

Municipality of Chatham-Kent

Finance, Budget, Information Technology & Transformation Services

Budget & Performance Services

To: Mayor and Members of Council

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

Date: November 30, 2020

Subject: WDC Rail 2019 Report to Shareholder

Recommendations

It is recommended that:

1. The Financial Report of 2351839 Ontario Ltd. (WDC Rail) be received.
2. The \$119,252 loss attributed to WDC Rail since ownership be funded by the WDC Rail Reserve.
3. The remaining WDC Rail reserve balance of \$930,748 be transferred to the Railway Crossing Reserve and that the WDC Rail Reserve be closed.
4. The Director, Legal Services, be authorized to take all necessary steps to wind up 2351839 Ontario Ltd. o/a WDC Rail.

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.

Comments

The 2019 operating loss was \$178,994 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 and interest revenues were generated.

The attached Notice to Reader and Financial Report was completed by Deloitte in June 2020.

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 had loaned the company funds to buy the property and to fund operating

expenses. WDC Rail was 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

Reserve Balance

The reserve balance will be \$930,748 as detailed below:

2013 Reserve Allocation	\$900,000
2015 Reserve Allocation	\$150,000
WDC Rail Municipal Loss	<u>(\$119,252)</u>
Total CK Reserve for WDC Rail	\$930,748

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 \$855,955 since time of purchase, the overall loss to the Municipality of owning WDC Rail is \$119,252. 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.

The overall loss to the Municipality of Chatham-Kent for owning WDC Rail is recommended to be funded by the WDC Rail reserve, which was set up in 2013 as a contingency pending the desired sale of WDC Rail.

It is recommended that the remaining balance in the WDC Rail Reserve be transferred to the Railway Crossing Reserve to fund any potential railway crossing improvements along either the WDC Rail or other railway corridors.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support 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 recommendations in this report support 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

The WDC Rail Board of Directors met on November 10 and have approved the financial statements and directed the wind up of the corporation.

Financial Implications

The recommendations in this report have no impact on Chatham-Kent's operating budget.

The recommendation to transfer the WDC Rail Reserve to the Railway Crossing Reserve has the potential to offset future requests to fund railway crossing improvements along the WDC Rail corridor should the purchaser decide to operate it as a railway in the future.

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 2019

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Financial statements of

2351839 Ontario Limited

December 31, 2019

2351839 Ontario Limited

December 31, 2019

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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, 2019 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
September 2, 2020

2351839 Ontario Limited

Statement of operations and deficit year ended December 31, 2019

	2019	2018
	\$	\$
Revenues		
Easement Revenue	11,418	3,774
Interest revenue	26,350	845
	37,768	4,619
Expenses		
Property taxes	43,319	44,131
Interest expense	121,875	100,594
Track repairs and maintenance	46,709	26,813
Professional fees	4,859	2,500
	216,762	174,038
Gain on sale of property, plant and equipment	736,703	-
Net income (loss)	557,709	(169,419)
Deficit, beginning of year	(676,961)	(507,542)
Deficit, end of year	(119,252)	(676,961)

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

2351839 Ontario Limited

Balance sheet

as at December 31, 2019

	2019	2018
	\$	\$
Assets		
Current assets		
Cash	-	38,847
Accounts receivable	-	2,762
	-	41,609
Property, plant and equipment	-	4,461,931
	-	4,503,540
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	-	3,008
Due to related party	119,251	302,492
	119,251	305,500
Note payable	-	4,875,000
	119,251	5,180,500
Shareholder's deficiency		
Share capital	1	1
Deficit	(119,252)	(676,961)
	(119,251)	(676,960)
	-	4,503,540

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, 2019

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).