

Municipality of Chatham-Kent
Finance, Budget and Information Technology Services
Budget & Performance Services

To: Mayor and Members of Council
From: Steven Brown, CPA, CMA
Director, Budget & Performance Services
Date: March 30, 2020
Subject: WDC Rail 2018 Report to Shareholder & 2019 Draft Financial Statements

Recommendation

It is recommended that:

1. The Financial Report of 2351839 Ontario Ltd. (WDC Rail) be received.

Background

2351839 Ontario Ltd., operating as WDC Rail, is a separate corporation 100% owned by the Municipality of Chatham-Kent. Its first year of operation was 2013. As required by the shareholder (the Municipality), financial statements are to be provided annually. The sale of all assets belonging to 2351839 Ontario Ltd. closed on December 30, 2019.

WDC Rail purchased the land and rail assets of the former CSX rail line on October 3, 2013 and immediately sold the rail assets to another party, leaving its only capital asset being the land itself. In 2015 Council decided to purchase the track assets as well.

Comments

The 2018 operating loss was \$174,037 as a result of expenses for interest on the municipal loan, property taxes, auditor fees, and maintenance to the lands along the track. A small amount of easement revenues were generated.

The attached Notice to Reader and Financial Report was completed by Deloitte in June 2019.

The estimated 2019 operating loss was \$177,984 as a result of expenses for interest on the municipal loan, property taxes, auditor fees, maintenance to the lands and track, and legal fees to process the sale of all assets belonging to WDC Rail. A small amount of easement and interest revenues were generated.

The attached 2019 Draft Financial Statements are subject to change based on the audit review by Deloitte in the upcoming months.

Council had directed that the deficits remain in the separate corporation until such time that a buyer was found. To facilitate the cash requirements of the company, the Municipality has loaned the company funds to buy the property and to fund operating expenses. The company is charged interest on the loan equal to the rate earned by Chatham-Kent's surplus funds.

Loan Balance

The loan balance of \$4,875,000 is detailed below:

2013 Loan to Purchase Land and 2013 - 2015 Operating Expenses	\$1,000,000
2015 Loan to Purchase Track Assets	\$3,650,000
2015 Loan recommended for 2015 - 2016 Operating Expenses	\$150,000
2018 Loan recommended for 2018 Operating Expenses	<u>\$ 75,000</u>
Total CK Loan to WDC Rail	\$4,875,000

The sale of WDC Rail's assets was completed and closed on December 30, 2019. Since this time, administration has been completing all financials to provide Council with an accurate assessment of the financial impact to the Municipality.

The sale of WDC Rail's assets have generated a gain on sale of property of \$736,703, which goes towards the operating expenses of the company since the time of purchase. With total net expenses (expenses net of any revenue) totaling \$854,944 since time of purchase, the overall estimated loss to the Municipality of owning WDC Rail is \$118,241. The two largest expenses WDC Rail has accumulated since the time of municipal ownership are interest on the municipal loan and property taxes, both of which were paid to the Municipality.

Areas of Strategic Focus and Critical Success Factors

The recommendation in this report supports the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community

- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendation in this report supports the following critical success factors:

- Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Consultation

There was no consultation during the preparation of this report.

Financial Implications

A reserve of \$900,000 was established in 2013 to accommodate issues pertaining to this company while a buyer or operator was being pursued. An additional \$150,000 funding of this reserve was approved in 2015, bringing the balance to \$1,050,000. No funding from this reserve is being requested at this time.

Once the 2019 WDC Rail financial statements are audited by Deloitte, administration will bring the finalized statements along with a recommendation on a funding source for the loss to the Municipality on owning WDC Rail.

Prepared by:

Reviewed by:

Steven Brown, CPA, CMA
Director, Budget & Performance Services

Gord Quinton, MBA, CPA, CGA
Chief Financial Officer, Treasurer

Attachments: 2351839 Ontario Limited (WDC Rail) Financial Statements 2018
2351839 Ontario Limited (WDC Rail) Draft Financial Statements 2019

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Financial statements of

2351839 Ontario Limited

December 31, 2018

2351839 Ontario Limited

December 31, 2018

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Deloitte LLP
One London Place
255 Queens Avenue
Suite 700
London ON N6A 5R8
Canada

Tel: 519-679-1880
Fax: 519-640-4625
www.deloitte.ca

Notice to Reader

On the basis of information provided by management, we have compiled the balance sheet of 2351839 Ontario Limited as at December 31, 2018 and the statement of operations and deficit for the year then ended.

