



Committee of the Whole Report

For the Meeting of May 3, 2018

To: Committee of the Whole
From: Susanne Thompson, Director of Finance
Subject: 2017 Financial Statements

Date: April 20, 2018

RECOMMENDATION

That Council approve the 2017 Financial Statements.

EXECUTIVE SUMMARY

Under section 167 of the Community Charter, a municipality's financial statements must be prepared by its Financial Officer and presented to Council for its acceptance. The 2017 financial statements are the responsibility of management and have been prepared in accordance with "generally accepted accounting principles" for local governments established by the Public Sector Accounting Board.

Under section 171 of the Community Charter, the City's Municipal Auditor (BDO) must report to Council on the annual financial statements. The report must be in accordance with the form and the reporting standards recommended by CPA Canada.

As outlined in their audit plan, the focus areas for this year's audit included risk of management overrides; revenue recognition; capital assets; employee future benefits; salaries and benefits; and cash and investments. All testing was executed as planned and no errors were noted.

BDO has also reviewed a number of financial policies and procedures primarily related to the focus areas listed above and have provided their observations for improvements in the management letter. The suggestions include monitoring new software after its recent implementation to identify and address concerns quickly, further development of the City's environmental sustainability strategies regarding public transparency and reporting of metrics, and review of the City's lease agreements to consider if alternate reporting standards apply. As pointed out by the auditors, the City already has processes in place and undertakes many of the suggested components, however improvements are underway to incorporate recommended actions going forward. Staff appreciate the suggestions provided by the external auditors and embrace opportunities to refine our operations in the spirit of continuous improvement.

Once accepted by Council, BDO will issue an Auditor's Report expressing that in their opinion the financial statements present fairly, in all material aspects, the financial position of the City as at December 31, 2017.

PURPOSE

To provide Council with an overview of the City's 2017 audited Financial Statements and request Council's acceptance of the Financial Statements as required by Section 167 of the Community Charter.

BACKGROUND

Section 167 of the Community Charter requires that annual audited financial statements be prepared and presented to Council for acceptance. The City's audited consolidated financial statements for 2017 have been prepared by management in accordance with the generally accepted accounting principles for local governments, as prescribed by the Public Sector Accounting Board (PSAB) of CPA Canada.

Under PSAB reporting requirements, the following statements are presented for Council's review: (page references to Appendix A)

1. **Statement of Financial Position** (pg.3) – provides a summary of the City's economic resources (assets net of liability balances) available to meet its obligations and provide services. By continuing to grow its net financial asset position, the City strengthens its capacity to meet financial obligations.
2. **Statement of Operations and Accumulated Surplus** (pg.4) – identifies the current year contribution to the Accumulated Surplus balance from revenue and expenses
3. **Statement of Changes in Net Financial Assets** (pg.5) – supplementary detail of the changes in assets and liabilities that explain the change to the Net Financial Assets balance on the Statement of Financial Position
4. **Statement of Cash Flows** (pg.6)– supplementary detail to support the change to Cash and Cash Equivalents balance on the Statement of Financial Position
5. **Notes to the Financial Statements** (pgs.7-31) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

