Municipality of Lakeshore – Report to Council

Finance & Technology

Accounting & Revenue

To:	Mayor & Members of Council
From:	Justin Rousseau, Corporate Leader – Chief Financial Officer
	Kate Rowe, Division Leader - Accounting and Revenue
Date:	February 22, 2023
Subject:	2021 Year-End Reporting: Audited Consolidated Financial Statements, Building Services Annual Statement, Development Charge Reserve Funds Statement, and 2021 Parkland Dedication Reserve Statement

Recommendation

The Audited Consolidated Financial Statements for the year ended December 31, 2021, be approved;

The Audit Findings Report of KPMG for the year ended December 31, 2021, be received;

Administration be authorized to post the 2021 Consolidated Financial Statements on the Municipality of Lakeshore website;

The Statement of Revenue and Expenses and Accumulated Net Expense for Building Services for the year ended December 31, 2021, be received;

The Development Charges Reserve Funds Statement, for the year ended December 31, 2021, be received; and,

The Parkland Dedication Reserve Statement, for the year ended December 31, 2021, be received.

Background

The *Municipal Act, 2001* requires that all municipalities undertake an annual audit of their accounts and that the external auditors express an opinion on the Consolidated Financial Statements (Statements) based on the audit (Section 296); and that the audited financial statements of the municipality for the previous year be published (Section 294).

The *Development Charges (DC) Act,* section 43(1), requires the Treasurer of the municipality to annually provide Council with a statement about each Reserve Fund established under the Act. Ontario Regulation 82/98, paragraphs 12 and 13 indicate the information to be included in the report.

The *Building Code Act,* subsection 7(4) requires that an annual Statement of Revenue and Expenses and Accumulated Net Revenue (Expense) be completed. Ontario Regulation 332/12 (Building Code) Division C, Section 1.9.1.1 Annual Report, outlines the information to be included in the report.

The *Planning Act* has annual report provisions for disclosure of Parkland Dedications. This is a requirement under Section 42 of the Planning Act, resulting from the proclamation of the Smart Growth for Our Communities Act (Bill 73).

Under Section 42 of the *Planning Act* a municipality may require, as a condition of development, that land be conveyed to the municipality for park or other public recreational purposes. Alternatively, the Council may require a payment-in-lieu to the value of the land otherwise required to be conveyed. Those funds must be held in a special account (reserve fund), allocated interest income and spent only for the acquisition of land to be used for park or other recreational purposes including the erection, improvement or repair of buildings and the acquisition of machinery

Comments

In accordance with these legislative requirements outlined above, this report transmits the following statements for the year ended December 31, 2021:

1. 2021 Consolidated Financial Statements (audited) (Attachment A),
2. Development Charge Reserve Funds Statement (Attachment B),
3. Statement of Revenue and Expenses and Accumulated Net Expense for Building Services (Attachment C), and
4. Parkland Dedication Reserve Statement (Chart Below).

In addition, it transmits KPMG's Audit Findings Report (AFR) (Attachment D).

The 2021 Consolidated Financial Statements (attached in draft) are prepared in accordance with Canadian generally accepted accounting principles for governments, as recommended by the Public Sector Accounting Board (PSAB) and are a snapshot of the Municipality's financial position and performance that provides important information to financial institutions and the public.

These statements are prepared on an accrual basis of accounting; as such they differ from the figures presented in the cash-based budget for the determination of the municipal tax levy. The main reasons they differ include accounting treatment of amortization, inter-company transfers, principal and interest (P&I) payments and capital financing.

Together with management reporting on actual performance against budget (variance reports), these Statements provide a good picture of the financial state of affairs of the Municipality of Lakeshore.

KPMG's Audit Findings Report provides an overview of the 2021 year-end audit process and assists in the review of the results of the audit of the Consolidated Financial Statements of the Municipality.

It should be noted that there are no material misstatements of note in the audit finding report.

The Development Charge (DC) Reserve Fund Statement is part of the year-end financial accounting process, resulting in the statement as outlined in Attachment B.

