Lake of the Woods
KENORA

Minutes
Special
Committee of the Whole
Monday, September 19, 2016
9:00 a.m.
City Hall Council Chambers

Present:	**Mayor D. Canfield** **Councillor M. Goss** **Councillor R. McMillan** **Councillor D. Reynard** **Councillor L. Roussin** **Councillor S. Smith**
Regrets:	**Councillor C. Wasacase**
Staff:	**Karen Brown, CAO** **Heather Kasprick, City Clerk** **Charlotte Edie, Municipal Treasurer** **Natalie Pearson, Deputy Treasurer**
Presenters:	**Kathy Nelson, MNP LLP** **Marty Nelson, MNP LLP**

Call Meeting to order – Mayor Canfield

Public Notices
Take Notice that as required under Notice By-law #144-2007, Council intends to adopt the following items at this Special Meeting of Council:

N/A

Declaration of Pecuniary Interest & General Nature thereof
i) On Today's Agenda

ii) From a Meeting at which a Member was not in Attendance

There were none declared.

Deputations
Approximately five (5) minutes per person/group.

N/A

Items:

1. Presentation from the Municipal Auditors on the 2015 Financial Statements

Cathy Nelson, from MNP, LLP presented draft information to Council for consideration. She reminded Council that management is responsible for preparation of the financial statements, and the auditors to review. The statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments established by the Public Sector Accounting Board of Chartered Professional Accountants Canada.

The statements are all draft format at this time until Council has had time to review and provide authorization. The financial statements have been audited by MNP LLP, independent external auditors appointed by City Council.

Cathy started with the consolidated statement of financial position. At year end, there was $19,251 million in financial cash assets. Temporary investments $15,886 million with $13,959 of unrestricted and $1,929 of restricted. 98% of the temporary investments are held in the One Fund – Public Sector Group of Funds. The investments are bond funds with rates of return between 1.69% and 1.94%. Total unrestricted assets just over $28 million at end of year.

There are taxes receivables of $426,000 with people with pre-pay amounts which account for the variances in outstanding and accrued tax accounts.

Long term notes receivable shows $70,000 which is a leaseholder improvement amount secured by leaseholder improvements in a lease agreement with OPG for the Operations building lease.

There is $2.6 million less in grant receivable with outstanding grants from DTR.

Citizen Prosperity Trust Fund investment displays $32,825 million. 25% of the temporary investments are held in the One Fund – Public Sector Group of Funds. The investments are held in bond funds with interest rates of 0.00%, 1.04% and 3.08%. The remaining investments are managed by Manulife Asset Management and held with RBC Dexia. The investments are held in various government and bank bonds and debentures. Interest rates ranges from 1.5% to 6.25%. These investments mature between 2016 and 2020.

Kenora Hydro Electric Corporation Ltd. is owned and controlled by the City of Kenora and as a business enterprise of the City, is accounted for on a modified equity basis in the consolidated financial statements. Kenora Hydro reporting requirements accounting standards has changed and the way they report has changed therefore resulting in $22,000 difference. The effect of the is change in accounting framework on the consolidated financial statements was to decrease in the accumulated surplus at December 31, 2013 by $2,000 and at December 31, 2014 by $22,000, decrease in Investment in government business enterprise at December 31, 2014 by $22 and decrease in Net income from government business enterprise and annual surplus for the year ending December 31, 2014 by $19,000.

It was noted that Kenora Hydro did not meet certain targeted energy savings for the period 2011 to 2014 and as a result was not in compliance with Part VII of the Ontario Energy Board Act, 1998. No decision has been made by the Ontario Energy Board as to the impact of the breach of compliance. The result, if any, of any loss to the company will be recorded in the year determinable.

At the end of 2015 the City is in strong financial position with $83,493 million in financial assets.

Accounts payable and accrued liabilities are consistent with outstanding invoices at $5,340 million. Deferred revenue consists of $3,046 million with Federal Gas Tax, Dedicated Gas Tax, Miscellaneous Transit Funding, Roads Deposits and other deferred revenue.

The City pays certain health and dental benefits on behalf of its retired employees. Active employees are also eligible to receive non-vesting sick leave benefits. The City recognizes post-employment and non-vesting sick leave costs in the period in which the employees rendered the services. It is calculated by an actuary which is $2.4 million for employee future benefits, $108,000 for vested sick leave and $125,000 for lieu time accrual of hourly employees. Every year it is adjusted for retired employees and adjusted for future retirees.