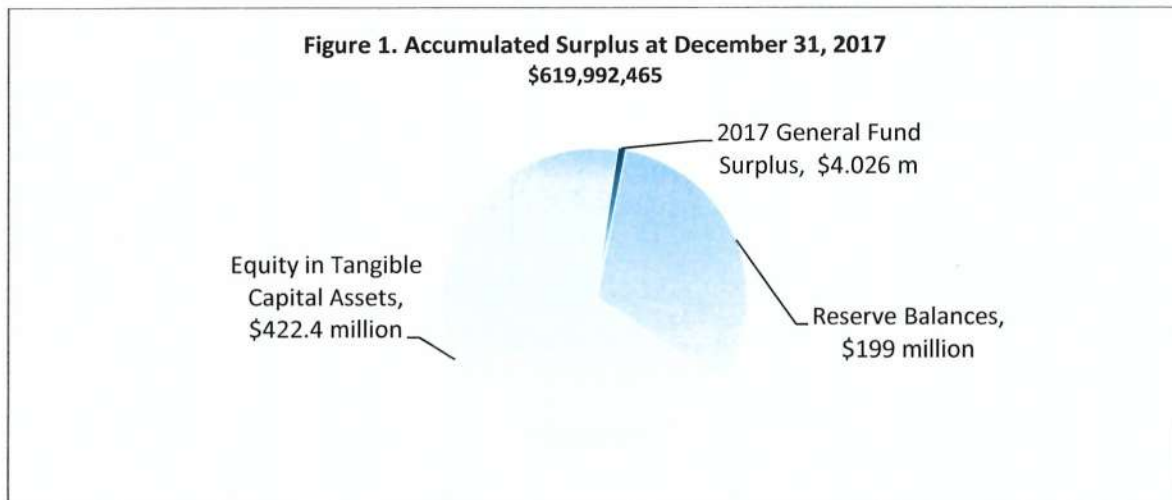
ISSUES & ANALYSIS

Accumulated Surplus

The Accumulated Surplus balance at December 31, 2017, as reported on the Statement of Financial Position, is \$619.9 million. This is the accumulation of the City's increases in equity in capital assets and reserve balances since its inception. The balance represents the total economic resources available to the City and indicates how much the City's assets exceed its liabilities.

Of the economic resources available, equity in capital assets makes up the most significant portion of the accumulated surplus balance, followed by reserve balances (Figure 1). The current year General Fund Surplus of \$4.026 million makes up a small portion of the Accumulated Surplus balance.

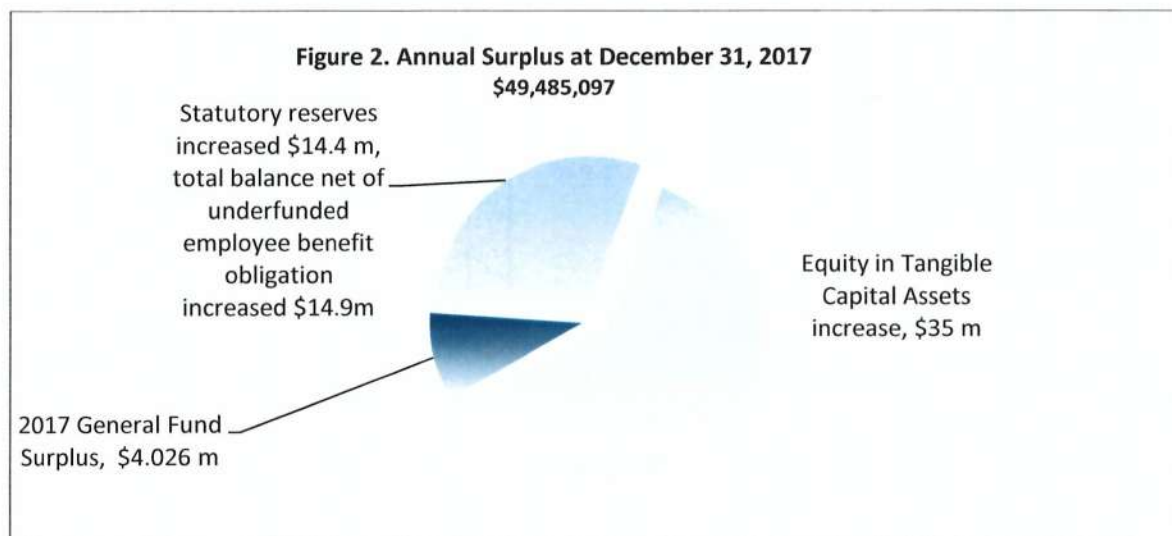
This means that the majority of the \$619.9 million accumulated surplus consists of the City's tangible capital assets, such as roads, underground infrastructure, land, buildings, and equipment, along with funds set aside in reserves for future spending.



Annual Surplus

The annual surplus represents the economic resources gained by the City during the year and is reported on the Statement of Operations. The City's annual surplus for 2017 is \$49.5 million. Most of this surplus is comprised of increased equity in capital assets and growth in reserve balances (Figure 2). Of the total annual surplus balance, \$4.026 million is the General Fund surplus which is available for future spending.

The primary contributions to the 2017 General Fund surplus of \$4.026 million are revenue from parking and expenditures less than budgeted including reduced costs due to staff vacancies, lower than expected assessment appeals and unspent contingency. Council makes a decision annually on the use of the current year General Fund surplus which is incorporated into the following year's budget.



