

Municipality of Lakeshore – Report to Council

Finance & Technology

Accounting & Revenue



To: Mayor & Members of Council

From: Justin Rousseau, Corporate Leader – Chief Financial Officer

Date: February 22, 2022

Subject: 2020 Year End Reporting: Audited Consolidated Financial Statements, Building Services Annual Statement, Development Charge Reserve Funds Statement, and 2020 Parkland Dedication Reserve Statement

Recommendation

The Audited Consolidated Financial Statements for the year ended December 31, 2020 be approved;

The Audit Findings Report of KPMG for the year ended December 31, 2020 be received;

Administration be authorized to post the 2020 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, 2020 be received;

The Development Charges Reserve Funds Statement, for the year ended December 31, 2020 be received; and,

The Parkland Dedication Reserve Statement, for the year ended December 31, 2020 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 Ontario *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, 2020:

1. 2020 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 2020 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 Municipalities 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 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 2020 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, however one control deficiency was found and is noted in the Audit Findings Report.

Management brought to the attention of the audit team one instance of management override of the payroll control. In this instance, the proper procedures for management oversight were circumvented exposing a weakness in internal controls design. Management's mitigating controls to review the banking log, create bank reconciliations and review variance reports operated effectively to detect the override of the payroll control. Due to this finding from management, KPMG selected specific journal entry criteria to identify unusual journal entries to payroll accounts and did not observe any additional findings. Management has also worked with the banking provider to tighten controls on release of payroll files in the future.

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, 2020 (Attachment C) outlines the fiscal results as well as continuity for the building operations and capital reserve funds. The 2020 actual figures include allocated overhead costs (indirect) for building services and exclude costs not related to Building Code Act operations.

Others Consulted

KPMG- Cynthia Swift- Partner

Financial Impacts

Highlights of the **2020 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 \$15.6 million (22%) Due to positive swings in cash flow management as well as increases in OCIF and Gas Tax funding holding. Increased holding in development charge funds, and water and wastewater reserves have also been experienced; all of which are held in reserves and reserve funds.
- Taxes receivable has had little change. The small increase is a result of a small increase in tax balances being experienced during the pandemic and a few larger balances properties outstanding at year end that are in tax sale registration process.

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 minimal change for 2019 as well.
- Water receivables and unbilled revenue has increases by \$0.4 million (14%) as water consumption levels rose in 2020 due to the pandemic as more and more people were working from home.
- Drainage receivables and other Drainage recoverable decreased by \$1.1 million (32%) reflecting amounts due from landowners for new drainage construction projects in progress at yearend and drain maintenance works during the year.
- 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 decreased by \$0.5 million (37%) resulting from payments of all temporary loans for construction.
- Accounts payable and accrued liabilities have decreased by \$1.4 million (13%) primary due to less large construction payments being due at the end of 2020.
- Deposits for building and planning applications increased by \$0.5 million (28%) as there are several significant developments with planning deposits in 2020.
- The balance of deferred revenue increased \$7.2 million (51%) to \$21.3 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 Other. 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 (10%) due to a reduction of loans holdings that require accrued interest calculations.
- Municipal debt decreased by \$2.4 million (8%) to \$27.3 million. The decrease resulted from annual loan. A breakdown of long-term debt is provided in Note 6 to the Consolidated Financial Statements.
- Employee future benefit obligations have decreased by \$0.04 million this was because of a decrease in cost escalation of \$0.04 million for the municipality's total employee future benefit costs in 2020, based on actuarial assumptions. The municipalities 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 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 2019.
- Tangible Capital Assets (TCA) at the end of the year have a net book value of \$351 million, an Increase of \$14.3 million (4%). The municipality and developers made a net investment of \$29.9 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 \$10.8 million. The amortization represents the proportionate cost of the assets used up as during 2020, 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 2019
- Prepaid expenses decreased by \$0.08 million (54%) in 2020 and the main decrease is due to the timing of payment on software licencing and prepaid amounts for the disposal contract in 2019.
- The Accumulated Surplus summarizes the Town's consolidated equity which identifies the financial position, including TCAs and financial resources of the Town. Included in determining the surplus are a number of 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 Town's assets outweigh the Town's liabilities by \$389.7 million, an increase of \$26.2 million (7%).
- Reserves and Reserve Funds balances have Increased \$7.1 million (12%), as disclosed within the Accumulated Surplus position. 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 \$2.3 million (7%) based on the fiscal levy increase, net impact of in-year assessment changes and increased supplementary tax revenue from new housing, which all account for \$2.3 million.
- Wastewater charges increased by \$0.6 million (12%). The increase reflects the net impact of 2020 wastewater rates applied to an increase flow volume.
- Water charges increased by \$0.55 million (6%) resulting from applying 2020 water rates against increased water usage volume, and fees based on an increase in demand for new water service connections.
- Recreation Revenue decreased by \$1.4 million (46%) resulting from the loss in revenue due to the closure forced by the pandemic
- Government transfers and Other Revenue Increases of \$0.5 Million as grant funding was up due to provincial covid relief funds
- Deferred Revenue earned is down by \$1.3 million (72%) as less capital projects are funded with Development charges and debt.
- Contributions from Developers accounted for \$11.6 Million dollars in contributed assets in 2020
- Loss on disposal of tangible capital assets of \$0.072 million is the calculated accounting loss from the sale of full-expired assets.