The City reports a total of $11,069 million in liabilities at December 31, 2015.

At December 31, 2015 the net financial assets reported at $72,424 million. $150,049 million tangible capital assets and inventories of consumables and pre-paids are $1,008 million. Major capital work items were works at Keewatin Arena, Cameron Bay water works and a lot of work on street lights.

Non–financial assets of inventories of consumables and pre-paids, include things like winter sand, gravel, stores inventory, but will never turn into cash. Some amounts for pre-paid expenses will be recorded into 2016.

Accumulated surplus is allocated to different components of surplus. It consists of individual fund surplus, reserves and reserve funds and internally restricted entities. There is $150 million investment in tangible capital assets. The Prosperity Trust Fund of $35 million with total reserves and reserve funds sf $30,390 million. The investment in tangible capital assets represents amounts already spent and invested in infrastructure and other non-financial assets.

The consolidated statement of operations summarizes the operations for a one year period. The draft statements displays the 2015 budgeted amount along with the 2015 actual and the 2014 actuals.

Under Revenues, taxation is consistent with the budgeted amount just over $23 million.
Fees and user charges revenues are higher than budgeted. This is a result of solid waste revenues from one specific company disposal fees for a site clean-up.

Canada and Ontario grants are down significantly. The OMPF funding is down over $400,000 which accounts for reduction for grants in revenue fund.

Net income from government business enterprise (Kenora Hydro) is consistent with the budgeted $76,000. Other revenue is penalties and interest on taxation for $286,000, investment income of $1,176 million, donations of $192,000 and miscellaneous revenues of $689,000 for a total of $45,549 million of revenue.

Under expenses, departments were 1.7% over budget. Cathy noted that nothing significant come to the attention of the auditors when coming to expenses. At the end of the year the City had an annual surplus of $1,017 million dollars. The accumulated surplus at year end is $223,481 million.

Net financial assets at end of the year $71,591 million. Contingent liabilities and commitments include the two guarantees that the City has made for the Kenora Golf and Country Club in the amount of $347,000 and the Kenora Health Care Centre in the amount of $6,445 million. The city's pro-rata share of the cumulative operating deficit of the District of Kenora Home for the Aged was not available for 2015 at the time of the preparation of these statements, however, Municipal Treasurer, Charlotte Edie advised that they did arrive to her late Friday and can now be included in the final statement preparation. The 2014 amount was $2,250. The Home's management expects to recover this deficit from projected future operating surpluses. A billing to municipalities for their respective share of the deficit is not anticipated.

The City has several claims and possible claims pending against it. The outcome of these claims is not yet determined and no amounts have been recorded in the accounts relating to these claims and possible claims. There is an assessment review board appeal outstanding as well that dates back to 2013 which the outcome of this review has not yet been determined and the effect, if any, will be recorded in the year the amounts are determined.

The City has one inactive landfill site. It has previously incurred all costs relating to the closure and trains responsibility for all costs relating to post-closure care which are recorded annually as they are incurred. The amount is insignificant and not recorded.

Subsequent events – in August 2016, the City settled negotiations with the firefighter's union related to their collective agreement commencing January 1, 2014. The cumulative effect of the settlement to December 31, 2015 is $78,000 which will be recorded as an expense in 2016.

Cathy reviewed the independent auditors report confirming that they have audited the 2015 financial statements of the City of Kenora which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these consolidated 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.

The auditors responsibility is to express an opinion on the consolidated financial statements based on their audit. They conducted their audit in accordance with Canadian generally accepted auditing standards. Those standards require that they comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies use and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

It is the opinion of the auditors that the consolidated financial statements present fairly, in all material aspects, the financial position of the City of Kenora as at December 31, 2015 and the results of its operations, changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

The auditors expressed that no significant limitations were placed on the scope or timing of the audit. While their review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, they detected an area in which controls could be enhanced. They identified that there is a lack of segregation of duties within the cash receipts area. Accounting clerks who are responsible for maintaining the accounts receivable subledger and for reconciling various bank accounts are also handling and depositing cash receipts. During 2015, the accounting clerks began providing relief for the cashier position as a result of the organizational review. It is the opinion of the auditors, that a lack of segregation of duties makes it difficult to obtain adequate internal control over the cash receipts process. This can lead to errors in financial reporting due to a lack of oversight, as well as allow the occurrence of errors or fraudulent activities to go undetected by enabling an employee to both misappropriate cash and cover up the audit trail to conceal the theft. The auditors recommend that the accounting clerks not be allowed access to cash or the recording of cash receipts. Karen Brown, CAO advised that a solution to this is to have supervisor sign off to these adjustments and the auditors agreed that if a check off signature could be implemented this would resolve this concern.

