



Committee of the Whole Report

For the Meeting of April 21, 2016

To: Governance and Priorities Committee
From: Susanne Thompson, Director, Finance
Subject: 2015 Financial Statements

Date: April 15, 2016

RECOMMENDATION

That Council accept the 2015 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 2015 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 management overrides; cash and investments; staff salaries; capital assets; employee future benefits, deferred revenue and government grants; and contaminated sites. All testing was executed as planned and no errors were noted. To increase the readability and transparency, changes were made to several notes to the financial statements including long-term debt, employee future benefits, and taxation.

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 implementing a conflict of interest policy, a project management framework and lifecycle costing. As pointed out by the auditors, the City already has many processes in place and undertakes many of the suggested components. However, improvements are underway to take a holistic approach going forward. Staff welcome these suggestions and look forward to refining our operations in the spirit of continuous improvement and "better is possible".

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, 2015.

PURPOSE

To provide Council with an overview of the City's 2015 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 2015 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. 4) – 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. 5) – identifies the current year contribution to the Accumulated Surplus balance from revenue and expenses
3. **Statement of Changes in Net Financial Assets** (pg. 6) – 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. 7)– 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. 8 – 30) - additional detail to disclose relevant reporting information and support significant balances in the Financial Statements.

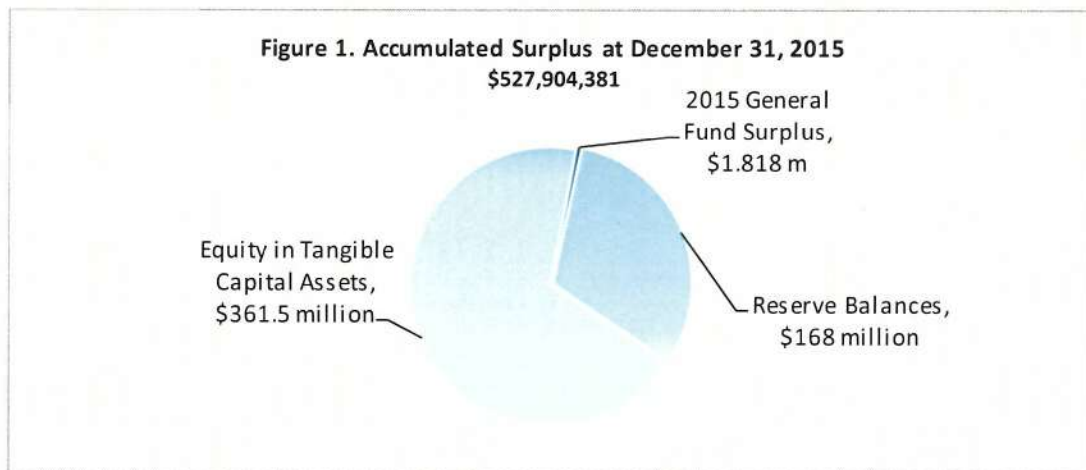
ISSUES & ANALYSIS

Accumulated Surplus

The Accumulated Surplus balance at December 31, 2015, as reported on the Statement of Financial Position, is \$527.9 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 \$1.818 million makes up a small portion of the Accumulated Surplus balance.

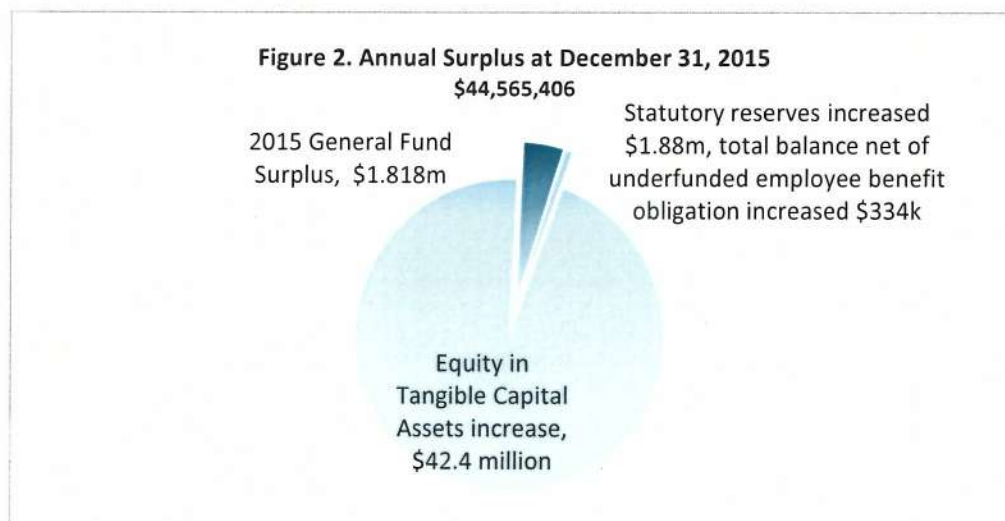
This means that the majority of the \$527.9 million accumulated surplus consists of the City's tangible capital assets, such as roads, underground infrastructure, land, buildings, and equipment, along with funds set aside in reserves for future spending.



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 2015 is \$44.5 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, \$1.818 million is the General Fund surplus which is available for future spending.