Reserves

All of the City reserve funds were established by bylaw under section 188 of the Community Charter. Funding from these reserves can only be used for the specific purposes outlined in the bylaw.

In 2017 the City's reserves grew by \$14.4 million (Table 1). The reserve balance total includes funding for capital projects in progress. Funding is only drawn down from reserves as capital projects are completed; fewer projects than planned were completed by December 31; and some projects experienced schedule adjustments to begin at a later date.

Specific to 2017, Capital projects that are underway include:

- Burnside Gorge New Park
- Topaz Park – Park Improvement Plan
- Bicycle Master Plan Implementation
- David Foster Harbour Pathway
- Belleville Street
- Johnson Street Bridge
- Ship Point Pier
- Douglas Street Bus Lanes Phase 2B
- Parkade Repairs and Rehabilitation
- Crystal Pool Replacement
- Vehicle and Heavy Equipment Replacement
- Sewer inflow and infiltration projects
- Water, sewer, and storm water mains replacement projects

Table 1. Reserve Balances

Reserve Fund Description	Dec 31, 2016	Transfer To	Transfer From	Interest	Dec 31, 2017
Financial Stability Reserves	\$ 48,259,590	\$ 5,762,616		\$ 772,178	\$ 54,794,384
Equipment & Infrastructure Replacement Fund	123,129,773	37,671,111	(31,341,029)	1,970,052	131,429,907
Tax Sale Lands Fund	5,865,775	50,000	(220,038)	93,852	5,789,588
Parks and Greenways Acquisition Fund	2,346,203	340,553	-	37,539	2,724,295
Local Amenities	637,198	242,713	(135,667)	10,195	754,439
Affordable Housing	2,882,724	257,508	(1,234,803)	44,902	1,950,332
Climate Action	765,867	120,461	(47,891)	12,254	850,691
Art in public places	579,639	135,000	(127,578)	9,274	596,335
Downtown Core Area Public Realm Improvements	151,034	-	-	2,417	153,451
Heritage Building Seismic Upgrades	87,709	-	-	1,403	89,112
Total Reserve Funds Balance	\$ 184,705,512	\$44,579,962	\$ (33,107,006)	\$2,954,066	\$ 199,132,534

DCCs

Development Cost Charges (DCCs) are contributions from developers collected under bylaw to provide funds to assist the City to pay the capital costs of providing, constructing, altering or expanding transportation, water, drainage, and sewage facilities, and of providing and improving parkland related to population growth.

DCC balances (Table 2) increased in 2017 by \$216,357 in interest revenue allocated and \$2.47 million in charges, compared to \$2.12 million in charges collected in 2016. A total of \$251,814 was used to fund the capital budget in 2017, compared to no capital activity funded from the DCC balances in 2016.

A review of DCCs was completed in early 2017, and the City's current DCC bylaw and rates were updated in the spring of 2017. Parks DCC projects and Sewer DCC projects were only partially updated due to the pending completion of the Parks and Open Spaces Master Plan and the update of the Sewer Master Plan. At that time, Council also approved a DCC Policy, which contemplates annual inflationary updates to fees as well as a full review of the Bylaw and fees every five years.

In early 2018 Council directed staff to initiate the process for amending the DCC bylaw to update DCC rates for parks and sewage to reflect newly available engineering and planning information, and to combine the Parkland Acquisition Fund and Parkland Development Fund and replace the previous existing rates with a new rate for the combined Parkland Acquisition and Development Fund.

Table 2. DCC Balances

DEVELOPMENT COST CHARGES	Dec 31, 2016	Transfer To	Transfer From	Interest	Dec 31, 2017
Water and Environment	\$ 930,730	\$ -	\$ 196,815	\$ 14,892	\$ 748,807
Streets	20,390	-	20,716	326	-
Transportation	5,257,232	1,307,473	34,283	84,116	6,614,538
Water	546,774	120,939	-	8,748	676,461
Drainage	316,614	71,456	-	5,066	393,136
Sewage	2,150,145	535,625	-	34,402	2,720,172
Parkland Acquisition	3,138,906	207,597	-	50,022	3,396,525
Parkland Development	1,174,071	231,267	-	18,785	1,424,122
TOTAL DEVELOPMENT COST CHARGES	\$ 13,534,862	\$ 2,474,356	\$ 251,814	\$ 216,357	\$15,973,761

Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$51.7 million with the most significant increases resulting from:

- \$17 million of bridge infrastructure
- \$12.55 million of water/sewer/storm drain infrastructure
- \$ 3.8 million of bicycle master plan implementation
- \$ 3.38 million for vehicle and heavy equipment replacement
- \$ 2.1 million of street rehabilitation
- \$ 1.3 million James Bay Library Branch

Table 3. Capital Assets

CAPITAL ASSETS (Historical Costs)	2017	2016
Land	\$ 138,382,972	\$ 137,530,840
Buildings	112,096,953	109,126,378
Furniture, Equip, Tech & Vehicles	75,414,390	69,907,147
Roads, Bridges and Highways	109,137,764	100,656,555
Water Infrastructure	68,644,720	64,055,844
Sewer Infrastructure	24,210,056	22,775,608
Drainage Infrastructure	23,725,459	21,111,427
Assets under Construction	115,308,436	89,970,372
Total Capital Assets	666,920,750	615,134,171
Accumulated Amortization	(171,136,014)	(160,371,742)
TOTAL CAPITAL ASSETS (Net Book Value)	495,784,736	454,762,429

Debt

The City's outstanding debt (Table 4) increased in the year by \$6.13 million. New debt of \$9.6 million was issued in 2017 for the Johnson Street Bridge.

Table 4. Debt

DEBT ISSUES (in millions)	EXPIRY DATE	2017	2016
Issue 79, 80, 81 – Multipurpose Facility (Arena)	2033 / 2034	21.22	22.08
Issue 102 – City Hall Upgrades & Burnside Gorge Community Centre	2022	1.80	2.12
Issue 105 – Crystal Gardens	2024	1.82	2.05
Issue 103, 105, 110 – Parkades Upgrades	2023 / 2023 / 2025	4.86	5.45
Issue 115, 130, 139, 142 – Johnson Street Bridge	2031 / 2034 / 2036/ 2037	43.55	35.42
TOTAL DEBT		\$73.25 m	\$67.12 m

Portfolio Investments

The City's investment portfolio (Table 5) returned \$3.43 million in 2017, an increase of \$719,600 as compared to 2016. The actual investment portfolio rate of return was 1.60%:

- 63% greater than the return of the MFA money market fund
- 14% greater than the City's average bank account interest rate

The investment portfolio is governed by the City's Investment Policy which is designed to invest public funds in a prudent manner, to yield the highest returns within the limits prescribed by Community Charter s.183, Investment of Municipal Funds.

The majority of investment revenue is allocated to reserves, as per the City's Reserve Fund Policy.

Table 5. Investments

INVESTMENT PORTFOLIO	2017	2016
Investment Returns	3,433,384	2,713,627
Actual Rate of Return	1.60%	1.40%
MFA Money Market Return	0.98%	0.79%
Average Bank Interest Rate	1.20%	1.05%

Revenues and expenses

The Financial Statements are presented in accordance with PSAB reporting standards to ensure comparability between government organizations across Canada. The budget information in the Statement of Operations was developed for the purpose of the Financial Plan, which is customized to the operations of individual government organizations. The format of the financial statements does not provide an effective comparison of budget to actual performance as the budget process does not take into account adjustments made for PSAB reporting standards.

In order to provide a meaningful comparison of budget to actual performance, additional schedules are attached to this report providing 2017 comparison of budget to actual for operating revenues and expenses (Appendix C), and capital expenditures (Appendix D). These comparisons are provided in the format used to approve budget decisions for the year.

CONCLUSION

BDO conducted the City's 2017 audit and have stated in the Auditor's Report their opinion is that these consolidated financial statements present fairly the City's financial position as of December 31, 2017, and its results of operations and changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Respectfully submitted,




Laurel Westinghouse
Manager, Accounting



Susanne Thompson
Director of Finance

Report accepted and recommended by the City Manager:



Date: April 24, 2018

List of Appendices

Appendix A – Draft Audited Financial Statements for the year ended December 31, 2017
Appendix B – Audit Findings Report
Appendix C – Budget to Actual Operating Revenues and Expenses
Appendix D – Budget to Actual Capital Expenditures