HALDIMAND COUNTY

Report FIN-07-2022 Audited Financial Statements for 2020

For Consideration by Council in Committee on May 10, 2022

OBJECTIVE:

To present the audited 2020 Consolidated Financial Statements (including the Trust Fund statements) and details of the Operating Surplus/(Deficit) position for Haldimand County for the year ended December 31, 2020.

RECOMMENDATIONS:

1. THAT Report FIN-07-2022 Audited Financial Statements for 2020 be received;
2. AND THAT the consolidated financial statements, including the Trust Fund Statements, for Haldimand County for 2020, as audited by Millard, Rouse and Rosebrugh LLP, be received and approved.

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Respectfully submitted: Mark Merritt, CPA, CA, General Manager of Financial & Data Services

Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

Highlights from the 2020 audited financial statements (presented under separate cover) are as follows:

- **Investment Portfolio:** As outlined in the annual investment report to Council in May 2021, the carrying book value of the County's investment portfolio was approximately $195.1 million compared to a book value of $188.0 million at December 31, 2019. The 2020 year end book value is comprised of approximately $103.1 million in fixed income investments, while the 2020 growth/equity year end book value remain equivalent to 2018 yearend of $92.0 million. This portfolio, coupled with strong annual returns has led to increased liquidity, revenue and financial flexibility. Though the 2020 fiscal year did see a downfall in returns due to the Covid-10 pandemic, it did start to rebound at the end of 2020.
- **Substantial Investment in Infrastructure:** The County invested over $44 million in infrastructure (replacement and new). This significant investment is outpacing the use of current assets, and is a result of needed facility replacements, some growth, and the acceleration and enhancement to the roads program. Prior years have ranged anywhere from $27 million to $46 million. At the end of 2020, the historical cost of the County's infrastructure was estimated at approximately $957 million.
- **Reserves/Reserve Funds:** The County has established numerous reserves/reserve funds to ensure sufficient funds are available for future expenditures. Total Operating and Capital Reserves/Reserve Funds, at December 31, 2020, were $98.6 million which represents an increase of approximately $7.6 million over the previous year. This excludes both our Hydro Legacy Fund of $86.6 million, which increased $2.6 million over 2019, as well as our Community Vibrancy Fund which has a negative balance of $10.3 million.

- **Strong Credit Rating**: The above noted items were several of the factors noted during the County's annual credit rating review in 2020. The County's credit rating was affirmed at "AA/Stable" by the independent bond rating agency of Standards & Poor's Rating Services; primarily based on exceptional liquidity, strong and flexible budgetary performance and minimal debt burden.

The audited 2020 surplus/(deficits) for Haldimand County financial operations are presented in this report, together with reasons for the significant variances from the Council approved budgets.

The net surplus for the three main functional areas is transferred to/from the appropriate reserve in accordance with previously approved Council resolutions.

2020 Audited Operating Surplus/(Deficit)		
Investment Income (in excess of $100,000)		**($1,834,276)**
Unspent Safe Restart (Covid) Funding - carried forward to 2021		**$1,165,337**
Tax Supported Operations		**$4,860,418**
Rate Supported Operations		
Water Operations	$874,638	
Wastewater Operations	$435,234	**$1,309,872**
Total Operating Surplus/(Deficit)		**$5,501,351**

The presentation of the 2020 audited financial statements, albeit a part of transparent and accountable fiscal management, fulfills the Corporation's statutory obligations to present annual audited financial statements to Council and the public. These statements, as well as the attached Building Division and Parkland Dedication Reserve Fund Statement of Activities, will be posted on the County's website for public access by local taxpayers and ratepayers.

BACKGROUND:

The Municipal Act, 2001 (the Act) provides that the auditor appointed by the municipality shall annually audit the accounts and transactions of the municipality, express an opinion on the financial statements and report to Council. The external auditor's responsibility is to express an independent opinion on the financial statements, based on audit evidence, as to whether the statements present fairly, in all material respects, the financial information contained therein. Audit practices and procedures are based on the following principles: the users (or readers) of the statements are "reasonable users"; auditor's evaluation of risks of misstatement is based on internal controls/inherent risk of misstatement; professional judgment; and sufficient audit evidence to support their opinion.

