
Consolidated financial statements of City of Kawartha Lakes

December 31, 2020

Draft

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Independent Auditor's Report

To the Members of Council,
of the Corporation of the City of Kawartha Lakes

Opinion

We have audited the consolidated financial statements of the Corporation of the City of Kawartha Lakes (the "City"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2020, and the results of its operations, change in net debt and its 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 ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical 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.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City'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 City or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 GAAS 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 these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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, intentional omissions, misrepresentations, or the override of internal control.
- 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 purpose of expressing an opinion on the effectiveness of the City'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 events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

Chartered Professional Accountants
Licensed Public Accountants
[DATE]

City of Kawartha Lakes
Consolidated statement of financial position
As at December 31, 2020

	Notes	2020	2019
		\$	\$
Assets			
Cash		53,101,105	16,733,120
Investments	3	31,461,131	49,752,409
Taxes receivable		10,196,490	5,579,837
Accounts receivable		45,675,800	40,329,716
Other current assets		12,935	16,148
		140,447,461	112,411,230
Liabilities			
Accounts payable and accrued liabilities		23,274,972	22,849,833
Deferred revenue	4	40,078,033	42,912,670
Other liabilities		3,921,506	3,941,047
Accrued interest on long-term liabilities		356,275	361,693
Employee future benefits	5	20,167,727	20,978,957
Landfill closure and post closure accrual	6	13,413,608	10,176,972
Municipal debt	7	135,507,585	120,565,812
		236,719,706	221,786,984
Net debt		(96,272,245)	(109,375,754)
Non-financial assets			
Tangible capital assets	15	556,720,549	540,072,290
Inventory and prepaid expenses		4,200,684	4,203,492
		560,921,233	544,275,782
Contingencies and commitments	9		
Accumulated surplus	8	464,648,988	434,900,028

The accompanying notes are an integral part of the consolidated financial statements.

Approved by Council

_____, Member

_____, Member

City of Kawartha Lakes
Consolidated statement of operations
Year ended December 31, 2020

Notes	Budget \$	2020 Actual \$	2019 Actual \$
	(Note 10)		
Revenue			
Taxes levied for own purposes	118,484,981	118,695,333	114,122,961
Payments in lieu from other governments	486,800	511,354	508,425
Taxation	118,971,781	119,206,687	114,631,386
User charges, licenses and fines	51,831,868	41,745,480	42,407,273
Grants			
Government of Canada	5,661,753	1,854,867	2,071,995
Province of Ontario	50,895,477	68,293,429	61,861,637
Other municipalities	1,970,343	1,870,590	2,017,837
Other			
Investment income	1,162,000	1,163,357	1,363,220
Gain on disposal of tangible capital assets	650,000	232,118	1,748,859
Penalties and interest on taxes	1,107,000	1,110,537	1,321,908
Restricted amounts earned	17,165,057	14,912,015	4,110,113
Donations and other	1,996,720	976,836	1,940,933
Contributed tangible capital assets	—	1,455,705	424,515
	251,411,999	252,821,621	233,899,676
Expenses			
General government	23,075,207	23,267,514	10,140,855
Protection to persons and property	32,382,812	32,456,294	33,328,007
Transportation services	32,176,435	42,091,563	43,436,137
Environmental services	38,149,139	33,177,229	27,722,436
Health services	12,721,526	14,172,179	13,292,698
Social services	46,748,708	48,358,646	45,198,760
Housing services	10,446,476	12,468,365	14,223,391
Recreational and cultural services	19,138,482	12,847,173	14,186,895
Planning and development	5,693,645	4,233,698	4,180,630
	220,532,430	223,072,661	205,709,809
Annual surplus	30,879,569	29,748,960	28,189,867
Accumulated surplus, beginning of year	434,900,028	434,900,028	406,710,161
Accumulated surplus, end of year	465,779,597	464,648,988	434,900,028

The accompanying notes are an integral part of the consolidated financial statements.

City of Kawartha Lakes**Consolidated statement of change in net debt**

Year ended December 31, 2020

	Budget	2020	2019
	\$	Actual	Actual
	(Note 10)	\$	\$
Annual surplus	30,879,569	29,748,960	28,189,867
Acquisition of tangible capital assets	(44,798,000)	(43,333,880)	(57,417,426)
Amortization of tangible capital assets	25,650,508	26,437,343	26,248,114
Gain on disposal of tangible capital assets	650,000	(232,118)	(1,748,859)
Proceeds on disposal of tangible capital assets	—	480,396	2,494,184
	12,382,077	13,100,701	(2,234,120)
Change in inventory and prepaid expenses	—	2,808	(854,246)
	12,382,077	13,103,509	(3,088,366)
Net debt, beginning of year	(109,375,754)	(109,375,754)	(106,287,388)
Net debt, end of year	(96,993,677)	(96,272,245)	(109,375,754)

The accompanying notes are an integral part of the consolidated financial statements.

