



The Corporation of the Municipality of St.-Charles

**Financial Statement Review and Year-End Audit Report
December 31, 2020**

June 16, 2021

Executive Summary

Purpose of the report

- The purpose of this Audit Findings Report is to assist you, as a member of Council in your review of the results of our audit of the financial statements of the Municipality of St. Charles (“the Municipality”) as at and for the year ended December 31, 2020

Finalizing the audit

As of today, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Receipt of the signed management representation letter (to be signed upon approval of the financial statements)
- Completing our discussions with Council
- Obtaining evidence of the approval of the financial statements

Our audit report will be dated as of the date Council approves the financial statements (anticipated to be today’s date)

Audit Risks

- There were no significant audit risks identified

Materiality and Audit Adjustments

- We determined materiality and the corresponding audit misstatement posting threshold to be \$105,000 and \$5,200 respectively. Materiality was calculated using prior year expenses as a benchmark which was consistent with the prior year.
- Throughout the course of the audit work, all adjustments were corrected by management. There were no differences that remain uncorrected in the financial statements.

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 Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020
- 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 Entity as at December 31, 2020, 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 Entity 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.

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 Entity'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 Entity or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Entity'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 Entity'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 Entity'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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Unqualified or clean audit opinion

Highest level of financial assurance available under the Canadian Auditing Standards

Materiality for the engagement was set at \$105,000 with a posting threshold of \$5,200

Statements are in draft pending Council approval

Chartered Professional Accountants, Licensed Public Accountants

Sudbury, Canada
June 16, 2021

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, 2020, with comparative information for 2019

	2020	2019
Financial Assets		
Cash	\$ 2,129,210	\$ 1,306,441
Taxes receivable (note 3)	480,001	361,066
Accounts receivable (note 4)	119,788	566,387
Land held for sale	54,166	54,166
	<u>2,783,165</u>	<u>2,288,060</u>
Financial Liabilities		
Accounts payable and accrued liabilities	286,132	357,272
Deferred revenue (note 5)	137,476	441,495
Deferred revenue - obligatory reserve funds (note 6)	200,538	219,842
Municipal debt (note 7)	737,720	435,775
Landfill closure and post-closure liability (note 8)	335,000	323,000
	<u>1,696,866</u>	<u>1,777,384</u>
Net financial assets	1,086,299	510,676
Non-financial Assets		
Tangible capital assets (note 9)	3,586,089	3,096,910
Prepaid expenses	8,334	7,340
	<u>3,594,423</u>	<u>3,104,250</u>
Commitments (note 11)		
Contingencies (note 12)		
Accumulated surplus (note 10)	\$ 4,680,722	\$ 3,614,926

Highlights

- Increase in the cash balance as a result of the current year surplus and a decrease in accounts receivable. These increases were offset by an decrease in deferred revenue and taxation receivables.
- Total taxes receivable has increased on a year over year basis (balance is made up of 65% current taxes vs. 66% current taxes in the prior year). Taxes as a percentage of the taxation levy has increased as of the 2020 year end.
- The decrease in accounts receivable relates to a lower HST receivable balance as there were amounts received for HST in the summer of 2020 upon completion of the HST 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

	2020	2019
Current year	\$312,894	\$237,584
1 year arrears	\$85,894	\$85,891
2 years arrears	\$47,509	\$47,029
3+ years arrears	\$58,324	\$38,355
Interest and penalties	\$58,055	\$51,579
Overpayments / Payments to be applied	(\$82,675)	(\$99,372)
Total	\$480,001	\$361,066
As a percentage of levy	19.9%	15.5%