As previously disclosed in the financial statement review, the Kenora Hydro Electric Corporation did not meet certain targeted energy savings for the period 2011-2014 and as a result was not in compliance with Part VII of the Ontario Energy Board Act 1998. To date no decision has been made by the Ontario Energy Board as to the impact of the breach of compliance. The result, if any, of any loss to the company will be recorded in the year determinable.

The accounting policies used by the entity are appropriate and have been consistentlhy applied. During the year the City applied the standards of PS 3260 liability for contaminated sites. Management determined that there were no sites that the city owned that met the definition of a liability under this section.

The preparation of the consolidated financial statements is subject to significant accounting estimates made by management. All significant management estimates were reviewed for the current period and no material differences were noted. A summary of significant management estimates and provisions: provision for legal contingencies – no provision deemed necessary. Amortization period of tangible capital assets – amortized over the estimated useful life of the respective assets using the straight line method. Employee future benefits payable based on an actuarial assessment which used various assumptions including future medical, dental and wage and salary costs and discount rates.

A few significant differences were proposed to management with respect to the December 31, 2015 consolidated financial statements. Those unadjusted differences are pertaining to some property taxes receivables on the books in the amount of $158,000 and the auditors suggest that over next while we review these collectables and take appropriate action.

The auditors provided a management letter which was discussed with the Municipal Treasurer, Charlotte Edie, which relates to the segregation issue of the accounting staff previously discussed.

Council was presented the letter of representation, as prepared by Municipal Treasurer, Charlotte Edie, which is presented to the auditors that to the best of her knowledge and belief, the representations made to the auditors during the course of the audit are true and correct.

Mrs. Nelson presented the audit program – summary of differences. The first difference is between total vacation payable and amount recorded by client as a vacation accrual. The old property tax accounts with uncertain collection, unadjusted difference in Kenora Hydro statements per BDO audit findings report and the firefighters retro pay not accrued. These are amounts that came to the attention of the auditors that were not recorded in books at end of 2015. It was noted that these are not material in the scope of city statements.

MNP LLP presented a letter of independence to members of Council which is required to do so to those who are charged with governance. They are required to demonstrate independence of the organization and report relationships to which may bear reasonable consideration of independence. MNP identified that Lauren D'Argis was employed with the City as the Manager of Corporate Services until recently. Lauren was employed with the Kenora MNP office until May 10, 2013. It was confirmed that Lauren has completely cut all professional/business ties to MNP and that she does not have a close personal relationship with the proposed engagement personnel and that the City's audit was reviewed by another MNP office. Rob Edie, who is a manager in the Kenora office, is a brother-in-law to Charlotte Edie, however, Rob was not part of the engagement team and the file will be peer reviewed by another MNP office. Natalie Pearson is employed with the City of Kenora as Deputy Treasurer. She was employed with MNP office until November 2015. The auditors have completely cut all professional/business ties to Ms. Pearson and she does not have a personal relationship with the proposed engagement personnel and again the audit will be reviewed by another MNP office.

The auditors concluded their presentation and then invited questions from members of Council.

Councillor Reynard noted that it will be reported that the City will report an operated surplus of $1.7 million dollars. The question from the public will be why are taxes going up if we have a surplus. He questioned of the $1.7 million surplus, how much is directly related to the functions of the taxpayer.

The auditors clarified that it is an adjustment. $363,000 is non PSAB reported amount which leaves approximately $3,000 of true net surplus.

Mr. Nelson stressed that if you take a $45 million dollar budget, and we are so close in the budgeting, this is very effective budgeting.

Councillor McMillan thanked staff for keeping Council informed throughout the year. MNP commended finance staff for their assistance during a rough year.

Charlotte will have the annual report along with the financial statements to Council for the October Committee of the Whole meeting.

Meeting adjourned at 9:50 a.m.