City of Kawartha Lakes
Consolidated statement of cash flows
Year ended December 31, 2020

	2020 \$	2019 \$
Operating activities		
Annual surplus	29,748,960	28,189,867
Items not involving cash		
Amortization	26,437,343	26,248,114
Gain on disposal of tangible capital assets	(232,118)	(1,748,859)
Contributed tangible capital assets	(1,455,705)	(424,515)
Change in non-cash assets and liabilities		
Taxes receivable	(4,616,653)	(686,564)
Accounts receivable	(5,346,084)	(22,690)
Other current assets	3,213	620
Accounts payable and accrued liabilities	425,139	(4,070,704)
Deferred revenue	(2,834,637)	8,217,995
Other liabilities	(19,541)	(84,637)
Accrued interest on long-term liabilities	(5,418)	(5,506)
Employee future benefits	(811,230)	(10,488,337)
Landfill closure and post closure accrual	3,236,636	49,402
Inventory and prepaid expenses	2,808	(854,246)
	44,532,713	44,319,940
Capital activities		
Acquisition of tangible capital assets	(41,878,175)	(56,992,911)
Proceeds on disposal of tangible capital assets	480,396	2,494,184
	(41,397,779)	(54,498,727)
Investing activity		
Decrease in investments	18,291,278	13,914,477
Financing activities		
Municipal debt issued	27,176,013	15,559,597
Municipal debt repaid	(12,234,240)	(11,882,868)
	14,941,773	3,676,729
Change in cash	36,367,985	7,412,419
Cash, beginning of year	16,733,120	9,320,701
Cash, end of year	53,101,105	16,733,120

The accompanying notes are an integral part of the consolidated financial statements.

Nature of business

The City of Kawartha Lakes (the "City") was created on January 1, 2001 by a Restructuring Order under the Ontario Municipal Act. The City is a combination of the former County of Victoria and all 16 lower-tier municipalities along with their related local boards and police villages previously located within the county's boundaries.

1. Summary of significant accounting policies

The consolidated financial statements of the City are the representations of management prepared in accordance with accounting standards, as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada.

Significant accounting policies adopted by the City are as follows:

(a) (i) Reporting entity

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all organizations, local boards and committees controlled by the City, including the following:

Public Library Board
Police Services Board including municipal and OPP services
Lindsay Downtown Business Improvement Association
Waterworks and Sewer Systems
Cemetery Boards
Parks, Recreation and Heritage Boards and Committees
Community Centres
Kawartha Lakes Haliburton Housing Corporation

All material inter-entity transactions and balances are eliminated on consolidation.

(ii) Accounting for school board transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the school boards are not reflected in these consolidated financial statements.

(iii) Trust funds

Trust funds and their related operations administered by the City are not consolidated, but are reported separately.

(b) (i) Basis of accounting

Revenues and expenses are reported on the accrual basis of accounting with the exception of Provincial Offences Act fine revenues which are accounted for on a cash basis. The accrual basis of accounting recognizes revenues in the period in which transactions or events occurred that gave rise to the revenues; expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

Investments

Temporary investments are carried at the lower of cost and market value, at which time they are written down to recognize the loss in value. Discounts or premiums are amortized using the effective interest method.

1. Summary of significant accounting policies (continued)

(b) (i) *Basis of accounting (continued)*

Non-financial assets

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

Tangible capital assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets excluding land are amortized on a straight line basis over their estimated useful lives as follows:

	<u>Useful life-years</u>
Land improvements	10-20
Building and building improvements	10-50
Vehicles, machinery and equipment	5-20
Water and sewer systems	25-80
Road infrastructure	<u>10-50</u>

One half of the amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

Contribution of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value as the date of receipt and also are recorded as revenue.

Interest capitalization

The City's tangible capital asset policy does not allow for the capitalization of interest costs associated with the acquisition or construction of tangible capital assets.

Intangible assets

Intangible assets are not recognized as assets in the consolidated financial statements.

(ii) *Deferred revenue*

Under PSAB accounting principles, obligatory reserve funds and any other externally restricted contributions must be reported as deferred revenue. These amounts will be recognized as revenues in the fiscal year in which the qualifying expenditures are made.

1. Summary of significant accounting policies (continued)

(b) (iii) Employee future benefits

The present value of the cost of providing employees with future benefits programs is expensed as employees earn these entitlements through service. The cost of the benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of retirement ages of employees and expected health care and dental costs. Actuarial gains or losses are amortized on a straight line basis over the expected average remaining service life of all employees covered.