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Highlights

- Accounts payable has decreased as included in the prior year trade accounts payable was two months of recycling invoices (no similar amounts in 2020) along with an increased in the amounts due to the school boards in the prior year
- Deferred revenue has decreased due to unused modernization funding in the current year of \$349K being transferred to reserves
- Deferred revenue – obligatory reserves has decreased due to an increase in gas tax dollars in the 2020 year end
- Municipal debt has increased as a result of new debt undertaken in the 2020 year end (\$411K) offset by principal repayments (\$110K)
- Landfill closure and post closure liabilities have increased as a result of updated information received from the consultants. The majority of the obligation (\$302K) 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 \$726K offset by the annual depreciation on the tangible capital assets of \$231K

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, 2020, with comparative information for 2019

	Budget 2020	Actual 2020	Actual 2019
	(note 16)		
Revenue:			
Taxation	\$ 2,390,947	\$ 2,416,928	\$ 2,326,915
Government grants and transfers	1,208,008	1,629,979	1,193,179
User charges	172,076	89,471	135,106
Other	212,561	301,219	254,014
Total revenue	3,983,592	4,437,597	3,909,214
Expenses:			
General government	1,293,600	1,053,062	1,093,275
Protection to persons and property	508,517	493,520	489,883
Transportation services	760,270	752,462	717,727
Environmental services	298,105	307,728	386,957
Health services	331,923	318,986	319,008
Social and family services	141,694	141,694	137,674
Recreation and cultural services	376,930	264,005	361,366
Planning and development	48,600	40,344	27,260
Total expenses	3,759,639	3,371,801	3,533,150
Excess of revenue over expenses	223,953	1,065,796	376,064
Accumulated surplus, beginning of year	3,614,926	3,614,926	3,238,862
Accumulated surplus, end of year	\$ 3,838,879	4,680,722	\$ 3,614,926

Revenue Highlights

- Taxation revenue has increased as a result of a slight increase in the tax rates in the 2020 year end
- Government grants and transfers have increased as a result of the revenue recognized for the modernization grant (\$349K), the seniors transportation (\$140K) and the Safe Restart Grant (\$120.5K) offset by a decrease in the OCIF grant (\$106K) and other smaller miscellaneous grants
- User charges and other revenues include a number of charges from the municipality, library, arena, cemetery etc.) along with interest and penalties, rental revenue (municipal buildings and arena). Decrease in revenue noted for certain permits which has resulted in the decrease in revenue noted. On a combined basis the amounts are comparable year over year. There were decreases noted on certain hall and ice rentals as a result of the pandemic noted.

Statement of Operations

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

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Expense Highlights

- Expenses are a percentage of revenue are 76.0% in 2020 compared with 90.4% in 2019 (overall expenses have decreased 4.6% in 2020)
- General Government – Decrease mainly as a result of a decrease in salaries and benefits in 2021 offset by an increase on COVID-19 related expenses
- Transportation services have increased in 2021 as a result of an increase in amortization expense 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