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 of approximately \$0.1 million (6%) primarily due to increases in actuals cost of salaries and benefits and insurance premiums cost charged to the taxations budget centre.
- Protection to persons & property expenses Increased by \$0.5 million (5%). This increase is due to increased cost in the OPP contract and Fire cost increases as well.

- Transportation services expenses decreased by \$.5 million (6%) resulting from reductions in transportation capital expenditures in 2020 over 2019 amounts.
- Environmental Services expenses increased by \$0.5 million (3%) as due to more capital expenses in 2020 vs 2019. As well as some cost increases in operation cost in 2020.
- Recreation and Cultural Services expenses decreased by \$2.5 million (25%) resulting from an decrease in wages and benefit cost. Which was as of a result of COVID-19
- Planning and Development expenses decreased by \$0.072 million (5%) primarily due to staffing cost changes from year to year.

The Annual Surplus of \$26.2 million in 2020 (\$14.1 million in 2019) resulted from the items as outlined above; the surplus includes adjustments based on 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 **2020 Development Charge Reserve Funds Statement** (Attachment B):

- Development Charges of \$6.1 million were collected in 2020.
- Interest income of \$0.12 million was earned on the investment in the reserve fund.
- A withdrawal of \$.3 million was made to cover the cost of the DC eligible loan payment for the ATC.

Highlights of the **2020 Statement of Revenue and Expenses and Accumulated Net Expense for Building Services** (Attachment C) include the following:

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

The 2020 actual figures include allocated overhead costs (indirect) and actual costs for delivery of building services under the Building Code Act.

The statement shows that 2020 resulted in a net surplus of \$283,375, Increasing 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 \$2.2 million at the end of 2020. 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.

2020 Parkland Dedication Reporting

Chart 1 - 2020 Treasurer's Statement - Parkland Dedication Reserve Fund, shown below, outlines the Parkland Dedication activity for the year ended December 31, 2020. Total cash-in-lieu collections were \$309,800 in 2020.

Parkland Dedication Reserve Funds spent on capital projects totaled \$962,742 for 2020 mostly on the River Ridge Park, as well as some parks drainage work and a Skate Park Pad in Stoney Point.

**Municipality of Lakeshore
Treasurer Statement under Section 42 of the Planning Act
For the Year Ended December 31, 2020**

Parkland Dedication		
Opening Balance		\$1,019,028
Contributions	\$309,800	
Interest	\$ 14,689	
Total Funds Available		\$1,343,517
Less: Capital Projects	\$962,742	
Closing Balance		\$380,775

Attachments

- 2020 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:	2020 Year End Reporting Audited Consolidated Financial Statements.docx
Attachments:	- 2020 12 31_Lakeshore FS DRAFT.pdf - 2020 - DC Reserve Fund Reporting.pdf - 2020 Building Services Statement.pdf - Lakeshore AFR 2020.pdf
Final Approval Date:	Mar 9, 2022

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

Kristen Newman

Truper McBride