The Statement of Revenue and Expenses and Accumulated Net Expense for Building Services for the year ended December 31, 2021 (Attachment C) outlines the financial results as well as continuity for the building operations and capital reserve funds. The 2021 actual figures include allocated overhead costs (indirect) for building services and exclude costs not related to Building Code Act operations.

Adjustments

Administration spent a considerable amount of time reviewing the audit working papers for the 2021 year-end as several accounts had insufficient audit evidence to substantiate the balances on numerous accrued liabilities and or booked accounts receivable. The 2021 Audit was also built for the first time in a complete audit package in a paperless format which the auditors prefer vs several piecemeal excel files for audit evidence.

During the process of detailed review and tying accounts back to source documents a significant amount of audit adjustments were required and a lack of business process around financial reporting was discovered in many areas of the organization.

The tables below show a list of adjustments made as a result of the financial review by Administration and includes the reason for which they were required.

Lakeshore has always received unqualified audit opinions meaning that no material misstatements exist in the financial statements. Materiality for the statements in Lakeshore is viewed as $1,290,000 in 2020. That means there is a tolerance for presentation errors of this amount in the financial statements.

During the audit preparation work for 2021 several adjustments which have a total impact of $172,492 ($881,366 of recoveries and $1,053,860 of expenses) have been made and adjusted. Many of these issues date back several years and some as far back as 15-20 years and some are from pre-amalgamation. These amounts have been posted to the miscellaneous expense and revenue.

The following is a summary table of the adjustments made by management:

Reason	**Amount**
To record interest on late 2021 payroll Source Deductions	$24,000
To record interest on late 2020 payroll Source Deductions	$24,000
To fix reserves and equity close-out carryforward errors since 2016	$457,789
To correct unrecoverable drainage and drain grants and sanitary connection from prior to 2016	$402,837
To record interest on late 2021 HST filings	$6,000
HST adjustment for non-collectable HST findings from Audit in 2019	$139,209
Total Expenses	**$1,053,860**

Reason	**Amount**
Greenshield refund of premiums from 2019 & 2020 not recorded to proper accounts	$199,063
Unclaimed debentures from 1980s-1990s	$33,444
HST carryforward issues 2016-2020 including interest and penalties	$118,685
Unclaimed stale dated cheques on bank reconciliations from 2015-2021	$39,853

Activenet and P2P revenue posting period errors	$135,399
Various capital project Hold Backs and developer deposit adjustments dating back to early 2000s	$82,090
Adjustment for fund surplus allocation error from unbalanced computer program error	$272,832
Total Revenue	**$881,366**

These items are below the level of a material misstatement for audit purposes which would have not been of concern to the external auditors. However, it is important to identify these items (as it does not appear that they were identified in the past), adjust for them, and report them to Council as the governing body of the organization.

In addition, while doing a detailed review of reserves and the Municipality's development charge tracking and compliance with legislation it was determined that for several years, the municipality was tracking a significant amount of 'due to', and 'due from' Development Charges reserves for capital projects that dated back as far as 2008. This is permissible under the *Development Charges Act* however interest on these must be paid. Many of these projects were funded in one of two ways either back by development charge-supported debt payments or tracked as an amount due back to the reserves of the municipality.

At the end of 2020 there were $30,454,502 in Development Charge approved projects of which 15,445,428 were tied to long-term debt which means a significant amount of the Development Charges could be used to reduce the amounts financed by another municipal reserve. These projects are Development charge eligible and as such can be moved from the restricted development charge reserve back to the other reserves of the municipality. This, however, was never done even as Development charges were collected.

Administration made adjustments to the 2021 Development Charges so that the only remaining 'due to' and 'due from' amounts are tied to the existing long-term debt related to the DC-eligible projects in a total of $15,905,696. This has also created a draw of 14,548,806 and an additional adjustment to capital reserves of $11,874,157.

This significant reclassification between the Development Charge Reserve and other reserve funds is consistent with best practice and shows the true balance of growth-related funds for the municipality. Prior to this adjustment, development charges were overstated and reserves were understated. This may have led to assumptions in financial studies done in the past being incorrect and possible funding decisions being imprecise and could affect future financial funding models.