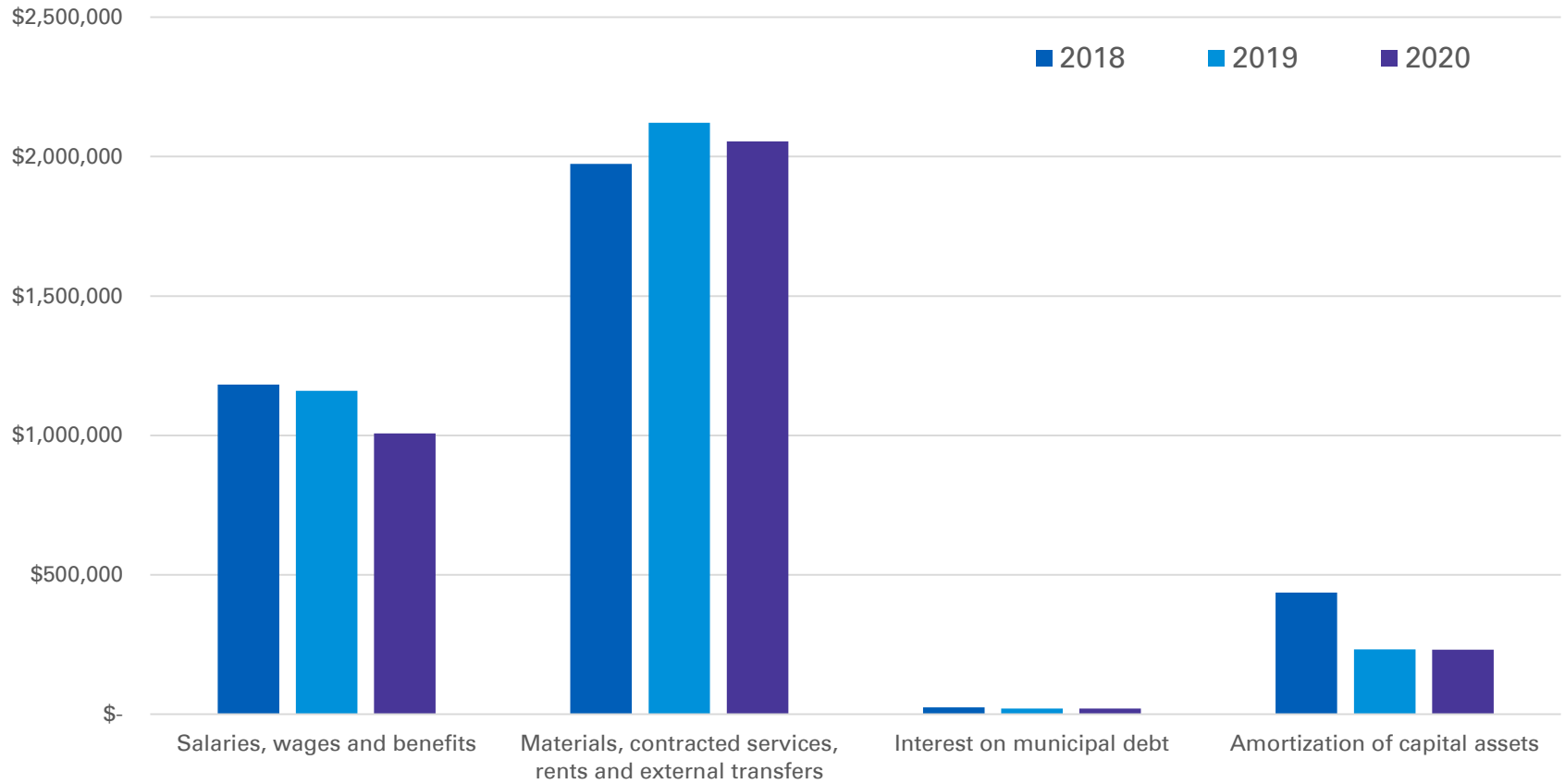
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Expense Highlights (cont)

- Environmental services have increased as a result of lower sampling, contracting and amortization expenses in 2020
- Recreation and cultural services have decreased as a result of the COVID-19 pandemic and the closure of recreation facilities for the duration of the pandemic.
- Planning and development have increased as a result of an increase in costs associated with the GUS software
- Protection to persons and property, health services and social and family services are consistent with the prior year

Operating Expenses



Reconciliation of Surplus

	2020
Surplus per financial statements	\$1,065,796
Add: Amortization of TCA	\$230,694
Less: TCA additions (not debt funded)	(308,527)
Less: Principal payments on debt	(\$109,401)
Add: Unfunded landfill liability	\$12,000
Operating Surplus prior to reserve transfers	\$890,562
Less: Transfer to reserves	(\$978,901)
Total Operating Deficit	\$88,339

- Differences exist between Municipal budgeting and Public Sector Accounting Standards
- The deficit has been allocated to the general surplus in the current year which reduced the balance to \$691K at the end of 2020. In addition, Council had approved a resolution to transfer borrowing from 2018 from the general surplus to reserves
- Funds transferred to reserves totaled \$978K in 2020 (municipal modernization funding, safe restart funding, surplus relating to the closure of recreation facilities)
- 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, 2020, with comparative information for 2019