Management is responsible for the preparation and fair presentation of the annual statements in accordance with Canadian Public Sector Accounting Board (PSAB) accounting standards. As a result, management is responsible to ensure there are adequate internal controls so that financial reporting is accurate and free of misstatements. The auditors will use management's established controls and processes to determine the level of audit evidence they must obtain to issue their opinion on the municipality's statements.

In an effort to move to a full accrual basis of accounting, PSAB adopted Handbook Section 3150, Tangible Capital Assets, and its associated reporting requirements. The implementation of this section, effective January 1, 2009, requires municipalities to report tangible capital assets in the statement of financial position. In addition, the amortization of tangible capital assets is to be accounted for as an expense in the statement of operations. Ultimately, these reporting requirements changed how municipalities report capital assets and the financial resources necessary, or lack thereof, to fund these requirements.

Even prior to these more recent amendments, there have always been reporting differences between the annual budgets, internal financial reporting and the audited financial statements. Although the intent of the latest PSAB amendments is to better align the municipality's annual reporting with full accrual accounting, most municipalities have maintained their previous internal reporting and budget formats. The rationale for some of these differences is that a municipality's budget is focused on long range financing principles and manageable impacts on rates and taxpayers over these periods. As a result, differences in financial reporting and funding of certain liabilities and costs are likely to persist into the future (e.g. amortization of existing assets may not provide a good basis for determining future funding requirements to replace the existing assets).

Similar to most Provincial municipalities, the County has adopted a process to convert the internal statements to PSAB compliant financial statements for auditing purposes (as detailed in Table 2 below). The County traditionally segregates its operational financial results into three main areas: tax supported operations, water operations and wastewater operations (these last two areas are independently financed – water costs from water users and wastewater costs from wastewater users). Capital operations are considered a work-in-progress until projects are complete and each project has specific, Council approved funding. It should also be noted that any capital variances are excluded from the analysis presented in this staff report (as they are typically reported on separately during the year). Reserve and reserve fund operations represent the net transfers to and from reserves or reserve funds during the year.

Typically, staff present the operational financial results to Council on three separate occasions during a fiscal year. These are segregated primarily between tax supported and rate supported operations (with sub-categories identified in each category). Reporting timeframes are as follows:

- In-year results: This report is presented to Council based on year to date financial results and reflects the annual projections for expenditures and revenues to year end (taking into account the year to date operations). This report is typically presented to Council in late summer or early fall.
- Draft Budget: In the respective draft operating budget (i.e. tax supported and rate supported water and wastewater), the projected previous year end financial results are reported. Included in the Treasurer's Report is an explanation of any significant anticipated variances and the impact, if any, on the draft operating budgets.
- As part of the audited financial statements: actual surpluses and deficits are identified and major drivers are summarized.

The focus of this staff report, independent of the auditor's report, is to:

- Summarize the required adjustments to meet PSAB reporting requirements, as they are reflected in the accompanying audited financial statements; and

Summarize key components of the <u>audited</u> surplus or deficit for the year (for internal reporting purposes, operational surpluses or deficits are transferred to/from specifically identified reserves).

ANALYSIS:

The County's auditor, Millard, Rouse & Rosebrugh LLP, has recently completed their audit of the 2020 Consolidated Financial Statements. The audited statements are provided as Attachment 3 to this report and will be presented by the auditor at the April 19th Council meeting. These statements also include the annual results of the County administered Trust Funds (i.e. cemetery perpetual care funds, Grandview Lodge bequest funds and Grandview Lodge Comfort Trust fund).

