



The Corporation of the Municipality of St.-Charles

**Financial Statement Review and Year-End Audit Report
December 31, 2019**

December 21, 2020

Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

To the Members of Council, residents and ratepayers of the Corporation of the Municipality of St-Charles

Opinion

We have audited the consolidated financial statements of The Corporation of the Municipality of St-Charles (the Municipality), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statements of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and the notes and schedule to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements")

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Municipality as at December 31, 2019, and its consolidated results of operations, its consolidated changes in net financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibility under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter – Comparative Information

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed a qualified opinion on those financial statements on September 4, 2019.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Municipality's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Municipality's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to the events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Municipality's to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Additional paragraphs included in the audit report in the current year as this was the first year KPMG provided an audit opinion on the financial statements
 - Unqualified or clean audit opinion
 - Highest level of financial assurance available under the Canadian Auditing Standards
 - Materiality for the engagement was set at \$100,000 with a posting threshold of \$5,000
 - Statements are in draft pending Council approval

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada
December XX, 2020

Statement of Management's Responsibilities

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements of the Corporation of the Municipality of St-Charles ("the Municipality") are the responsibility of the Municipality's management and have been prepared in compliance with legislation, and in accordance with Canadian public sector accounting standards for local governments established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 1 to these consolidated financial statements. The preparation of the consolidated financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Municipality's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

Council meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Municipality. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.

Chief Administrator Officer

Director of Finance

Date

Audit Procedures

Systems documentation

- Revenues
- Disbursements
- Payroll
- Capital

Internal control testing

- Disbursements
- Payroll

Substantive testing

- Sampling
- Analytical review
- Management estimates

Statement of Financial Position

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Statement of Financial Position

December 31, 2019, with comparative information for 2018

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 1,306,441	\$ 662,098
Taxes receivable (note 3)	361,066	327,051
Accounts receivable (note 4)	566,387	427,538
Land held for sale	54,166	88,166
	<u>2,288,060</u>	<u>1,504,853</u>
Financial Liabilities		
Accounts payable and accrued liabilities	357,272	302,801
Deferred revenue (note 5)	441,495	143,403
Deferred revenue - obligatory reserve funds (note 6)	219,842	100,311
Municipal debt (note 7)	435,775	529,306
Landfill closure and post-closure liability (note 8)	323,000	226,287
	<u>1,777,384</u>	<u>1,302,108</u>
Net financial assets	510,676	202,745
Non-financial Assets		
Tangible capital assets (note 9)	3,096,910	2,960,928
Prepaid expenses	7,340	75,189
	<u>3,104,250</u>	<u>3,036,117</u>
Commitments (note 11)		
Contingencies (note 12)		
Subsequent event (note 18)		
Accumulated surplus (note 10)	<u>\$ 3,614,926</u>	<u>\$ 3,238,862</u>

Highlights

- Increase in the cash balance as a result of the current year surplus, an increase in deferred revenue and deferred revenue obligatory reserve funds. These increases were offset by an increase in accounts and taxes receivable
- Total taxes receivable is fairly consistent (balance is made up of 66% current taxes vs. 68% current taxes in the prior year). Taxes as a percentage of the taxation levy is consistent year over year
- The increase in accounts receivable relates to a higher HST receivable balance as a result of the HST audit completed for the 2016 to 2019 year ends. Additional amounts were deposited in the summer of 2020 relating to these receivables upon completion of the audit
- The amount included in the land held for sale relates to the amount to be recovered via tax sale for the recovery of taxes receivable and legal fees (appraised value is higher than cost)

Composition of Taxes Receivable

	2019	2018
Current year	\$237,584	\$222,934
1 year arrears	\$85,891	\$93,698
2 years arrears	\$47,029	\$30,875
3+ years arrears	\$38,355	\$19,044
Interest and penalties	\$51,579	\$36,493
Overpayments / Payments to be applied	(\$99,372)	(\$75,993)
Total	\$361,066	\$327,051
As a percentage of levy	15.5%	14.8%

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- Accounts payable has increased as a result of an increase in trade accounts payable and accrued liabilities (two months of recycling invoices at 2019 year end) along with an increase in the amounts due to the school boards at year end
- Deferred revenue has increased due to unused modernization funding in the current year of \$349K which has been deferred for use in the upcoming year
- Deferred revenue – obligatory reserves has increased due to an increased amount of unused gas tax dollars in the 2019 year end (deferred to be used in 2020)
- Municipal debt has decreased as a result of principal repayments in the debt in 2019 with no new debt undertaken in the 2019 year end.
- Landfill closure and post closure liabilities have increased as a result of updated information received from the consultants. The majority of the obligation (\$308K) relates to the closed cell. These amounts will be funded by the Municipality in the year in which the expenditures are incurred

Statement of Financial Position

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

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Highlights

- Change in tangible capital assets from various capital projects totaling \$368K offset by the annual depreciation on the tangible capital assets of \$232K

Significant Tangible Capital Asset Additions

Statement of Operations

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019 (note 18)	Actual 2019	Actual 2018
Revenue:			
Taxation	\$ 2,305,326	\$ 2,326,915	\$ 2,212,589
Government grants and transfers	1,322,816	1,193,179	1,117,242
User charges	125,310	135,106	121,321
Other	229,309	254,014	263,561
Total revenue	3,982,761	3,909,214	3,714,713
Expenses:			
General government	1,154,817	1,093,275	981,203
Protection to persons and property	569,803	489,883	496,553
Transportation services	811,531	717,727	635,590
Environmental services	414,776	386,957	275,147
Health services	315,425	319,008	299,730
Social and family services	138,000	137,674	123,471
Recreation and cultural services	385,981	361,366	382,916
Planning and development	27,155	27,260	31,819
Total expenses	3,817,488	3,533,150	3,226,429
Annual surplus	165,273	376,064	488,284
Accumulated surplus, beginning of year	3,238,862	3,238,862	2,750,578
Accumulated surplus, end of year	\$ 3,404,135	3,614,926	\$ 3,238,862