We have not performed an audit or a review engagement in respect of these consolidated financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these consolidated statements may not be appropriate for their purposes.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
July 8, 2019

2351839 Ontario Limited

Statement of operations and deficit year ended December 31, 2018

	2018	2017
	\$	\$
Revenues		
Easement Revenue	3,774	36,198
Interest revenue	845	894
	4,619	37,092
Expenses		
Property taxes	44,131	39,746
Interest expense	100,594	68,000
Track repairs and maintenance	26,812	18,907
Professional fees	2,500	2,575
	174,037	129,228
Net loss	(169,419)	(92,136)
Deficit, beginning of year	(507,542)	(415,406)
Deficit, end of year	(676,961)	(507,542)

The accompanying notes to the financial statements are an integral part of this financial statement.

2351839 Ontario Limited

Balance sheet

as at December 31, 2018

	2018	2017
	\$	\$
Assets		
Current assets		
Cash	38,847	25,629
Accounts receivable	2,762	9,959
	41,609	35,588
Property, plant and equipment	4,461,931	4,461,931
	4,503,540	4,497,519
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,008	3,163
Due to related party	302,491	201,897
	305,499	205,060
Note payable	4,875,000	4,800,000
	5,180,499	5,005,060
Shareholder's equity		
Share capital	1	1
Deficit	(676,961)	(507,542)
	(676,960)	(507,541)
	4,503,540	4,497,519

Approved by the Board

_____ Director

_____ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

2351839 Ontario Limited

Notes to the financial statements

December 31, 2018

1. Description of the business

2351839 Ontario Limited operating as WDC Rail (the "Company"), incorporated November 29th, 2012 under the *Canada Business Corporations Act*, owns railway land assets and is wholly owned by the Municipality of Chatham-Kent.

2. Property taxes

The Property taxes expense is an estimate pending severances and valuation by Municipal Property Assessment Corporation (MPAC).

2351839 Ontario Limited

Balance sheet

as at December 31, 2019

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	0	38,847
Accounts receivable	-	2,762
	0	41,609
Property, plant and equipment	-	4,461,931
	0	4,503,540
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	-	3,008
Due to related party	118,240	302,491
	118,240	305,499
Note payable	-	4,875,000
	118,240	5,180,499
Shareholder's equity		
Share capital	1	1
Retained earnings	(118,241)	(676,960)
	(118,240)	(676,959)
	(0)	4,503,540

Approved by the Board

_____ Director

_____ Director

2351839 Ontario Limited

Statement of operations year ended December 31, 2019

	2019	2018
	\$	\$
Revenues		
Easement Revenue	11,418	3,774
Miscellaneous Revenue	736,703	-
Interest revenue	27,360	845
	<u>775,480</u>	<u>4,619</u>
Expenses		
Property taxes	43,319	44,131
Track repairs and maintenance	46,709	26,812
Interest expense	121,875	100,594
Audit fees	2,500	2,500
Legal and search fees	2,359	-
	<u>216,761</u>	<u>174,037</u>
Net gain/(loss)	558,719	(169,419)
Retained earnings, beginning of year	(676,960)	(507,541)
Dividends	-	-
Retained earnings, end of year	(118,241)	(676,960)

2351839 Ontario Limited

Statement of cash flows year ended December 31, 2019

	2019	2018
	\$	\$
Operating activities		
Net income	558,719	(169,419)
Changes in non-cash operating working capital components		
Accounts receivable	1,958	7,198
Accounts payable and accrued liabilities	(2,204)	(155)
	558,473	(162,376)
Investing activities		
Purchase of property, plant and equipment	-	-
Sale of property, plant and equipment	4,461,931	-
Due to related party	(184,251)	100,594
	4,277,680	100,594
Financing activities		
Increase in due to shareholder	-	-
Note payable	(4,875,000)	75,000
	(4,875,000)	75,000
Change in cash	(38,847)	13,218
Cash, beginning of year	38,847	25,629
Cash, end of year	(0)	38,847