The primary contributions to the 2015 General Fund surplus of \$1.818 million are payments in lieu of taxes, permit, rezoning, and aquatic revenues exceeding expectations for the year, offset by tax appeals. Expenditures less than budgeted also contributed to the 2015 General Fund surplus including unspent contingencies, reduced property leasing costs, and reduced costs due to staff vacancies. 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 2015 the City's reserves grew by \$1.883 million (Table 1), with funding from the reserves almost equal to transfers into reserves. The reserve balance total includes \$17.8 million of 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 2015, Capital projects that were delayed include:

- Burnside Gorge New Park
- Bicycle Master Plan Implementation
- David Foster Harbour Pathway
- Douglas Street Retaining Wall
- Johnson Street Bridge
- View Street Parkade
- Corporate Equipment
- Sewer inflow and infiltration and storm water mains replacements projects

Table 1. Reserve Balances

RESERVE BALANCES	Dec 31, 2014	Transfer To	Transfer From	Interest	Dec 31, 2015
Financial Stability Reserves	\$ 36,072,351	\$ 6,400,720	\$ (649,217)	\$ 369,741	\$ 42,193,595
Equipment & Infrastructure Replacement Fund	117,189,900	20,916,401	(26,980,415)	1,201,198	112,327,084
Tax Sale Lands Fund	7,201,809	74,649	(472,846)	73,819	6,877,431
Parks and Greenways Acquisition Fund	2,297,832	2,739	-	23,553	2,324,124
Local Amenities	522,121	68,053	-	5,352	595,526
Affordable Housing	2,140,697	1,100,000	(553,725)	21,942	2,708,914
Climate Action	505,768	125,765	(2,250)	5,184	634,467
Art in public places	436,960	135,000	(30,363)	4,479	546,076
Downtown Core Area Public Realm Improvements	58,090	40,576	-	595	99,261
Downtown Heritage Building Seismic Upgrades	19,363	2,500	-	198	22,061
TOTAL RESERVES	\$ 166,444,891	\$28,866,402	\$ (28,688,815)	\$ 1,706,061	\$ 168,328,539

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.

DCC balances (Table 2) increased in 2015 by \$78,057 in interest revenue allocated and \$2.9 million in charges, compared to \$747,110 in charges collected in 2014. The increase in DCCs in 2015 was due to additional development projects. A total of \$53,000 was transferred to capital in 2015, compared to \$52,020 of capital activity funded from the DCC balances in 2014.

A review of DCCs is currently underway with an expected completion in early 2017.

Table 2. DCC Balances

DEVELOPMENT COST CHARGES	Dec 31, 2014	Transfer To	Transfer From	Interest	Dec 31, 2015
Water and Environment	\$ 912,817	\$ -	\$ -	\$ 9,241	\$ 922,058
Streets	19,999	-	-	202	20,201
Transportation	3,197,355	1,215,406	(53,000)	30,336	4,390,097
Water	323,792	125,079	-	2,963	451,834
Drainage	194,176	70,458	-	1,792	266,426
Sewage	1,178,926	556,613	-	10,532	1,746,071
Parkland Acquisition	1,917,016	660,587	-	17,039	2,594,643
Parkland Development	661,503	278,733	-	5,952	946,188
TOTAL DEVELOPMENT COST CHARGES	\$ 8,405,584	\$ 2,906,876	\$(53,000)	\$ 78,057	\$ 11,337,517

Capital Assets

The City's inventory of capital assets (Table 3), cost before accumulated amortization, increased by \$38.8 million with the most significant increases resulting from:

- \$23.6 million of bridge infrastructure
- \$ 7.9 million property purchase of 810 Wharf Street
- \$ 8.1 million of water/sewer/storm drain infrastructure built

Table 3. Capital Assets

CAPITAL ASSETS (Historical Costs)	2015	2014
Land	\$ 135,832,585	\$ 135,627,933
Buildings	105,590,104	101,078,041
Furniture, Equip, Tech & Vehicles	65,333,556	61,072,975
Roads, Bridges and Highways	95,842,515	90,772,830
Water Infrastructure	60,304,187	55,649,691
Sewer Infrastructure	20,088,026	18,779,602
Drainage Infrastructure	18,128,854	16,451,200
Assets under Construction	74,861,105	47,834,110
Total Capital Assets	575,980,932	527,266,382
Accumulated Amortization	(149,413,635)	(139,501,150)
TOTAL CAPITAL ASSETS (Net Book Value)	426,567,297	387,765,232

Debt

The City's outstanding debt (Table 4) decreased in the year by \$3.59 million. Debt Issue 95 was retired early and no new debt was issued in 2015. 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	2015	2014
Issue 79, 80, 81 – Multipurpose Facility (Arena)	2033/34	22.90	23.68
Issue 95 – Upgrade Fire Halls	2020	-	0.59
Issue 102 – City Hall Upgrades & Burnside Gorge Community Centre	2022	2.43	2.73
Issue 105 – Crystal Gardens	2024	2.27	2.48
Issue 103/105/110 – Parkades Upgrades	2023 / 2023 / 2025	6.02	6.55
Issue 115 – Johnson Street Bridge	2031	8.73	9.12
Issue 130 – Johnson Street Bridge	2034	22.41	23.2
TOTAL DEBT		\$64.76 m	\$68.35 m

Portfolio Investments

The City's investment portfolio (Table 5) returned \$2.79 million in 2015, an increase of \$43,000 as compared to 2014. The actual investment portfolio rate of return was 1.50%:

- 76% greater than the return of the MFA money market fund
- 20% 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	2015	2014
Investment Returns	2,795,974	2,752,790
Actual Rate of Return	1.50%	1.80%
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 2015 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 2015 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, 2015, 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, Finance

Report accepted and recommended by the City Manager:

Date:


April 15, 2016

List of Appendices

- Appendix A – Draft Audited Financial Statements for the year ended December 31, 2015
- Appendix B – Audit Findings Report
- Appendix C – Budget to Actual Operating Revenues and Expenses
- Appendix D – Budget to Actual Capital Expenditures