As outlined above, under the PSAB principles, the move to full accrual accounting required dramatic changes to past methods of reporting certain transactions. Most notable is the requirement to report tangible capital assets on the Statement of Financial Position (i.e. balance sheet) and amortize these capital costs over their useful life. Prior to 2009, these costs were expensed on a cash basis in the year they were acquired or constructed, rather than depreciated over time.

Reconciliation of Budget and 2020 Operating "Surplus"

To date, Ontario municipalities have not been legislated to amend their annual budget formats to reflect the accrual accounting method for tangible capital assets. As a result, the format of the annual budget does not match the audited financial statement presentation, making it somewhat difficult for Council and the public to reconcile these critical financial reports. Municipalities have expressed significant concern to the Province of Ontario that, although supportive of the reasons for recording asset values in the financial statements, the legislated budgeting methodologies are currently incompatible with the PSAB approach (for example, municipalities must have balanced budgets), resulting in significant public confusion. In particular, the reporting of budget variances (surpluses/deficits) will cause confusion because of the timing of financial transactions based on cash accounting (traditional approach) versus accrual accounting (PSAB approach). In other words, municipalities traditionally do not budget for amortization of the acquisition, utilization or disposal of assets based on the useful life but, instead, based on actual timing of the cash transactions associated with each of those activities. For comparison purposes, the budgets included in the Financial Statements include a budget for amortization based on the actuals.

Under PSAB reporting requirements, reserve and reserve funds form an integral part of the County's accumulated surplus and, as such, do not appear as a separate schedule within the financial statements. Correspondingly, any contributions to or from these reserves and reserve funds must be removed. Principal debt repayments are removed as these payments reflect a reduction in a long term liability. All the above noted adjustments represent "financing" requirements which are integral to any municipality's long range funding plan.

The following table outlines the adjustments required and the resulting amended "budget" to be reflected in the audited financial statements for 2020 to meet PSAB reporting requirements.

TABLE 1

Description	2020
Budget surplus for the year adopted by Council(*)	$ -
Add:	
Budgeted transfers to accumulated surplus	29,052,280
Principal payments on debt	7,552,250
Less:	
Budgeted transfers from accumulated surplus	(4,926,090)
Budgeted transfers from capital fund	(416,810)
Amortization	(24,891,421)
Budget surplus per Consolidated Statement of Operations	**$ 6,370,209**

(*) – includes both tax supported and rate supported operating and capital budgets.

As shown above, most of the PSAB related budget transfers to surplus related to capital transactions, including expenditures, reserve transactions and debt financing. The net effect of these adjustments results in a budgeted "surplus" due, primarily, to the construction of new capital assets. Since the majority of the County's financing of capital related transactions is from specific reserves and reserve funds, these amounts must be removed or added back, as applicable, for financial statement presentation purposes. This is due to the PSAB requirement to amortize capital assets on the statement of operations (i.e. income statement). For 2020, budgeted expenditures related to amortization has been added (equal to actual amortization) to eliminate large variances related to amortization for the year (which has been an issue in previous years when reviewing actual results compared to budgets).

As outlined during the review of the 2020 Tax Supported Operating Budget, certain annual expenditures are not required to be budgeted for, as follows: amortization expenses related to capital assets; post-employment benefit costs; and solid waste landfill closure and post-closure expenses. This factor, combined with the required presentation of capital assets in the financial statements (as noted in Table 1), makes it challenging to reconcile the reporting of operational results under the traditional format presented in the annual operating budget, as compared to the current PSAB format.

