

Municipality of Lakeshore – Report to Council

Corporate Services

Accounting and Revenue



To: Mayor and Members of Council

From: Justin Rousseau, Deputy Chief Administrative Officer/Chief Financial Officer
Kate Rowe, Division Leader- Accounting and Revenue

Date: June 20, 2024

Subject: 2022 Year-End Reporting: Audited Consolidated Financial Statements, Building Services Annual Statement, Development Charge Reserve Funds Statement, and 2022 Parkland Dedication Reserve Statement

Recommendation

The Audited Consolidated Financial Statements for the year ended December 31, 2022, be approved;

The Audit Findings Report of KPMG for the year ended December 31, 2022, be received;

Administration be authorized to post the 2022 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, 2022, be received;

The Development Charges Reserve Funds Statement, for the year ended December 31, 2022, be received; and,

The Parkland Dedication Reserve Statement, for the year ended December 31, 2022, be received, all as presented at the September 10, 2024 Council meeting.

Strategic Objectives

3b) Modernizing and Enhancing Municipal Functions - Revise business processes to establish and employ a risk management framework, improved workflow management, and financial modelling to inform management of reserves

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*, subsection 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, 2022:

1. 2022 Consolidated Financial Statements (draft) (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 2022 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 2022 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, 2022 (Attachment C) outlines the financial results as well as continuity for the building operations and capital reserve funds. The 2022 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 2022 year-end as account clean up still was necessary following significant adjustments in 2021. The 2021 Audit was also built for the first time in a complete audit package in a paperless format which the auditors prefer versus 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 following is 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 approximately \$1,300,000 in 2022. That means there is a tolerance for presentation errors of this amount in the financial statements.

During the audit preparation work for 2022 several adjustments which have a total impact of \$1,869,071 (\$202,720 of recoveries and \$2,071,791 of expenses) have been made and adjusted. 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 adjustments to the BIA Accounts for 2021	\$1,897
To record OCIF overstatement of revenue for 2021 due to funding adjustment on capital projects	\$1,093,507
Adjustment of unbalanced program database errors and carryforward equity close-out errors	\$976,387
Total Expenses	\$2,071,791

Reason	Amount
Adjustment to the subdivision tree reserve funding for trees installed in subdivisions	\$46,650
Adjustment to Development Planning deposits	\$83,586
Activenet and P2P revenue posting period errors	\$72,484
Total Revenue	\$202,720

These items below are 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.

Council has made significant investments in improving the service level and staffing in the Department of Finance as well have approved a significant Accounting System upgrade to mitigate the risk of computer errors, 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 2023 will also be delayed due to resources and commitments of time to rectify the issues identified. However, once approved, and staffing and better business processes are in place, it is expected to stabilize.

Others Consulted

KPMG- Cynthia Swift- Partner

Financial Impacts

Highlights of the **2022 Consolidated Financial Statements** (Attachment A) include the following:

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

- Cash has decreased by \$12.5 million (13%) due to increased cash outflows and a reduction in reserve funds, primarily from the wastewater reserve. This decrease is largely because the Denis St. Pierre Treatment Plant is being financed through internal cash flows rather than short-term construction loans, which carry a significant interest rate.
- Taxes receivable has increased by 0.3 million (13%). The increase is due to some additional properties reaching tax sale proceedings. This is a negative trend which can be attributed to challenging economic times being experienced by our taxpayers.

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 an Increase of \$3.52 million (101%) primarily due to an increase of \$2.5 million in HST recoverable on large capital projects and government grants.
- Water receivables and unbilled revenue have increased by \$0.5 million (18%) as water consumption levels rose in 2022 as to did accounts receivables owing.
- Drainage receivables and other Drainage recoverable decreased by \$1.03 million (25%) 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 and this has been corrected in 2022 resulting in a decrease.

- Investment reflects the own debentures of the Municipality A breakdown of the investment is provided in Note 2 to the Consolidated Financial Statements. This amount has decreased by \$0.2 million
- Short-term loans decreased by \$0.4 million (49%) resulting from less borrowing on temporary loans for the construction of municipal drains.
- Accounts payable and accrued liabilities have increased by \$3.5 million (47%) primarily due to fewer large construction payments being due at the end of 2022.
- Deposits for building and planning applications increased by \$0.5 million (24%) as there are several significant developments with planning deposits in 2022, as well as a Hydro One road use agreement deposit. Currently Administration is working on a detailed review of planning applications and deposit accounts looking to clean up business process and make significant adjustments in the 2023 year-end.
- The balance of deferred revenue increased by \$2.01 million (12%) to \$18.5 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 increase is a result of collections in the year being greater than capital expense from these reserves. 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 (10%) to \$22.2 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 increased by \$1.02 million. This was because in 2022 Administration moved to calculations based on full actuarial assumptions, which are proper accounting principles. 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 2021.