(iv) Government transfers

Government transfers are recognized as revenues by the City in the period during which the transfer is authorized and any eligibility criteria are met. Government transfers are deferred if they are restricted through stipulations that require specific actions or programs to be carried out in order to keep the transfer. For such transfers, revenue is recognized when the stipulation has been met.

Tax revenue is recognized on all taxable properties within the City that are included in the tax roll provided by the Municipal Property Assessment Corporation, using property values included in the tax roll or property values that can be reasonably estimated by the City as it relates to supplementary or omitted assessments, at tax rates authorized by Council for the City's own purposes in the period for which the tax is levied.

(v) Liability for contaminated sites

A liability for the remediation of a contaminated site is recognized as the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the City is either directly responsible or accepts responsibility, it is expected that the future economic benefit will be given up, and a reasonable estimate of the amount is determinable. If the likelihood of the City's obligation to incur these costs is either not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the consolidated financial statements. As at December 31, 2020 there is nil liability recorded in the consolidated financial statements (nil in 2019). The City will continue to review for potential contaminated sites on an annual basis.

(vi) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Significant estimates relate to taxes receivable, accounts receivable, accrued liabilities, employee future benefits, landfill closure and post-closure accrual, contaminated sites, and tangible capital assets. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

2. Taxation raised on behalf of others

Further to Note 1(a)(ii), requisitions were made by the School Boards requiring the City to collect property taxes and payments in lieu of property taxes on their behalf. The amounts collected and remitted are summarized as follows:

	2020	2019
	\$	\$
Requisitions of School Boards	23,211,500	23,242,576
English public	47,734	46,607
French public	2,292,959	2,319,151
English separate	45,671	46,368
French separate	25,597,864	25,654,702

3. Investments

Investments are marketable securities which are comprised of corporate and government debt securities and investment certificates from chartered banks with effective interest rates from 0.95% to 6.25% (1.15% to 6.25% in 2019). The costs presented approximate fair value.

4. Deferred revenue

	2020	2019
	\$	\$
Obligatory reserve funds		
Recreational land (Planning Act)	588,908	348,088
Development Charges Act	278,408	190,513
Federal and Provincial Gas Tax Reserves	2,435,966	6,638,639
Other	1,864,937	1,968,978
Reserve funds restricted for specified purposes to benefit residents in geographic areas of former municipalities (Restructuring Order and City of Kawartha Lakes Act)	22,820,006	22,903,604
	27,988,225	32,049,822
Restricted reserves		
Reserves restricted for specific purposes to benefit residents in geographic areas of former municipalities (Restructuring Order)	8,540	8,447
	27,996,765	32,058,269
Other deferred revenue		
Unearned grants	4,950,527	3,606,982
Other unearned revenue	7,130,741	7,247,419
	40,078,033	42,912,670

4. Deferred revenue (continued)

The net change during the year in the legislatively restricted deferred revenue balances is as follows:

	Parkland levies and development charges \$	Gas tax reserves and other \$	Amounts restricted by amalgamation legislation \$	2020 Total \$	2019 Total \$
Balance, beginning of year	538,601	8,607,617	22,912,051	32,058,269	25,221,300
Restricted funds received	5,314,215	5,232,958	14,900	10,562,073	10,399,739
Interest earned	(213,487)	32,517	469,408	288,438	547,343
Revenue recognized	(4,772,013)	(9,572,189)	(567,813)	(14,912,015)	(4,110,113)
Balance, end of year	867,316	4,300,903	22,828,546	27,996,765	32,058,269

The City of Kawartha Lakes Act, 2001 required proceeds of sale of the six former municipal hydro systems to be set aside and used only for the benefit of residents in geographic areas served by each of the hydro systems. The net proceeds are included in restricted deferred revenue and will only be recognized as revenue in the consolidated statement of operations when qualifying expenses are incurred.

5. Employee future benefits

The City provides certain employee benefits which will require funding in future periods.

	2020 \$	2019 \$
Accrued payroll	770,562	2,964,512
Vacation and overtime payable	1,133,165	1,253,128
WSIB self-insured claims (Note 9)	10,005,800	9,950,217
Post-employment benefits	8,258,200	6,811,100
Employee future benefits payable	20,167,727	20,978,957

Vacation pay and overtime liability

The City budgets for payroll and vacation and overtime banks based on timing of payment. The above liabilities for payroll, vacation and overtime represent amounts earned by employees but not paid prior to year-end. The accrued balances will require funding in future periods, and are segregated in the accumulated surplus balance as disclosed in Note 8.