Table 3, presented later in this report, identifies an overall net operating surplus for the 2020 fiscal year of $5.5 million. This reflects the financial results for tax and rate supported operations – which excludes capital and reserve/reserve fund operations. In comparison, the PSAB compliant reported surplus on the 2020 audited financial statements is approximately $29.8 million. The following table reconciles the reasons for the differences in how the surplus/deficit has been reported:

TABLE 2

Description	***Impact on 2020 Surplus Increase/(Decrease)***
Revenue Fund - tax supported and water/wastewater operations (details analyzed in Table 3)	5,501,351
Add Net Capital and Reserve Fund Operations:	
Capital Fund (work in progress to be funded)	(4,538,549)
Reserve/Reserve Funds (net transfers prior to surplus/deficit entries)	5,889,554
Sub-total per Internal Financial Statements	6,852,356
Adjustments for PSAB Audited Financial Statements	
Principal debt repayments	7,552,251
Decrease (increase) in landfill post-closure liability	591,745
Capital Costs capitalized (i.e. not expensed) during the year	41,750,712
Capital Costs included in work-in-progress (i.e. not complete as of December 31st and not expensed)	(2,692,612)
Amortization of capital assets	(24,891,421)
Net costs associated with the disposal of capital assets	(730,791)
Change in post employment and sick leave liabilities	(71,200)
Change in workers' compensation liabilities	968,800
Change in deferred revenues/obligatory reserves	413,915
Surplus Reported on Audited Financial Statements	**29,743,755**

Net Capital and Reserve Fund Operation - The Net Capital Fund of -$4.5 million is the sum of all the capital fund transactions (revenues net of expenses) for 2020. The Reserves and Reserve Funds balance of $5.9 million is a sum of all the transfers to and from the reserve accounts.

PSAB adjustments – As identified in the table above, most of the PSAB related budget adjustments are related to capital transaction costs, net of the amortization of capital assets. The net effect of these adjustments results in a budgeted “surplus” for financial statement presentation. Additional PSAB adjustments relate to the accrual of post employment benefits and WSIB liability which are not reflected in annual budgets (these costs are budgeted based on actual cost to be incurred in the year or estimated liability based on current costs). It should be noted that for the 2019 year end, the County updated the actuarial reviews related to post employment benefits and WSIB liability. This provides us with estimates for 2019 through to 2022.

Some of the more significant 2020 operating variances included in the audited Financial Statements for PSAB purposes (under separate cover), totalling $29.8 million, are as follows:

- Operating Revenues: The total variance between actual revenues compared to budgeted revenues is approximately $21.8 million favourable variance. The main contributing factors to the reported variance is related to:
    - Investment Income: as detailed in the Investment Status Report to Council in May 2021, the County experienced lower than budgeted investment returns due to the economic impacts of the global pandemic. As per the Investment Policy, variances in investment earnings, greater than $100,000, are to be transferred to or from the Investment Income Stabilization Reserve, so a transfer of approximately $1,834,276 was made in 2020 from this reserve. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments as this gain will be required in future years to assist in stabilizing fluctuating returns due to the timing differences as well as any volatility in the markets.
    - Developer Contributed Assets: during 2020 several subdivisions were developed to the point that the County assumed significant infrastructure totaling approximately <u>$8.6 million</u>. The value of these contributed assets, although built and paid for by the development, is recorded as revenue upon assumption by the County. As the timing and value of these assumed assets can vary significantly, year over year, these revenues are not typically budgeted by municipalities and as such are reported as a variance.
    - Development Charges Recognized: Since development charges collected on an annual basis are used directly for specifically identified growth related capital projects, these revenues can only be recognized/reported as income in the years the related project is constructed. Due to the timing and magnitude of the projects, the development charge revenue recognized on an annual basis can fluctuate considerably. As these revenues are recorded in the County’s books as reserve funds, there is no annual budget established. In 2020, revenues of <u>$3.0 million</u> were recognized, related to 2020 growth related capital project expenditures, resulting in a favourable variance.
- Operating Expenditures: The total variance between actual expenditures compared to budget is approximately $1.6 million favourable. The major drivers in expenditures for 2020 include the variances noted in Table 4 plus the net PSAB adjustments for tangible capital assets (i.e. non-capitalized expenditures) and adjustments for annual amortization; primarily in Protection Services, Transportation Services and Environmental Services.