- Tangible Capital Assets (TCA) at the end of the year have a net book value of \$377 million, an increase of \$25 million (7%). The municipality and developers made a net investment of \$40.3 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 \$14.9 million. The amortization represents the proportionate cost of the assets used up as of 2022, 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 2021.
- Prepaid expenses decreased by \$0.03 million (27%) in 2022 and the main decrease is due to the timing of payment on software licencing and prepaid amounts for the disposal contract in 2021.
- 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 \$431 million, an increase of \$15.5 million (3%).
- Reserves and Reserve Funds balances have decreased by \$18.7 million (16%), as disclosed within the Accumulated Surplus position. The main cause for this is the use of reserves to invest in TCA and infrastructure of \$40.3 Million Dollars in 2022. The details of the Reserves and Reserve Funds can be found in Schedule 2 and 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 \$0.6 million (9%). The increase reflects the net impact of 2022 wastewater rates applied to a decreased flow volume.
- Water charges increased by \$0.75 million (7%) resulting from applying 2022 water rates against decreased water usage volume, and fees based on an increase in demand for new water service connections.
- Recreation Revenue increased by \$1.3 million (86%) as it began to return to post-pandemic usage and programming.
- Government transfers and Other Revenue increases of \$0.6 Million as grant funding remained consistent from the prior year.
- Deferred Revenue earned is down by \$5.8 million (36%) as the prior year had significant adjustments to funding sources and a reconciliation of development charge projects.
- There was no loss on capital assets decommissioned in 2022.

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 \$2.6 million (40%) primarily due to increases in actuals cost of salaries and benefits and insurance premiums cost charged to the taxation budget centre as well as a significant increase in computer expense and legal expenses in 2022.
- Protection of persons & property expenses increased by \$0.2 million (3%). This increase is due to increased costs in the By-law, OPP and Fire cost increases as well.
- Transportation services expenses increased by \$0.8 million (9%) resulting from an increase in transportation capital expenditures in 2022 over 2021 amounts.
- Environmental Services expenses increased by \$4.1 million (24%) due to more capital expenses in 2022 vs 2021, as well as some cost increases in operating costs in 2022.
- Recreation and Cultural Services expenses increased by \$2.4 million (6%), as Recreation costs returned back to normal levels following the pandemic. There were also increased capital expenses in 2022 versus 2021.

- Planning and Development expenses increased by \$0.08 million (26%) primarily due to staffing cost changes from year to year.

The Annual Surplus of \$15.5 million in 2022 (\$25.7 million in 2021) 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 **2022 Development Charge Reserve Funds Statement** (Attachment B):

- Development Charges of \$6.4 million were collected in 2022.
- Interest income of \$0.05 million was earned on the investment in the reserve fund.
- A withdrawal of \$3.5 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.
- An amount reallocation is needed of \$1.7 million for approved funding for the Dennis St Pierre Plant which sits in the wastewater encumbrance reserve.

Highlights of the **2022 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 2022 actual figures include allocated overhead costs (indirect) and actual costs for delivery of building services under the Building Code Act.

The statement shows that 2022 resulted in a net deficit of \$272,690, 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 \$1.6 million at the end of 2022. 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.

2022 Parkland Dedication Reporting

Chart 1 - 2022 Treasurer's Statement - Parkland Dedication Reserve Fund, shown below, outlines the Parkland Dedication activity for the year ended December 31, 2022. Total cash-in-lieu collections were \$239,000 in 2022.

Parkland Dedication Reserve Funds spent on capital projects totalled \$4,152 for 2022.

An additional \$100,000 was transferred to the encumbrance reserve to convert tennis courts to pickle ball courts.

**Municipality of Lakeshore
Treasurer Statement under Section 42 of the Planning Act
For the Year Ended December 31, 2022**

Parkland Dedication		
Opening Balance		\$588,524
Contributions	\$239,000	
Interest	\$ 15,064	
Adjustment to Prior Years	<u>\$95,378</u>	
Total Funds Available		\$937,966
Less: Capital Projects	\$4,152	
Less: Transferred to Encumbrance Reserve	<u>\$100,000</u>	
Closing Balance		\$833,816

Financial Information Reporting

Municipalities are 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 2023 Grant funding was reduced temporarily until the FIR was filed in May of 2024. 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
2022	9/10/2024	5/15/2024
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

- 2022 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:	2022 Year End Reporting Audited Consolidated Financial Statements.docx
Attachments:	- Appendix A - 2022 Consolidated Financial Statements.pdf - 2022 - DC Reserve Fund Reporting.pdf - 2022 Building Services Statement.pdf - Lakeshore Audit Finding Report.pdf
Final Approval Date:	Aug 23, 2024

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

Prepared and Submitted by Kate Rowe and Justin Rousseau

Approved by the Corporate Leadership Team