Post-employment benefit liability

The City sponsors a defined benefit plan for post employment benefits other than pensions for substantially all of its employees. The plan provides extended health and life insurance coverage to age 64 for full-time employees. The plan is unfunded and requires no contribution from employees. Total benefit payments to retirees during the year were \$245,533 (\$195,699 in 2019).

5. Employee future benefits (continued)

Post-employment benefit liability (continued)

An actuarial valuation for accounting purposes is performed triennially using the projected benefit method prorated on service. An external actuarial valuation was completed as of December 31, 2020. The post-employment benefit liability at December 31 includes the following components:

	2020	2019
	\$	\$
Accrued benefit obligation	9,030,000	7,652,500
Actuarial loss	(771,800)	(841,400)
Post-employment benefits liability	8,258,200	6,811,100

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect management's best estimates. The main actuarial assumptions employed for the valuation are as follows:

Expected inflation rate		2.5%
Discount rate	<ul style="list-style-type: none"> • beginning of year • end of year 	3.20% 2.20%
Medical cost increases	<ul style="list-style-type: none"> • first year • second year • decreasing over 10 years to 	6.16% 6.06% 4.00% plus CPI (assumed to be 2.5%)
Expected annual rate of dental cost increase		4.00% plus CPI (assumed to be 2.5%)

The post-employment benefit expense is reported as a component of expenses on the consolidated statement of operations. Composition of the amount is as follows:

	2020	2019
	\$	\$
Current service cost	456,300	435,200
Amortization of actuarial gains	208,000	293,800
Interest on post-employment benefit liability	254,800	243,000
Total expense related to post-employment benefits	919,100	972,000

Pension agreement

The City makes contributions to the Ontario Municipal Employees' Retirement Fund 'OMERS', which is a multi-employer plan, on behalf of 660 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The amount the City contributed to OMERS for 2020 was \$5,298,246 (\$5,102,610 in 2019) for current service which is included as an expense in the consolidated statement of operations.

6. Landfill closure and post-closure liability

The City is required to account for the solid waste landfill closure and post-closure liabilities as the landfill sites are used. The City currently has 13 closed sites and 5 active solid waste sites. Details of the active sites are as follows:

	Estimated years to closure	Remaining capacity tonnes 2020
Eldon	38	69,155
Fenelon	6	44,907
Laxton/Digby/Longford	2	3,602
Somerville	16	113,209
Lindsay-Operations	16	536,826

Engineering consultants were engaged to prepare estimates of closure and post closure costs as at December 31, 2017, with an extrapolation prepared to December 31, 2021. The estimates include 50 years of post-closure monitoring and maintenance for sites with less than five metres thickness of waste, and 100 years for sites with greater than 5 metres thickness of waste.

Following is a summary of the liability recognized.

	2020 \$	2019 \$
Estimated total closure and post-closure costs	42,885,001	43,093,164
Discount rate	2.20%	3.20%
Estimated present value of costs at end of year	19,032,480	14,424,672
Less		
Portion related to remaining available capacity	(5,618,872)	(4,247,700)
Liability for capacity already used	13,413,608	10,176,972
Net expenses recognized in the year	3,236,636	49,402

7. Municipal debt

The balance of net municipal debt reported on the consolidated statement of financial position is comprised of the following:

	2020 \$	2019 \$
Total debt incurred and outstanding at December 31 to be financed from		
General tax rates	67,203,165	54,081,361
Water and sewer	54,413,662	50,997,077
Northwest Trunk Developer Debt Benefiting landowners for local improvements and tile loans	10,003,185	10,670,285
Kawartha Lakes Haliburton Housing	244,517	222,997
Net municipal debt	3,643,056	4,594,092
	135,507,585	120,565,812

