



## Governance and Priorities Committee Report

For the Meeting of April 23, 2015

**To:** Governance and Priorities Committee  
**From:** Susanne Thompson, Director, Finance  
**Subject:** 2014 Financial Statements

**Date:** April 9, 2015

### 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 2014 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 (KPMG) must report to Council on the annual financial statements. The report must be in accordance with the form and the reporting standards recommended by the Canadian Institute of Chartered Accountants.

Today KPMG will present their audit findings report. Once accepted by Council, KPMG 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, 2014.

### Recommendation:

That Council accept the 2014 Financial Statements.

Respectfully submitted,

A handwritten signature in blue ink, reading "Laurel Westinghouse".

Laurel Westinghouse  
Manager, Accounting

A handwritten signature in blue ink, reading "Susanne Thompson".

Susanne Thompson  
Director, Finance

Report accepted and recommended by the City Manager:

Date:

A handwritten signature in blue ink, likely of the City Manager.  
April 13, 2015

## Purpose

To provide Council with an overview of the City's 2014 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 2014 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 the Canadian Institute of Chartered Accountants.

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

1. **Statement of Financial Position** (pg. 3) – provides a summary of the City's economic resources 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 – 33) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

## Issues & Analysis

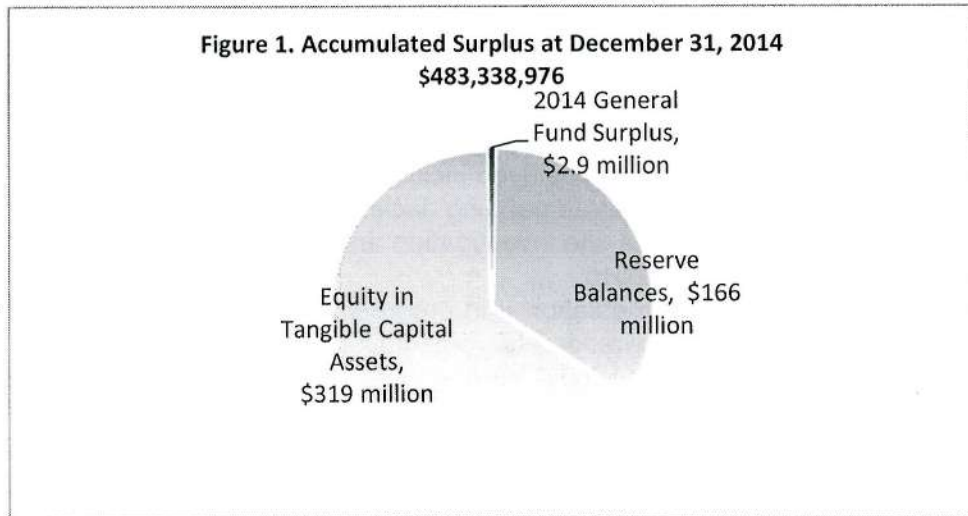
### Accumulated Surplus

The Accumulated Surplus balance at December 31, 2014, as reported on the Statement of Financial Position, is \$483 million. This is the accumulation of the City's increases in equity in capital assets and reserve balances since its inception. The balance is an indication of how much the City's assets exceed its liabilities and represents the total 'economic resources' available to the City.

Of these '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 \$2.89 million makes up a small portion of the Accumulated Surplus balance.

This means that the majority of the \$483 million 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.