It is important to note that regarding wastewater and the expansion of the Dennis St. Pierre Treatment Plant, there is very little in the way of adjustment to wastewater development charges.

Council has made significant investments in improving the service level and staffing in the Department of Finance, however, the report does outline a number of risk areas and business processes and internal control weaknesses that need to be addressed for finance to reach a more mature state of business support and advisement. It is anticipated that the year-end for 2022 will also be delayed due to resources and commitments of time to rectify the issues with the payroll system. However, once approved, staffing and better business process are in place it is expected to stabilize.

Others Consulted

KPMG- Cynthia Swift- Partner

Financial Impacts

Highlights of the **2021 Consolidated Financial Statements** (Attachment A) include the following:

i) Overview of the Consolidated Statement of Financial Position compared with the prior year:

- Cash has increased by $13.4 million (15%) Due to positive swings in cash flow management as well as increases in holding of Development Charges, Provincial Grants and Encumbrance Funds for Capital Projects; all of which are held in reserves and reserve funds.

- Taxes receivable has decreased by 0.7 million (21%). The decrease is a result of property tax arrears being collected within 2 years. This is a positive trend based on increased collection efforts by the municipality.

Administration regularly reviews the tax arrears status of properties and continues to work with residents to reduce their arrears and to avoid future arrears through registration in the pre-authorized payment program.

- Trade and other receivables have experienced a decrease of $0.35 million (9%).

- Water receivables and unbilled revenue have decreased by $0.4 million (11%) as water consumption levels rose in 2020 due to the pandemic as more and more people were working from home which added to water volumes in 2020 and seemed to stabilize back to normal by end of 2021.

- Drainage receivables and other Drainage recoverable Increased by $1.35 million (61%) reflecting amounts due from landowners for new drainage construction projects in progress at yearend and drain maintenance works during the year. There was a significant backlog of drainage billing due to the resourcing issues at year-end 2021.

- Investment reflects the own debentures of the municipality A breakdown of the investment is provided in Note 2 to the Consolidated Financial Statements.

- Short-term loans increased by $0.02 million (2%) resulting from borrowing on temporary loans for the construction of municipal drains.

- Accounts payable and accrued liabilities have decreased by $1.4 million (16%) primarily due to fewer large construction payments being due at the end of 2021.

- Deposits for building and planning applications increased by $0.1 million (7%) as there are several significant developments with planning deposits in 2021.

- The balance of deferred revenue decreased by $4.9 million (23%) to $16.5 million. These funds are held as obligatory reserve funds, for a prescribed purpose, and consist of the Development Charges Reserve Funds, Federal Gas Tax Reserve Fund, Provincial Grant (OCIF) Reserve Fund and Others. The decrease is a result of an adjustment for development charge-supported projects which had been internally financed by the municipalities reserves accounts. Schedule 2 to the Consolidated Financial Statements provides a summary of the transactions during the year.

- Accrued interest on long-term debt had a decrease of $0.02M (11%) due to a reduction of loan holdings that require accrued interest calculations.

- Municipal debt decreased by $2.5 million (9%) to $24.7 million. The decrease resulted from the annual loan repayment. A breakdown of long-term debt is provided in Note 6 to the Consolidated Financial Statements.

- Employee future benefit obligations have decreased by $0.03 million this was because of a decrease in cost escalation of $0.03 million for the municipality’s total employee future benefit costs in 2021. In 2022 we will move to calculations based on full actuarial assumptions. The municipalities will contribute to the actuarial liability on a cash basis as actual payments are required. The actuarial valuation/projection considers post-retirement life insurance for members, and corporate obligations for post-retirement health insurance and post-retirement dental insurance. A breakdown of the various components of the employee's future benefit obligations is provided in Note 8 to the Consolidated Financial Statements.

- Accumulated sick leave, as well as landfill closure cost liabilities, saw very little change from 2020.

