June 22, 2020

Corporation of the City of Cornwall
360 Pitt Street
Cornwall, Ontario
K6H 5T9

Attention: The Audit Committee

Dear Members of the Audit Committee:

We have completed the audit of the financial statements for the Corporation of the City of Cornwall ("City") for the year ended December 31, 2019. In conjunction therewith, we would like to set out certain findings and recommendations which we feel might be useful as a means of strengthening your system of internal financial control. Please be advised that these points are not intended as criticisms of any of your staff or accounting policies but are set out here for information purposes. We have included Administration's responses regarding our findings and recommendations from the previous years in this letter.

Operating reserves

The operating reserves were $3,722,284 as at December 31, 2019 (December 31, 2018 - $8,577,339). The decrease was due to the utilization of the reserves to finance the tax refunds from the Minutes of Settlement decisions in 2019 of approximately $7 million. We commend Administration for adequately preparing for this outcome by increasing the amount of reserves to the December 31, 2018 level. We recommend that Administration continue to increase the amount of operating reserves to meet the City's reserve and reserve fund policy's minimum requirement of ten percent of the prior years' tax levy, which is approximately $7.2 million.

Administration's Response:

In 2019, the City funded the amount for tax refunds over budget from the Working Reserve ($1,899,263) and from the Tax Stabilization Reserve ($3,294,085). At the 2019 Year End, the City contributed $300,000 of the surplus to the Tax Stabilization Reserve. Through the annual budget, the City will pay back the Working Reserve at $500,000 per year starting in 2020. The City will continue to budget contributions to both Reserves until each Reserve reaches it target balance.

Reserve for Future Landfill Closure and Post Closure Costs

The estimated future landfill closure and post closure costs of its landfill site is approximately $38 million when it is expected to close in 2032. The current liability based on its capacity utilized to date is approximately $16.7 million. The Landfill Reserve Fund is at zero as at December 31, 2019.

Council should establish a financial plan to minimize any large increases on future taxation when the costs are incurred to close the landfill site in approximately 12 years. We recommend that an optimum level of reserves and reserve funds be determined and the timeline and plan to reach this optimum level be implemented. This was also recommended by the City's waste management consultant in their report addressed to Administration and Council dated December 16, 2019.

Administration's Response: *Administration concurs with the recommendations from the DFA Infrastructure International report and with the Auditor's review of such.*

RECOMMENDATIONS FROM PRIOR YEARS

Progress Fund

The Progress Fund investments are recorded at cost of $25,908,467 but the fair market value was $24,229,111 as of December 31, 2018, resulting in an unrealized loss of $1,679,356 due to current market conditions. One particular investment of the portfolio, the bond fund, holds over twenty million dollars of the Progress Fund and accounts for the majority of the unrealized loss of approximately $1,500,000. However, the unrealized loss as of March 31, 2019 was approximately $1,340,000. We recommend that Administration continue to review their investments to ensure that the desired financial results will be achieved as part of the City's overall financial plan.

The City's Reserve and Reserve Fund policy of 2014 indicates that only 80% of the Progress Fund's investment income can be committed for use if the fair market value of the fund falls below twenty-five million dollars. In 2018, even though the fair market value of the Progress Fund investments was less than twenty-five million dollars, 100% of the income earned from these investments was utilized to finance the Benson Centre debt. This contradicts the Policy. We recommend that only 80% of any year's investment income be utilized as budgeted and the remaining 20% remains with the Progress Fund until the fair value exceeds twenty-five million dollars.

In 2018, the City budgeted $545,000 of income to be earned in the Progress Fund based on previous years' actual results. The City also budgeted $719,407 to be transferred from the Progress Fund to be utilized for debt payments of $719,407 in 2018. The budgeted transfer should reflect the expected transfer amount of occurring, which is the budgeted investment income for the year.

Administration's Response: *The City will budget at 80% of the expected interest starting in 2020. For 2019, Administration could bring a report to Council requesting that $200,000 be transferred from Working Reserves to the Progress Fund Reserve. As of March 31, 2019, the market value of the Bond Fund increased by $206,560 when compared to the book value at the 2018 Year End.*

Action Taken: Administration commenced addressing this issue in 2019 with an additional transfer to the progress reserve fund of $120,368.

Tax ratios

The tax ratio By-law 2018-068 for multi-residential properties was presented with a tax ratio of 2.325 while the actual rate used for calculating and taxation of these properties was 2.221.

This was due to the calculation of the multi-residential tax rate being a two-step process. First, it involves applying the tax ratio provided by the Ontario Property Tax Analysis ("OPTA") of 2.325. Second, the ratio must be reduced based on Ontario Regulation 73/03, resulting in the tax ratio of 2.221 being used. We recommended that the tax rating by-laws states both ratios to reflect the provided ratio of 2.325 and the calculated ratio of 2.221.

Administration's Response: *The ratio of 2.325 was as a result of the ratio restriction provisions in sections 9.1. through 9.3 of O. Reg. 395/98. As the ratio of 2.325 exceeds the provincial threshold ratio of 2.000 for multi-res, the tax rate determination in Section 8 of 73/03 also applies to restrict the levy increase to 0 dollars for the multi-res class. Due to the restriction on the multi-res tax class, the taxes levied for this class were at a ratio of 2.221. Administration will request that By-Law 2018-068 to set Tax Ratios is repealed and a paragraph added to include the above.*

Action Taken: Administration requested By-Law 2018-068 to be amended which was approved by Council in 2019. There were no issues regarding the tax ratio calculation and application for 2019.

Revenue from Antenna leases

Revenue from certain antenna leases are being transferred to the parkland reserve fund based on an existing by-law. We recommend that the by-law be revised since the parkland reserve fund has specific guidelines to follow based on provincial legislation.

Administration's Response: *Administration will request that By-law 2014-062 Lease Agreement with Rogers Communications, Clause 2 be repealed and that for 2019 and subsequent years, Recreation Services includes this revenue within its operating budget (approximately $11,000 per year).*

Action Taken: Administration requested By-Law 2014-62 to be repealed which was approved by Council in 2019.

We thank you for the opportunity to be able to provide services to you. Should you have any questions please call us at your convenience.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

cc: Ms. Maureen Adams, Chief Administrative Officer
Ms. Tracey Bailey, General Manager, Finance Services and Treasurer
Mr. Paul Scrimshaw, Accounting Manager and Deputy Treasurer