	Budget 2020 (note 16)	Actual 2020	Actual 2019
Annual surplus	\$ 223,953	\$ 1,065,796	\$ 376,064
Acquisition of tangible capital assets	(725,287)	(725,287)	(367,991)
Amortization of tangible capital assets	230,694	230,694	232,009
Gain on sale of tangible capital assets	(10,334)	(10,334)	-
Proceeds from sale of tangible capital assets	15,748	15,748	-
Change in prepaid expenses	(994)	(994)	67,849
Change in net financial assets	(266,220)	575,623	307,931
Net financial assets, beginning of year	510,676	510,676	202,745
Net financial assets, end of year	\$ 244,456	\$ 1,086,299	\$ 510,676

Highlights

- The Municipality's net financial assets increased by \$575,623
- Capital acquisitions mainly funded by capital as well as new long term debt. The increase to cash in the current year was the main reason for the increase in the net financial assets

Accumulated Surplus

THE CORPORATION OF THE MUNICIPALITY OF ST.-CHARLES

Consolidated Notes to Financial Statements

Year ended December 31, 2020

10. Accumulated surplus:

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

	2020	2019
Surpluses:		
Invested in tangible capital assets	\$ 2,848,369	\$ 2,661,135
General surplus	691,971	780,310
Unfunded:		
Landfill closure and post-closure costs	(335,000)	(323,000)
	3,205,340	3,118,445
Reserves set aside for specific purposes:		
Working capital	54,644	54,644
Reserves set aside for specific purposes by Council:		
Infrastructure renewal	554,971	197,699
Modernization	349,000	-
Contingences	178,935	122,391
Safe restart	104,683	-
Protection services	11,340	21,708
Environmental services	27,586	27,386
Parks and recreation	126,964	18,853
Youth outdoor playground	11,264	11,187
Landfill site closure	20,497	13,405
Election	10,205	5,087
Chief building officer	1,172	-
Library	24,121	24,121
	1,420,738	441,837
Total	\$ 4,680,722	\$ 3,614,926

Highlights

- Given the closure of the arena the surplus of \$108K was transferred to reserve for use in future years (total reserve now \$127K)
- Municipal modernization funding for future Municipal sustainability included in a separate reserve (\$349K)
- Unused safe restart funding from the province included in a reserve for use in 2021 (\$105K)
- Municipal general surplus decreased by \$88K (approximately) in the current year
- Funds transferred for future infrastructure renewals / capital projects of \$357K
- Investment in capital assets (in total) increased by \$187K (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 our initial audit planned audit approach
- No disagreements or difficulties with management

All audit adjustments have been recorded within the financial statements and no unadjusted audit differences above our posting threshold to note

No significant internal control weaknesses noted

COVID-19 Pandemic Audit Response

Subsequent Events	Our audit approach
Subsequent Event	<p>In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial market and social dislocating impact. As such enhanced subsequent events procedures are warranted.</p> <p>There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows:</p> <ul style="list-style-type: none">– Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures.– Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made. <p><u>Audit response:</u></p> <p>Management worked with the audit team to customize language for the COVID-19 related note disclosure.</p> <p>An assessment for any financial indicators of financial implications was undertaken and documented by management and reviewed by the audit team.</p> <p>A list of any financial implications and actions undertaken by the Municipality was disclosed in the notes, including:</p> <ul style="list-style-type: none">• The closure of certain facilities to the general public;• Waiving of interest and penalties for residents impacted by COVID related job losses;• Extensions of payment terms of tax installments;• Closure of certain recreation programming to adhere to public health guidance;• The implementation of working from home requirements for certain employees (where possible). <p>A statement as to whether or not these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. Along with measurement of an estimated impact on the financial effect <u>or</u> indication if one is not practicable at this time.</p> <p>Management has included an “Effects of COVID-19 Pandemic” note in its financial statements that appropriately describes and responds to the above matter.</p>



Thank you



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