- Tangible Capital Assets (TCA) at the end of the year have a net book value of $352 million, an increase of $0.9 million (1%). The municipality and developers made a net investment of $9.9 million in capital assets during the year which largely consisted of asset renewals and improvements for roads, water and wastewater infrastructure. The change to the net book value of TCA includes the annual amortization of the capital assets in the amount of $9.4 million. The amortization represents the proportionate cost of the assets used up as of 2021, based on their estimated useful life. Schedule 1 of the Consolidated Financial Statements details the activity during the year.

- Inventory of supplies had very little change from 2020

- Prepaid expenses decreased by $0.05 million (68%) in 2021 and the main decrease is due to the timing of payment on software licencing and prepaid amounts for the disposal contract in 2020.

- The Accumulated Surplus summarizes the municipality's consolidated equity which identifies the financial position, including TCAs and financial resources of the Municipality. Included in determining the surplus are several expenses mandated by PSAB for financial reporting purposes, for example, employee future benefits, accrued interest on long-term debt, TCA amortization and accrued receivables and payables. Schedule 4 of the Consolidated Financial Statements details the components of the Accumulated Surplus, which indicates the municipality's assets outweigh the municipalities liabilities by $403.6 million, an increase of $13.8 million (4%).

- Reserves and Reserve Funds balances have Increased by $23 million (37%), as disclosed within the Accumulated Surplus position. The main cause for this is the adjustment noted above between Development charges and the reserves. The details of the Reserves and Reserve Funds can be found in Schedule 3 to the Consolidated Financial Statements, which is the schedule that provides Reserves and Reserve Funds continuity and balances at year-end.

ii) Review of Statement of Financial Activities compared with the prior year:

As noted above, the figures disclosed in the Consolidated Financial Statements are based on the accrual basis of accounting, in accordance with PSAB reporting requirements. As such the revenue and expense amounts reported do not reflect the results reported in relation to the municipalities annual cash-based budget.

Revenues:

- Taxation, which includes property taxes and user fees, increased by $1.7 million (5%) based on the fiscal levy increase, the net impact of in-year assessment changes and increased supplementary tax revenue from new housing, which all account for $1.7 million.

- Wastewater charges increased by $0.3 million (5%). The increase reflects the net impact of 2021 wastewater rates applied to a decreased flow volume.

- Water charges increased by $0.5 million (6%) resulting from applying 2021 water rates against decreased water usage volume, and fees based on an increase in demand for new water service connections.

- Recreation Revenue decreased by $0.16 million (10%) resulting from the loss in revenue due to the closure forced by the pandemic which still impacted 2021 results.

- Government transfers and Other Revenue increases of $0.2 Million as grant funding remained consistent from the prior year.

- Deferred Revenue earned is up by $13.2 million (521%) as more capital projects are funded with Development charges and a reconciliation of past projects that were development charge supported but financed with internal reserves has been completed and adjusted for in fiscal 2021.

- Loss on disposal of tangible capital assets of $0.9 million is the calculated accounting loss from the sale of full-expired assets. As well as a reclassification of $1.2 million due to the realignment of reporting classifications in the TCA inventory.

Expenses:

In accordance with PSAB reporting requirements, capital expenditures and principal repayments for long-term debt are removed and amortization expenses are included in the total expenses reported in the Consolidated Financial Statements.

- General government expenses increased by approximately $1.8 million (39%) primarily due to increases in actuals cost of salaries and benefits and insurance premiums cost charged to the taxations budget centre.

- Protection of persons & property expenses Increased by $0.3 million (4%). This increase is due to increased costs in the OPP contract and Fire cost increases as well.

- Transportation services expenses decreased by $.3 million (4%) resulting from an increase in transportation capital expenditures in 2021 over 2020 amounts.

- Environmental Services expenses decreased by $0.16 million (1%) due to fewer capital expenses in 2021 vs 2020. As well as some cost increases in operating costs in 2021.

- Recreation and Cultural Services expenses decreased by $.7 million (10%) resulting from a decrease in wages and benefits cost. Which was a result of COVID-19

- Planning and Development expenses decreased by $0.3 million (26%) primarily due to staffing cost changes from year to year and realignment of reporting structure for the organization.