7. Municipal debt (continued)

- (a) The municipal debt issued in the City's name and the names of amalgamated former municipalities have been approved by the Ontario Municipal Board or by-law as required and the annual principal and interest payments required are within the annual debt repayment limit prescribed by the Ministry of Housing.
- (b) The City entered into an agreement with Infrastructure Ontario to debenture funds to offset future developer contributions for the Northwest Trunk capital project in the amount of \$14,139,897 plus \$4,540,300 in interest for a twenty year period. These funds are to be recovered as they are received for development.
- (c) Interest rates vary from 0.96% to 5.83%. Total future payments over the next 5 years and thereafter are summarized as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
	\$	\$	\$	\$	\$	\$	\$
Principal							
Municipal	7,528,580	7,397,850	7,034,024	6,842,517	6,790,810	31,609,384	67,203,165
Water and sewer	4,317,124	4,417,213	4,131,135	4,216,826	3,857,871	33,473,493	54,413,662
Northwest Trunk Developer Debt	667,100	667,100	667,100	667,100	667,100	6,667,685	10,003,185
Tile Drain	33,527	37,154	34,451	26,328	24,587	88,470	244,517
Kawartha Lakes Haliburton Housing	925,963	846,060	701,451	315,003	340,443	514,136	3,643,056
	13,472,294	13,365,377	12,568,161	12,067,774	11,680,811	72,353,168	135,507,585
Interest							
Municipal	1,759,991	1,570,415	1,377,662	1,191,393	1,006,245	5,764,167	12,669,873
Water and sewer	1,805,691	1,641,474	1,482,225	1,330,205	1,175,250	5,634,094	13,068,939
Northwest Trunk Developer Debt	309,900	285,801	265,013	244,862	223,476	1,331,442	2,660,494
Tile Drain	13,592	12,859	10,630	8,880	6,665	13,661	66,287
Kawartha Lakes Haliburton Housing	187,844	153,654	108,535	40,803	58,287	81,808	630,931
	17,549,312	17,029,580	15,812,226	14,883,917	14,150,734	85,178,340	164,604,109

- (d) Total gross payments for the year to service municipal debt are as follows:

	Municipal	Water and sewer	Tile drain	Kawartha Lakes Haliburton Housing	Northwest Trunk Developer Debt	Total
	\$	\$	\$	\$	\$	\$
Principal	6,545,312	4,038,311	32,480	951,037	667,100	12,234,240
Interest	1,532,618	1,640,963	14,480	107,101	328,288	3,623,450
	8,077,930	5,679,274	46,960	1,058,138	995,388	15,857,690

- (e) Kawartha Lakes Haliburton Housing debentures in the amount of \$1,594,963 (\$2,014,454 in 2019) are paid for by the Provincial government on behalf of the Housing corporation. The Province recovers this outlay by reducing subsidy payment cash flows.

7. Municipal debt (continued)

(f) The City has a revolving credit facility agreement with its main financial institution. The amount available at any time is limited to \$15 million via an overdraft or demand note. Any balance borrowed will bear interest at prime less .60% per year. Council authorized the temporary borrowing limit for 2020 in By-Law 2019-164. As at December 31, 2020, there was a balance outstanding of nil (nil in 2019).

8. Accumulated surplus

Accumulated surplus consists of the following:

	2020	2019
	\$	\$
Operating fund surplus	4,672,507	3,258,468
Capital fund deficit – projects to be debentured	(2,651,975)	(21,798,895)
Capital fund deficit – municipal drain project	(977,621)	(699,458)
Capital fund surplus – all other projects	18,910,672	21,922,191
Unfunded employee future benefits	(20,167,727)	(20,978,957)
Post closure landfill costs	(13,413,608)	(10,176,972)
Accrued interest on long term debt	(356,275)	(361,693)
Long term debt	(125,504,397)	(109,895,527)
Reserve and reserve funds	47,416,863	33,558,581
Tangible capital assets	556,720,549	540,072,290
	464,648,988	434,900,028

9. Contingencies and commitments

Workplace Safety Insurance Board Self Insured – Schedule 2

Following restructuring, the Workplace Safety Insurance Board ('WSIB') required the City to convert all operations to Schedule 2 to become one self-insured entity.

Outside coverage is in place for certain types of claims to limit any loss to \$250,000. Claims paid out during the year amounted to \$1,182,389 (\$2,753,493 in 2019). The WSIB has estimated liability for future benefit costs as at December 31, 2020 to be \$10,005,800 (\$9,950,217 in 2019) and this liability has been included in employee future benefits payable (Note 5). The City has nil set aside in a reserve for WSIB self insurance as at December 31, 2020 (nil in 2019).

Other contingencies

Various legal actions and claims have been initiated against the City, some of which cannot be quantified. No provision has been made for any uninsured claims. It is management's opinion there will be no material uninsured liability arising from these claims. An expense will be recorded in the fiscal period in which a settlement becomes likely and measurable.

Commitment – water and sewer system operating agreements

The City is committed to an agreement with the Ontario Clean Water Agency ('OCWA') for the operation of twenty Drinking Water Systems and six Wastewater Systems. In addition to the current agreement there is room for inflationary adjustments and other service items that are unusual and outside of the current agreement. The agreement with OCWA is for the period of March 1, 2014 to February 28, 2021.

9. Contingencies and commitments (continued)

Commitment – garbage and recycling collection contract

In October 2019, the City contracted out garbage and recycling collection services. The contract is for a seven year term with the option for two additional one year renewal terms. The contract requires the City to pay a base fee of \$4,435,487 for 2020 plus additional charges for transportation and additional services, an annual fuel surcharge as well as an increase for new homes.