Revenue Highlights

- Taxation revenue has increased as a result of a slight increase in the tax rates in the 2019 year end
- Government grants and transfers include the standard OCIF and OMPF grants. The increase relates to several new smaller grants, including the cannabis grant (\$15K), a grant for website development (\$14K) and the main street revitalization grant (\$38K)
- User charges include a number of charges from the municipality, library, arena, cemetery etc. Small increases noted throughout a number of accounts, no specific item has increased significantly in the current year.
- Other revenue includes interest and penalties, rental revenue (municipal buildings and arena). Decrease relates to a lower amount of MTO revenues in the current year

Statement of Operations

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019	Actual 2019	Actual 2018
	(note 16)		
Revenue:			
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Expense Highlights

- Expenses are a percentage of revenue are 90.4% in 2019 compared with 86.7% in 2018
- General Government – Increase mainly as a result of an increase in salaries and benefits in 2019
- Transportation services have increased in 2019 as a result of an increase in salaries and benefits along with an increase in materials (materials costs relate to work and improvements completed on the roads but not capitalized)

Statement of Operations

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Statement of Operations and Accumulated Surplus

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019	Actual 2019	Actual 2018
	(note 16)		
Revenue:			
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Total expenses	3,817,488	3,533,150	3,226,429
Annual surplus	165,273	376,064	488,284
Accumulated surplus, beginning of year	3,238,862	3,238,862	2,750,578
Accumulated surplus, end of year	\$ 3,404,135	3,614,926	\$ 3,238,862

Expense Highlights (cont)

- Environmental services have increased as a result of the increase in the landfill liability as a result of the revised estimates provided by the consultant.
- Protection to persons and property, health services, social and family services, recreation and planning and development are consistent with the prior year

Reconciliation of Surplus

	2019
Surplus per financial statements	\$376,064
Add: Amortization of TCA	\$232,009
Less: TCA additions (not debt funded)	(367,991)
Less: Principal payments on debt	(\$93,531)
Add: Unfunded landfill liability	\$96,713
Add: Use of reserve funds	\$155,510
Total Surplus	\$401,774

- Differences exist between Municipal budgeting and Public Sector Accounting Standards
- The surplus has been allocated to the general surplus in the current year (\$776,108)
- Deficit relates to the capital asset amortization within the capital funds
- Funds utilized from reserves totaled \$155K in 2019 (from the infrastructure renewal reserve fund)
- Landfill liability is in a deficit position which is typical for municipalities as the amounts will be funded when cash payments are required

Statement of Changes in Net Financial Assets

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2019, with comparative information for 2018

	Budget 2019 (note 16)	Actual 2019	Actual 2018
Annual surplus	\$ 165,273	\$ 376,064	\$ 488,284
Acquisition of tangible capital assets	(367,991)	(367,991)	(266,837)
Amortization of tangible capital assets	232,009	232,009	226,781
Change in prepaid expenses	67,849	67,849	(67,899)
Change in net financial assets	97,140	307,931	380,329
Net financial assets (debt), beginning of year	202,745	202,745	(177,584)
Net financial assets, end of year	\$ 299,885	\$ 510,676	\$ 202,745

Highlights

- The Town's net financial assets increased by \$307,931
- Capital acquisitions mainly funded by capital grants has resulted in an increase to net financial assets

Accumulated Surplus

10. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2019	2018
Surpluses:		
Invested in tangible capital assets	\$ 2,665,337	\$ 2,431,622
General surplus	776,108	381,536
Unfunded:		
Landfill closure and post-closure costs	(323,000)	(226,287)
	3,118,445	2,586,871
Reserves set aside for specific purposes:		
Working capital	54,644	54,644
Reserve funds set aside for specific purpose by Council:		
Infrastructure renewal	197,699	320,271
Contingences	122,391	121,273
Protection services	21,708	46,271
Environmental services	27,386	27,147
Parks and recreation	18,853	18,693
Youth outdoor playground	11,187	11,114
Landfill site closure	13,405	13,282
Election	5,087	15,175
Library	24,121	24,121
	441,837	597,347
Accumulated surplus	\$ 3,614,926	\$ 3,238,862

Highlights

- The reserves decreased as a result of the use of the infrastructure reserve in 2019
- Town surplus increased by \$400K (approximately) in the current year
- Investment in capital assets (in total) increased by \$234K (net of capital additions offset by amortization expense)

Matters for Communication

Audit is complete, pending:

- Council approval of financial statements
- Receipt of signed representation letter

No significant difficulties encountered during the course of our audit procedures:

- No changes to initial audit plan
- No disagreements or difficulties with management

No unadjusted audit differences above our posting threshold

No significant internal control weaknesses noted

Upcoming Standard Changes

Topic	Effective Date <small>years commencing on or after</small>
Asset Retirement Obligations	April 1, 2022

Asset Retirement Obligations (PS3280)

New Requirement to measure and report on the obligations associated with the retirement of tangible capital assets (April 1, 2021 onwards)

- The liability is created through acquisition, construction, development and use of an asset
- Associated costs would be added to the related tangible capital assets

Measurement

- Best estimate measurement (present value of obligation)
 - The obligation will include post-retirement obligation, maintenance and monitoring
-
- This section will also replace section PS 3270 (Solid waste landfill closure and post-closure liability)

Next Steps

- Future considerations - Will require involvement of engineers for the calculation of the obligation associated with the retirement



Thank you



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