Staff acknowledge that the above reporting of the annual “surplus” is confusing. **It must be emphasized that the PSAB reported net 2020 surplus of $29.8 million is a book value adjustment, not a “cash” surplus**. Although the Province initiated a review in 2014 to evaluate the current disparities between internal reporting/budgeting and current PSAB annual reporting requirements, the overwhelming response from municipal representatives was to leave the current reporting requirements as is. It was also acknowledged that simpler methods of reconciling the differences and reporting to the public need to be developed to foster a better understanding of the municipality's financial position and key financial components. This will be an evolving process with best practices and feedback from users of the financial statements leading the way.

Analysis of 2020 Net Operating Surplus/(Deficit)

The table below provides a breakdown of the audited 2020 operating surplus (the "cash" surplus) by major function. In accordance with previous resolutions of Council, the net surplus/(deficit) from the operational areas denoted below are contributed to or transferred from various Reserves/Reserve Funds.

TABLE 3

2020 Audited Operating Surplus/(Deficit)		
(a)	**Investment Income (in excess of $100,000)**	**($1,834,276)**
(b)	**Unspent Safe Restart (Covid) Funding - carried forward to 2021**	**$1,165,337**
	Tax Supported Operations	$3,772,880
	Public Health	$191,456
	Social Assistance/Child Care	$372,174
	Social Housing	$137,873
	Library	$386,035
(c)	**Sub-Total – Tax Supported Operations (detailed in Table 4)**	**$4,860,418**
(d)	Water Operations (detailed in Table 5)	$874,638
(e)	Wastewater Operations (detailed in Table 6)	$435,234
	Sub-Total – Rate Supported Operations	**$1,309,872**
	Total Operating Surplus/(Deficit)	**$5,501,351**

The total 2020 operating expenditures (combined tax supported and rate supported) were budgeted at approximately $139.2 million. The above noted net operating surplus, excluding the annual net Investment losses is $6,170,290 represents a 4.4% positive variance in relation to Council's approved budgeted expenditures. As these operations/funds have significantly different revenue sources and expenditure drivers, details of the significant variances in the individual areas/functions are provided below.

(a) Investment Income (in excess of $100,000)

As noted above and detailed in the May 11, 2021 annual Investment Report FIN-07-2020, as per the Investment Policy, variances in investment earnings or losses, greater than $100,000, are to be transferred to or from the Investment Income Stabilization Reserve, so a transfer from the reserve of approximately $1.8 million was made in 2020. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments as this gain will be required in future years to assist in stabilizing fluctuating returns due to the timing differences. The stabilization reserve is also used to offset any volatility in the investment markets. The audited balance in reserve at the end of 2020 was approximately $2.7 million.

(b) Safe Restart (Covid) Funding

In 2020, the County received approximately $2.5 million in funding related to expenditures or lost revenues as the result of the Covid-19 Pandemic. Approximately $1.4 million of this funding was utilized in 2020, resulting in a balance at the end of 2020 of approximately $1.2 million.

(c) Net Tax Supported Operations

Overall, the Tax Supported Operations reflect a 2020 surplus of approximately $4.9 million. This net surplus represents a 4.1**%** favourable variance on approximately $117.3 million of budgeted 2020 tax supported operating expenditures. The annual tax supported operational surplus has traditionally been approximately 1.4% and has been positive over the past five years.

Based on previous Council approval, any annual surplus/(deficit) is transferred to or from the applicable reserves, annual variances will impact the associated balances of these reserves but have no direct impact on the following year's tax levy. With respect to the general tax supported operations, a net surplus of $3,772,881 was transferred to the Contingency Reserve, which has a balance of approximately $15.6 Million at the end of 2020 (including of the above noted deficit). Although there are no set guidelines for an optimal balance, a typical rule of thumb is 10% of tax supported operating costs. This would require, at a minimum, a balance of $11.7 million. This reserve will be available for future years as a source of financing for unexpected events/liabilities. Any excess funds can be reallocated by a future Council for another one-time municipal purpose if so warranted.