Commitment – garbage and recycling collection contract

In October 2019, the City contracted out garbage and recycling collection services. The contract is for a seven year term with the option for two additional one year renewal terms. The contract requires the City to pay a base fee of \$4,435,487 for 2020 plus additional charges for transportation and additional services, an annual fuel surcharge as well as an increase for new homes.

Commitments – capital projects

The City has committed to many capital projects expected to be completed over several years including upgrades to the water and sewer treatment plants and the expansion of the Lindsay/Operations landfill site. As at December 31, 2020, the City had awarded contracts in the amount of \$54,630,309 (\$33,379,844 in 2019) and has recorded \$16,325,938 of those awarded amounts. Therefore, the remaining contractual commitments will be recorded in future years as the projects are completed.

Funding for the completion costs is expected to include the use of capital surplus carried forward, grants, debt proceeds and use of funds from various discretionary and obligatory reserve funds.

Commitments – Leases

Under the terms of various operating leases in existence at December 31, 2020, the City is committed to future minimum annual payments as follows:

	\$
2021	385,920
2022	353,248
2023	335,767
2024	340,803
2025	331,498
Thereafter	1,701,797
	<u>3,449,033</u>

10. Budget amounts

The operating and tax rate supported capital budgets were approved by Council on December 3, 2019 to establish the tax rates for the year. In addition, the water and sewer operating and capital budgets were also approved by Council on November 26, 2019.

The budgets for Kawartha Lakes-Haliburton Housing Corporation were approved by the board individually, and only the net transfers to this entity were approved by Council. These budgets were not prepared on the same basis as these consolidated financial statements, and have been restated to conform to the requirements under PSAB accounting standards.

10. Budget amounts (continued)

An amount for amortization expense has been added and is based on management's best estimate of amortization expense determined at the beginning of the year. Amortization expense was not included in the original council approved budget.

Amounts for the cost of contributed tangible capital assets and the related revenue have been added and are based on management's best estimate of the value of contributed tangible capital assets determined at the beginning of the year. Neither the cost of the contributed tangible capital assets nor the revenue was included in the original council approved budget.

Amounts included in the original council approved capital budget which are not recognized as tangible capital assets are included in consolidated statement of operations under the appropriate functional expense category, while those recognized as tangible capital assets are included in the consolidated statement of change in net debt.

11. Expenses by object

	2020 \$	2019 \$
Salaries and wages	78,692,781	66,006,895
Materials, supplies and services	26,530,818	21,945,618
Contracted services	33,794,308	34,927,814
Rents and financial	6,298,959	5,206,875
Transfers to other entities	46,903,113	46,762,572
Tile drain loans and advanced to landowners	54,000	80,800
Interest on net municipal debt	3,295,162	3,277,986
Amortization expense	26,437,343	26,248,114
Other	1,066,177	1,253,135
	223,072,661	205,709,809

12. Trust funds

Trust funds administered by the City amounting to \$1,324,803 (\$1,304,891 in 2019) have not been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations.

13. Provincial Offences Act

Under an operating agreement with the Province of Ontario, the City of Kawartha Lakes is responsible for operation of the Provincial Offences Office in Lindsay on behalf of the City and Haliburton County. Net revenues are to be allocated between the City and the County on a per capita basis. Revenues and expenses related to these operations have been reported as follows:

	2020 \$	2019 \$
Gross revenues	1,153,750	1,936,674
Operating costs	(1,037,294)	(1,381,375)
Amount transferred to Haliburton County	(30,667)	(115,276)
Net City revenue	85,789	440,023

13. Provincial Offences Act (continued)

Revenue comprises payments received for certain types of fines and penalties resulting from charges laid in the Lindsay Court area. Since revenue has been recognized on a cash basis, accounts receivable balances for fines levied but not paid are not included as revenue.

14. Tangible capital assets

Tangible capital assets recognized at nominal value

Certain assets have been assigned a nominal value of one Canadian dollar, because of the difficulty of determining a tenable valuation and/or the assets were older than their estimated expected useful lives, and therefore were fully amortized.

Works of art and historical treasures

The City applies efforts to protect and preserve a number of owned historical buildings, collections of equipment, artifacts, documents and exhibits and works of art. These assets are not held for financial gain or to provide service but rather for public exhibition, education or research in furtherance of public service. These historical treasures and works of art are not recognized as tangible capital assets in the consolidated financial statements. The acquisition or betterment of such assets is recognized in the consolidated financial statements as an operating expense.