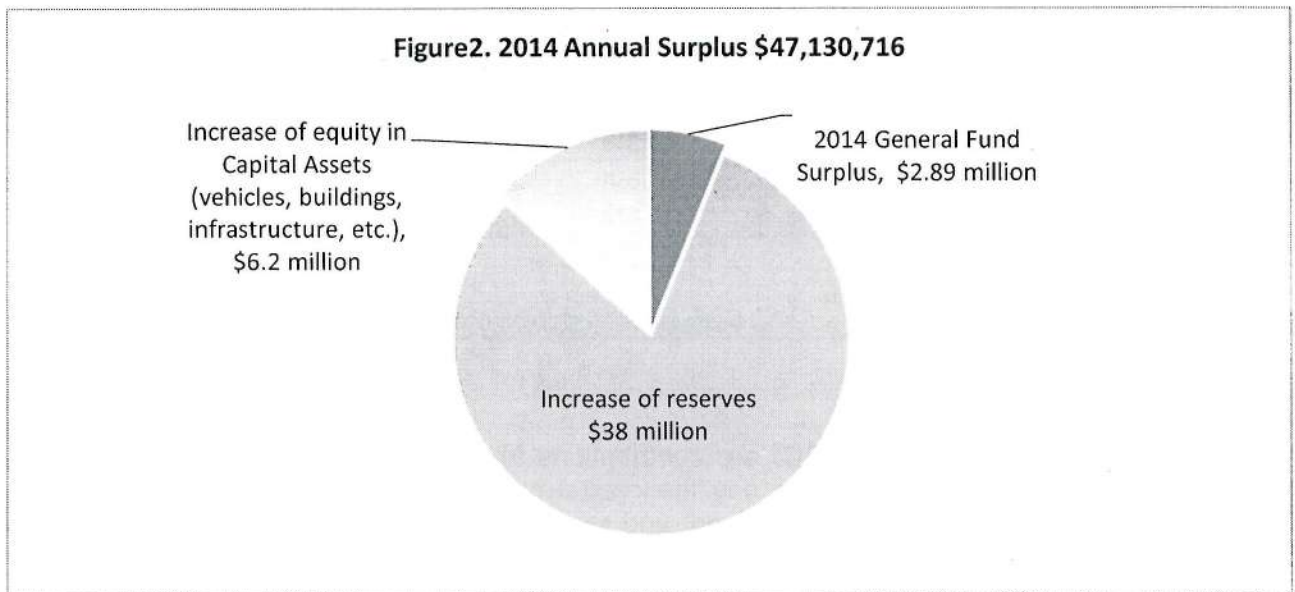




### Annual Surplus

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 2014 is \$47.1 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, \$2.89 is the General Fund surplus which is available for future spending.

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 2014 the City's reserves grew by \$38 million (Table 1), which includes debt proceeds of \$16.3 million.

Transfers from reserves, to fund capital projects and programs, were \$10.7 million less than budget due to the following circumstances: 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 2014, Capital projects that were delayed include:

- Sewer Main Upgrade projects – deferred pending decision on waste water treatment facilities
- Douglas Street Retaining Wall – the site investigation and design was completed in 2014 and the construction will take place in 2015
- Storm water outfall-Rock Bay Remediation – in progress, started in 2014, dependent on BC Hydro and Transport Canada's environmental remediation project in Rock Bay
- Stormwater treatment unit at Public Works Yard – project planning began in 2014, design and construction scheduled for 2015

Table 1. Reserve Balances

RESERVE BALANCES	Dec 31, 2013	Transfer To	Transfer From	Interest	Dec 31, 2014
Financial Stability Reserves	\$ 2,598,515	\$ 1,366,723	\$ (910,435)	\$ 32,481	\$ 3,087,284
Equipment & Infrastructure Replacement Fund	53,479,694	36,368,602	(11,602,639)	658,314	78,903,971
Gas Tax	6,436,998	3,316,307	(1,394,001)	80,462	8,439,766
Economic development	734,445	-	-	9,181	743,626
Debt Reduction	21,255,012	3,799,281	-	265,688	25,319,981
Self Insurance	3,733,373	-	-	46,667	3,780,040
Working Capital Fund	3,837,082	-	-	47,964	3,885,046
Tax Sale Lands Fund	9,663,642	50,000	(2,632,629)	120,796	7,201,809
Parks and Greenways Acquisition Fund	2,269,464	-	-	28,368	2,297,832
Local Amenities	102,044	-	-	1,276	103,320
Affordable Housing	1,896,984	250,000	(30,000)	23,713	2,140,697
Climate Action	380,950	126,805	(6,750)	4,762	505,767
Water Utility	4,900,973	4,014,166	(488,129)	61,262	8,488,272
Sewer Utility	16,403,687	4,122,531	(117,000)	205,046	20,614,264
Tree conservation	339,873	74,680	-	4,248	418,801
Art in public places	301,564	135,000	(3,375)	3,770	436,959
Downtown Core Area Public Realm Improvements	57,373	-	-	717	58,090
Heritage Building Seismic Upgrades	19,124	-	-	239	19,363
<b>TOTAL RESERVES</b>	<b>\$ 128,410,798</b>	<b>\$53,624,096</b>	<b>\$ (17,184,958)</b>	<b>\$ 1,594,954</b>	<b>\$ 166,444,890</b>

## DCCs

Development Cost Charges (DCC) 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.