The surplus is the net result of several favourable and unfavourable financial impacts on operations during the year. Significant items contributing to the overall surplus from Tax Supported Operations are detailed below.

TABLE 4

2020 Operating Variance Analysis for Tax Supported Operations	
Revenues	**Surplus/(Deficit)**
Investment Income	(100,000)
Account Receivable Interest	62,572
Finance fees	(71,000)
Taxation - lost revenue as tax sale not completed in 2020	(55,000)
Solid Waste Surplus - Mainly due to increased tipping fee revenues	157,349
Roads - Aggregate Resources Grant - higher than budgeted	97,932
Taxation - One-time Transitional Mitigation Grant	183,327
Taxation - Penalty & Interest	307,672
GVL - Various impacts including higher global increase than budgeted ($100K), and various Covid related funding	544,861
Sub-total Revenues	**$ 1,127,713**
Expenditures	
Salaries/Wages & Benefits - including early retirement benefits	1,475,213
POA - Transfers to province and legal fees	110,259
Admin Faculties - Contracted Services and utilities savings due to move to HCAB in March 2020	62,104
Arenas/Pools - contracted services and utilities - savings due to Covid Closures	171,050

Roads - various contracted services and materials (major drivers: bridges & culverts $88K; shoulder maintenance $46K; Line Painting $31K; Roadside Maintenance $127K; Storm Sewer 46K; Street Lighting $59K)	538,891
Winter Control - Contracted Services & Materials (Sand & Salt)	(278,609)
Policing Contract	37,009
Child Crossing Contract - Covid savings due to school closures	84,508
Parks/Forestry Contracted Services	49,930
Community Guide, Advertising, Staff Relations (CAO's office)	86,073
Taxation - Rebates & Write-offs	99,938
ActiveNet Processing Fees - Covid related savings due to reduction in recreational programs	22,598
Fire Contracted Services - Various Accounts (i.e. snow removal)	28,614
Miscellaneous Items	157,589
Sub-total Expenditures	**$ 2,645,167**
Sub-total Net Tax Supported Operations Surplus	**$ 3,772,880**
Public Health	191,456
Social Assistance/Child Care	372,174
Social Housing	137,873
Library Operations	386,035
Total Net Tax Supported Operations Surplus	**$ 4,860,418**

Note: Above table excludes items that net to $0 levy impact (e.g. additional revenues offset by transfers to reserves or additional costs).

(d) Water and Wastewater Operations

The combined 2020 Water and Wastewater Operations net surplus is approximately $1.31 million on total budgeted operating expenditures of $21.9 million. This represents a positive variance of 6.0%. However, as the water systems are self-funded specifically from the direct users of that system, as are the wastewater systems (which in some cases are not the same users), the variance must be further segregated between water and wastewater operations.

The 2020 water operations reflected a $874,638 surplus on budgeted expenditures of approximately $12.5 million (7.0%), and wastewater operations had a surplus of $435,234 on budgeted expenditures of approximately $9.3 million (4.7%). A further breakdown of the significant variances is provided as follows (Table 5 for Water and Table 6 for Wastewater.)

TABLE 5

2020 Operating Variance Analysis for Rate Supported Operations - WATER	
Revenues	**Surplus/(Deficit)**
Bulk Water Revenues	364,311
New Credit Consumption - Wholesale and Depot	71,789
User Rates Revenues - deficits in commercial consumption offset by increase in residential consumption	22,879
Sub-total Revenues	**$ 458,979**

Expenditures	
Salaries & Benefits - gapping	90,803
Billing & Collecting Contract - budget based on 10,000 customers which was not reached until late in 2020	30,145
Maintenance & Repair Supplies	(59,057)
Hamilton Water Contract - meter reading issues not identified/rectified until 2021	207,273
Operations Contract	34,181
Miscellaneous Items	112,314
Sub-total Expenditures	**$ 415,659**
Net Water Surplus	**$ 874,638**

Water operational revenues are significantly impacted by consumption patterns. Extreme wet or dry conditions can dramatically impact consumption, particularly for residential users. Although there has been a downward trend in average residential consumption in recent years, as a result of water conservation measures, an increase in the number of users has offset this reduction and the County is starting to experience increases in annual consumption. Staff will continue to monitor this trend and incorporate it into future budget analysis as required. Net water operating surpluses are transferred to the Water Rate Stabilization Reserve, which has a balance of approximately $2.9 million at December 31, 2020.