The Annual Surplus of $25.7 million in 2021 ($26.2 million in 2020) resulted from the items as outlined above; the surplus includes adjustments based on the consolidation of equity in Union Water and mandatory PSAB reporting requirements which include the recognition of grants revenue as received in the year. As a result of these adjustments, the accrual-based annual surplus reported in the Statements is not comparable to the cash-based budget surplus/deficit reported to the Council.

Highlights of the **2021 Development Charge Reserve Funds Statement** (Attachment B):

- Development Charges of $6.1 million were collected in 2021.
- Interest income of $0.03 million was earned on the investment in the reserve fund.
- A withdrawal of $14.54 million was made to adjust for the cost of the DC-eligible loan payment and adjustments and eligible capital projects that had been internally funded by other municipal reserves.

Highlights of the **2021 Statement of Revenue and Expenses and Accumulated Net Expense for Building Services** (Attachment C) include the following:

This statement outlines the financial results as well as the continuity of building operations and capital reserve funds.

The 2021 actual figures include allocated overhead costs (indirect) and actual costs for delivery of building services under the Building Code Act.

The statement shows that 2021 resulted in a net deficit of $19,875, decreasing the accumulated surplus reflected in the Building Services – Operations reserve fund. The net balance of the Building Services reserve funds, equal to the accumulated net surplus, totals $2 million at the end of 2021. It is expected that accumulated surpluses or accumulated expenses will occur over time based on fluctuations in development activity.

Any future surpluses from building services will be transferred to draw down on the accumulated expense, and Administration will continue to monitor and provide recommendations with respect to building services fee adjustments and expense containment, as appropriate.

2021 Parkland Dedication Reporting

Chart 1 - 2021 Treasurer's Statement - Parkland Dedication Reserve Fund, shown below, outlines the Parkland Dedication activity for the year ended December 31, 2021. Total cash-in-lieu collections were $206,602 in 2021.

Parkland Dedication Reserve Funds spent on capital projects totalled $Nil for 2021.

Municipality of Lakeshore
Treasurer Statement under Section 42 of the Planning Act
For the Year Ended December 31, 2021

Parkland Dedication		
Opening Balance		**$380,774**
Contributions	**$206,602**	
Interest	**$ 1,148**	
Total Funds Available		**$588,524**
Less: Capital Projects	**$Nil**	
Closing Balance		**$588,524**

Financial Information Reporting

Municipalities are also required to complete their audit and file their Annual Information Return. Section 294 (1) of the Municipal Act states that ***the treasurer of a municipality shall in each year provide the Minister with a return containing information designated by the Minister with respect to the financial affairs of the municipality***. This takes the form of the annual Financial Information Return (FIR). Municipalities must submit FIRs annually to the Ministry of Municipal Affairs and Housing by May 31.

OMPF and Grant Funding can be impacted if the FIR is not filed by September 30th of the following year. In December of 2022 Grant funding was reduced temporarily until the FIR was filed in January of 2023. The Municipality of Lakeshore has historically been late in filing the FIR and Administration has implemented significant process improvements and Council has approved additional staffing to mitigate these concerns moving forward.

Year	Financial Statements Filed	FIR Filed
2021	5/10/2023	1/30/2023
2020	3/15/2022	12/16/2021
2019	12/8/2020	10/30/2020
2018	8/14/2019	8/20/2019
2017	10/9/2018	9/19/2018

Attachments

- 2021 Consolidated Financial Statements (audited) (Attachment A),
- Development Charge Reserve Funds Statement (Attachment B),
- Statement of Revenue and Expenses and Accumulated Net Expense for Building Services (Attachment C), and
- KPMG's Audit Findings Report (AFR) (Attachment D)

Report Approval Details

Document Title:	2021 Year End Reporting Audited Consolidated Financial Statements.docx
Attachments:	- Appendix A - 2021 Consolidated Financial Statements.pdf - 2021 - DC Reserve Fund Reporting.pdf - 2021 Building Services Statement.pdf - Lakeshore AFR 2021.pdf
Final Approval Date:	May 25, 2023

This report and all of its attachments were approved and signed as outlined below:

Prepared by Justin Rousseau and Kate Rowe

Approved by Truper McBride