DCC balances (Table 2) increased in 2014 by \$95,191 in interest revenue allocated and \$747,109 in charges, compared to \$858,176 in charges collected in 2013. A total of \$52,020 was transferred to capital in 2014, compared to no capital activity funded from the DCC balances in 2013.



Table 2. DCC Balances

DEVELOPMENT COST CHARGES	Dec 31, 2013	Transfer To	Transfer From	Interest	Dec 31, 2014
Water and Environment	\$ 901,548	\$ -	\$ -	\$ 11,269	\$ 912,817
Streets	19,752	-	-	247	19,999
Transportation	2,959,628	252,752	(52,020)	36,995	3,301,395
Water	289,082	31,097	-	3,614	323,792
Drainage	174,802	17,189	-	2,185	194,176
Sewage	1,027,484	138,598	-	12,844	1,178,926
Parkland Acquisition	1,662,332	233,905	-	20,779	1,917,016
Parkland Development	580,675	73,570	-	7,258	661,503
<b>TOTAL DEVELOPMENT COST CHARGES</b>	<b>\$ 7,615,303</b>	<b>\$ 747,110</b>	<b>\$ (52,020)</b>	<b>\$ 95,191</b>	<b>\$ 8,509,624</b>

### Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$38.6 million with the most significant increases resulting from:

- \$17.6 million of road infrastructure – construction of Johnson Street Bridge
- \$ 9.7 million of water/sewer/storm drain infrastructure built
- \$ 4.3 million of vehicle and equipment purchases

Table 3. Capital Assets

CAPITAL ASSETS (Historical Costs)	2014	2013
Land	\$ 135,627,933	\$ 136,693,575
Buildings	101,078,041	90,770,544
Furniture, Equip, Tech & Vehicles	61,072,975	58,088,624
Roads, Bridges and Highways	90,772,830	86,295,730
Water Infrastructure	55,649,691	53,077,355
Sewer Infrastructure	18,779,602	16,440,681
Drainage Infrastructure	16,451,200	12,436,445
Assets under Construction	47,834,110	34,846,843
<b>Total Capital Assets</b>	<b>527,266,382</b>	<b>488,649,797</b>
Accumulated Amortization	(139,501,150)	(130,907,113)
<b>TOTAL CAPITAL ASSETS (Net Book Value)</b>	<b>387,765,232</b>	<b>357,742,684</b>

## Debt

The City's outstanding debt (Table 4) increased in the year by \$19.6 million. New debt of \$23.2 million was issued in 2014 for the Johnson Street Bridge. The only debt authorized but not issued is \$15.8 million for the Johnson Street Bridge. This debt is planned to be issued as the bridge is constructed.

Table 4. Debt

DEBT ISSUES (in millions)	EXPIRY DATE	2014
Issue 79, 80, 81 – Multipurpose Facility (Arena)	2033/34	23.68
Issue 95 – Upgrade Fire Halls	2020	0.59
Issue 102 – City Hall Upgrades & Burnside Gorge C	2022	2.73
Issue 105 – Crystal Gardens	2024	2.48
Issue 103/105/110 – Parkades Upgrades	2023 / 2023 / 2025	6.55
Issue 115 – Johnson Street Bridge	2031	9.12
Issue 130 – Johnson Street Bridge	2034	23.2
TOTAL DEBT		\$68.35 million

## Investments

The City's investment portfolio (Table 5) returned \$2.75 million in 2014, an increase of \$95,000 as compared to 2013. The actual investment portfolio rate of return was 1.80%:

- 65% greater than the return of the MFA money market fund
- 44% 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	2014	2013
Investment Returns	2,752,790	2,313,072
Actual Rate of Return	1.80%	1.74%
MFA Money Market Return	1.09%	1.09%
Average Bank Interest Rate	1.25%	1.25%

### **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 2014 comparison of budget to actual for operating revenues and expenses (Appendix A), and capital expenditures (Appendix B). These comparisons are provided in the format used to approve budget decisions for the year.

### **Conclusion**

KPMG conducted the City's 2014 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, 2014, 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.

### **List of Appendices**

Appendix A – Budget to Actual Operating Revenues and Expenses

Appendix B – Budget to Actual Capital Expenditures

Appendix C – Draft Audited Financial Statements for the year ended December 31, 2014

### **Recommendation**

That Council accept the 2014 Financial Statements.