TABLE 6

2020 Operating Variance Analysis for Rate Supported Operations - WASTEWATER	
Revenues	**Surplus/(Deficit)**
Holding/Septic tank revenues - mainly due to temporary agreement with Brooks Road Environmental	234,662
Sub-total Revenues	**$ 234,662**
Expenditures	
Salaries & Benefits - gapping	100,847
Billing & Collecting Contract - budget based on 10,000 customers which was not reached until late in 2020	30,145
Wastewater Hydro	(181,030)
Taxes and Local Improvements - mainly Townsend Lagoon	44,783
Operations Contract	84,596
Maintenance & Repair Services	27,050
Miscellaneous items Under $25K	94,181
Sub-total Expenditures	**$ 200,572**
Net Wastewater Surplus	**$ 435,234**

The majority of water users also have wastewater services, a number of these customers (approximately 200 users including several large industrial users) only have water services. As a result, annual fluctuations in water consumption may not have the same corresponding impact on wastewater revenues. As we can see above, residential water revenues experienced an increase, however, the wastewater residential revenues did not see an increased residential consumption charges. The net wastewater surplus is transferred to the Wastewater Rate Stabilization Reserve, which has a balance of approximately $1.7 million as at December 31, 2020.

As detailed above, the operating surplus/(deficits) in water and wastewater operations are transferred to or funded from the applicable rate stabilization reserve. A multi-year plan has been established to ensure these reserves have sufficient funds to cover annual fluctuations in operations. The impact of the current year's surplus or deficit will be re-evaluated with future operating budget reviews.

Summary of Operational Variances:

To summarize the above analysis, although there are significant variations in certain revenue sources or expenditures in many operational areas, staff worked diligently during the 2020 calendar year to offset most of the negative fluctuations through changes to approved expenditure plans. The end result is limited net surpluses and deficits in most controllable operational areas. Some of these fluctuations can be expected as a historical recurrence (for example, salary gapping) or unpredictable (for example, winter control), so variances should be anticipated as a normal result of such diverse operations. Finding significant expenditure savings to mitigate repeated revenue shortfalls or expenditure overruns is not a realistic solution on an ongoing basis without a negative impact on service delivery. Steps have and will continue to be taken to deal with the revenue shortfalls and re-occurring expenditure overruns that the County is experiencing in certain areas of its operations. On the other hand, areas of continued surplus also need to be re-examined to ensure the annual operating budget is not too conservative from a tax levy and user rates perspective. This will be an ongoing focus of future budget reviews, both from a preparation and monitoring perspective, in order to ensure the sustainability of the County's operations and service delivery.

FINANCIAL/LEGAL IMPLICATIONS:

The transfer of the audited 2020 operating surpluses (or funding of deficits) to or from various reserves or reserve funds provides a means of ensuring the prior year's variance is not carried forward to the future year's budget. The reserves and reserve funds also provide a source of financing for unexpected or future expenditures and are particularly appropriate to fund one-time costs. During the preparation of the annual operating budgets, the balances in the respective reserves and reserve funds are evaluated and plans are recommended to replenish these funds where necessary.

STAKEHOLDER IMPACTS:

Division Managers review their budgets regularly during the year and attempt to mitigate variances within their relevant operations to the best of their ability.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Building Division Statement of Activities 2010-2020
2. Parkland Dedication Reserve Fund Statement of Activities 2020
3. Auditors Report from Millard, Rouse & Rosebrugh, dated May 10, 2022, accompanied by a copy of Haldimand County's 2020 Audited Financial Statements