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City of Kawartha Lakes

Notes to the consolidated financial statements

December 31, 2020

14. Tangible capital assets (continued)

	Land and land improvements \$	Building and building improvements \$	Vehicles, machinery and equipment \$	Water and sewer \$	Road infrastructure \$	Work in progress \$	2020 Total \$
Cost							
Balance, beginning of year	36,142,009	156,783,022	82,124,601	226,960,770	379,512,755	123,286,146	1,004,809,303
Additions	1,522,238	37,603,267	9,504,662	38,520,786	59,907,355	43,333,880	190,392,188
Work in progress completed	(614,034)	(21,115,122)	(4,218,010)	(36,311,114)	(44,990,271)	—	(107,248,551)
Disposals/transfers	(10,893)	(60,786)	(1,760,739)	(27,214)	(5,755,563)	(39,809,757)	(47,424,952)
Balance, end of year	37,039,320	173,210,381	85,650,514	229,143,228	388,674,276	126,810,269	1,040,527,988
Accumulated amortization							
Balance, of year beginning	6,633,238	69,482,096	49,975,129	97,484,405	241,162,145	—	464,737,013
Disposals	(1,476)	(39,054)	(1,686,242)	(20,562)	(5,619,583)	—	(7,366,917)
Amortization expense	238,978	3,488,229	4,616,719	5,286,984	12,806,433	—	26,437,343
Balance, end of year	6,870,740	72,931,271	52,905,606	102,750,827	248,348,995	—	483,807,439
Net book value, end of year	30,168,580	100,279,110	32,744,908	126,392,401	140,325,281	126,810,269	556,720,549
2019							
	Land and land improvements \$	Building and building improvements \$	Vehicles, machinery and equipment \$	Water and sewer \$	Road infrastructure \$	Work in progress \$	Total \$
Cost							
Balance, beginning of year	36,025,572	148,895,948	78,566,162	225,822,983	373,000,001	93,364,116	955,674,782
Additions	(254,573)	(3,868,535)	5,309,867	(22,382,679)	(31,061,838)	57,417,428	5,159,670
Work in progress completed	434,304	12,491,829	(545,929)	23,520,466	43,852,484	—	79,753,154
Disposals/transfers	(63,294)	(736,220)	(1,205,499)	—	(6,277,892)	(27,495,398)	(35,778,303)
Balance, end of year	36,142,009	156,783,022	82,124,601	226,960,770	379,512,755	123,286,146	1,004,809,303
Accumulated amortization							
Balance, of year beginning	6,387,755	66,889,320	46,154,482	92,118,486	234,476,436	—	446,026,479
Disposals	(8,849)	(521,966)	(888,674)	—	(6,118,091)	—	(7,537,580)
Amortization expense	254,332	3,114,742	4,709,321	5,365,919	12,803,800	—	26,248,114
Balance, end of year	6,633,238	69,482,096	49,975,129	97,484,405	241,162,145	—	464,737,013
Net book value, end of year	29,508,771	87,300,926	32,149,472	129,476,365	138,350,610	123,286,146	540,072,290

15. Segmented information

The City provides a wide range of services to its residents.

Segmented information has been provided in Schedule 1 for the following City Services:

- General Government
- Protection to persons and property
- Transportation Services
- Environmental Services
- Health, Social, and Housing Services
- Recreation and culture
- Planning and Development

Revenues and expenses directly attributable to each segment are reported by segment. Typically general government expenses are incurred in support of all services. Similarly general government revenues including taxes are used to finance all activities of the City. For purposes of segmented reporting general government revenues and expenses have not been allocated to the other services but rather are shown separately.

