in arrears rather than 3 years, resulting in a decrease in taxes receivable.

Note 2 - Trade and other A/R has increased by \$126K, or 5%. This is primarily due to \$62K recorded as a contribution receivable from the Kincardine Yacht Club for the construction of the marina washrooms, as well as \$51K for drain maintenance costs to be recovered from landowners.

Note 3 - This amount represents the Municipality's investment in Bruce Telecom after the conversion to a Municipal Services Corporation. The transaction resulted in the Municipality contributing all of the assets and liabilities to BT that were previously owned by the Municipality as of January 1, 2018, excluding real property which was retained by the Municipality. Prior to the conversion, all financial results of BT had been consolidated into the financial statements of the Municipality. Now, the Municipality accounts for its investment using the modified equity method.

Note 4 - Loans receivable have decreased by \$160K or 265% since 2017. The decrease is due to 12 months of repayments for tile drain loans, Shoreline Pipeline financing (for those property owners that opted for financing over 15 years), Friends of the Pavillion loan, and a physician incentive loan.

Note 5 - A/P and accruals have increased by \$516K or 13% since 2017. This is due the timing of invoices for several large capital projects that were undertaken in 2018. Projects include Connaught Park pumping station upgrades, Russel St. servicing, and OPF water/sewer servicing. As a result, there were more invoices outstanding at year-end in comparison to the prior year.

Note 6 - Deferred revenue has decreased by \$612K or 13% since 2017. Of this decrease, \$592K (97%) is a result of gas tax funding and OCIF funding received in 2017 that has been fully allocated to the Broadway Street reconstruction project in 2018. The 2018 gas tax funding has been fully utility within the year and therefore has not been recorded as deferred revenue at year-end.

Note 7 - Long-term liabilities have decreased by \$706K or 19% since 2017. The decrease is due to one year of loan repayments for several loans, including the Hawthorne Community Clinic, tile drain loans, MAC renovations, Fire rescue vehicle, and LED streetlights.