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City of Kawartha Lakes

Schedule 1 – Consolidated schedule of segmented disclosure

Year ended December 31, 2020

	General government \$	Protection to persons and property \$	Transportation services \$	Environmental services \$	Health, social, and housing services \$	Recreation and culture \$	Planning and development \$	Consolidated \$
Expenses								
Salaries and wages	12,293,952	16,995,120	11,187,514	2,916,881	26,868,398	5,291,107	3,139,809	78,692,781
Minor capital	322,473	40,279	2,215,246	1,921,168	217,799	823,679	—	5,540,644
Interest costs	1,533,516	—	—	1,640,966	107,101	—	13,579	3,295,162
Other expenses	8,876,835	13,118,438	13,535,998	21,446,395	45,945,512	5,103,243	1,080,310	109,106,731
Amortization expense	240,738	2,302,457	15,152,805	5,251,819	1,860,380	1,629,144	—	26,437,343
	23,267,514	32,456,294	42,091,563	33,177,229	74,999,190	12,847,173	4,233,698	223,072,661
External tax revenues	(118,961,789)	—	—	(188,499)	—	—	(56,399)	(119,206,687)
External non-tax revenues	(22,817,984)	(4,276,828)	(1,396,691)	(25,955,076)	(60,325,320)	(2,696,905)	(1,001,997)	(118,470,801)
Restricted amounts earned	(9,645,864)	(56,768)	(524,200)	(3,930,003)	(124,367)	(630,813)	—	(14,912,015)
(Gain) loss on disposal of tangible capital assets	230,654	—	(62,450)	—	(341,903)	—	(58,419)	(232,118)
	(151,194,983)	(4,333,596)	(1,983,341)	(30,073,578)	(60,791,590)	(3,327,718)	(1,116,815)	(252,821,621)
Annual (surplus) deficit	(127,927,469)	28,122,698	40,108,222	3,103,651	14,207,600	9,519,455	3,116,883	(29,748,960)

City of Kawartha Lakes

Schedule 1 – Consolidated schedule of segmented disclosure (continued)

Year ended December 31, 2019

	General government \$	Protection to persons and property \$	Transportation services \$	Environmental services \$	Health, social, and housing services \$	Recreation and culture \$	Planning and development \$	Consolidated \$
Expenses								
Salaries and wages	(256,264)	17,133,609	11,241,955	3,023,681	25,035,965	6,819,553	3,008,396	66,006,895
Minor capital	208,907	71,379	249,493	244,401	243,461	(135,436)	(92,304)	789,901
Interest costs	1,510,037	—	—	1,631,595	124,652	—	11,702	3,277,986
Other expenses	8,384,468	14,125,451	16,737,608	17,273,377	45,282,912	6,330,605	1,252,492	109,386,913
Amortization expense	293,707	1,997,568	15,207,081	5,549,382	2,027,859	1,172,173	344	26,248,114
	<u>10,140,855</u>	<u>33,328,007</u>	<u>43,436,137</u>	<u>27,722,436</u>	<u>72,714,849</u>	<u>14,186,895</u>	<u>4,180,630</u>	<u>205,709,809</u>
External tax revenues	(114,435,897)	—	—	(155,803)	—	—	(39,686)	(114,631,386)
External non-tax revenues	(18,841,130)	(5,085,998)	(1,271,081)	(24,660,053)	(58,260,193)	(4,335,551)	(955,312)	(113,409,318)
Restricted amounts earned	(2,310,205)	(118,826)	(541,598)	(567,005)	(107,404)	(460,075)	(5,000)	(4,110,113)
(Gain) loss on disposal of tangible capital assets	521,925	—	(43,600)	—	(2,130,194)	—	(96,990)	(1,748,859)
	<u>(135,065,307)</u>	<u>(5,204,824)</u>	<u>(1,856,279)</u>	<u>(25,382,861)</u>	<u>(60,497,791)</u>	<u>(4,795,626)</u>	<u>(1,096,988)</u>	<u>(233,899,676)</u>
Annual (surplus) deficit	<u>(124,924,452)</u>	<u>28,123,183</u>	<u>41,579,858</u>	<u>2,339,575</u>	<u>12,217,058</u>	<u>9,391,269</u>	<u>3,083,642</u>	<u>(28,189,867)</u>

City of Kawartha Lakes

Schedule 2 – Consolidated schedule of operations of the Public Library Board

Year ended December 31, 2020

	Budget	2020	2019
	\$	Actual	Actual
		\$	\$
Revenue			
Contribution from municipal tax revenues	1,905,387	1,905,387	1,906,480
Grants – Province of Ontario	183,833	193,060	192,436
Grants – Federal	—	—	2,150
User fees	200	150	1,821
Fines and penalties	18,000	3,602	13,798
Transfer from Reserves	63,000	63,000	63,000
Donations and other	21,400	35,492	35,882
	2,191,820	2,200,691	2,215,567
Expenses			
Administration and Board			
Salaries and benefits	595,385	529,102	508,079
Office and general	47,000	22,395	38,438
Equipment maintenance and rental	28,500	18,886	39,486
Training and development	26,400	19,321	25,401
Vehicle and travel	11,000	3,914	10,989
Advertising and promotion	13,000	7,161	13,060
Transfer to reserves	—	507,287	72,417
Books, periodicals purchases and processing	487,000	468,406	542,879
Library branches			
Wages and benefits	854,644	521,716	853,760
Building maintenance and utilities	70,400	61,728	66,785
Equipment maintenance and rental	2,300	—	1,478
Office and telephone	56,191	40,775	42,795
	2,191,820	2,200,691	2,215,567
Net revenue	—	—	—