



## **AGENDA**

### **FINANCE AND AUDIT COMMITTEE MEETING**

April 19, 2017, 9:30 AM  
Board Room, Service and Resource Centre,  
411 Dunsmuir Street, Nanaimo, BC

Pages

1. **CALL THE MEETING OF THE FINANCE AND AUDIT COMMITTEE TO ORDER:**
2. **INTRODUCTION OF LATE ITEMS:**
3. **ADOPTION OF AGENDA:**
4. **ADOPTION OF MINUTES:**
  - a. **Minutes** 3 - 5

Minutes of the Regular Meeting of the Finance and Audit Committee held in the Board Room, Service and Resource Centre, 411 Dunsmuir Street, Nanaimo, BC, on Wednesday, 2017-MAR-08 at 9:30 a.m.
5. **PRESENTATIONS:**
6. **REPORTS:**
  - a. **Heritage Façade Grant – Nanaimo Firehall #2 – 34 Nicol Street** 6 - 15

*Purpose: To obtain Council approval for a heritage facade grant for the Nanaimo Fire Hall #2 building (34 Nicol Street).*

Recommendation: That the Finance and Audit Committee recommend that Council:

    1. approve a \$14,316 Heritage Facade Grant to rehabilitate the exterior of the Nanaimo Fire Hall #2 building located at 34 Nicol Street; and,
    2. provide for the \$9,316 Heritage Facade Grant shortfall through a budget transfer from the Heritage Home Grant Program.
  - b. **2016 Annual Financial Statements** 16 - 79

*Purpose: To present the 2016 Annual Financial Statements for acceptance by the Finance and Audit Committee.*

Recommendation: That the Finance and Audit Committee approve the 2016 Annual Financial Statements for the City of Nanaimo.

- c. **Downtown Event and Revitalization Funding Program - 2017 Downtown Event Grant Recommendations** 80 - 84

*Purpose: To obtain Council approval for the 2017 Downtown Event Grants to support downtown Nanaimo events.*

Recommendation: That the Finance and Audit Committee recommend Council approve the 2017 Downtown Event Grant funding recommendations of \$115,841 for eligible applications.

- d. **Federal Gas Tax Fund - Strategic Priorities Fund Grant Application** 85 - 88

*Purpose: To obtain a Council resolution endorsing three applications under the Federal Gas Tax Fund – Strategic Priorities Fund Grant for the 2017-JUN-01 application deadline.*

Recommendation:

1. That Council provide direction on which two capital projects they will endorse for the Federal Gas Tax Fund – Strategic Priorities Fund under the Capital Infrastructure Projects Stream; and,
2. That Council endorse the Facilities and Park Amenities Condition Assessment Program for the Federal Gas Tax Fund – Strategic Priorities Fund under the Capacity Building Stream.

- e. **2017-2021 Financial Plan Update** 89 - 91

*Purpose: To update the Finance and Audit Committee on key changes in the 2017 – 2021 Financial Plan.*

Recommendation: That the 2017 – 2021 Financial Plan Update report dated 2017-APR-19 be received for information.

7. **OTHER BUSINESS:**

8. **QUESTION PERIOD:**

9. **ADJOURNMENT:**

**MINUTES**  
**FINANCE AND AUDIT COMMITTEE MEETING**  
**BOARD ROOM, SERVICE AND RESOURCE CENTRE**  
**411 DUNSMUIR STREET, NANAIMO, BC**  
**WEDNESDAY, 2017-MAR-08, AT 9:30 A.M.**

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**PRESENT:** Councillor W. L. Bestwick, Chair

**Members:** Mayor W. B. McKay  
Councillor M. D. Brennan  
Councillor G. W. Fuller  
Councillor W. M. Yoachim (vacated 10:24 a.m., returned 10:26 a.m.)

**Absent:** Councillor J. Hong  
Councillor J. A. Kipp  
Councillor W. L. Pratt  
Councillor I. W. Thorpe

**Staff:** V. Mema, Chief Financial Officer  
K. Fowler, Chief Sustainability Officer  
D. Lindsay, Director of Community Development  
P. Cooper, Director of Communications and Engagement  
D. Duncan, Deputy Director of Financial Services  
P. Rosen, Senior Manager of Engineering  
L. Mercer, Manager of Accounting Services  
W. Fulla, Manager of Finance – Business and Asset Planning  
M. Dunstan, Manager of IT Application Systems  
C. Sholberg, Community Heritage Planner  
R. Collicutt, Senior Applications Analyst  
D. Blackwood, Client Support Specialist  
M. Brown, Recording Secretary

**1. CALL THE FINANCE AND AUDIT COMMITTEE MEETING TO ORDER:**

The Finance and Audit Committee Meeting was called to order at 9:30 a.m.

**2. INTRODUCTION OF LATE ITEMS**

- (a) Councillor Yoachim requested that Agenda Item 6 (d) Request to Staff for a Report Regarding 10 Year Property Tax Increase/Decrease Information be added to the Agenda.

**3. ADOPTION OF AGENDA:**

It was moved and seconded that the Agenda, as amended, be adopted. The motion carried unanimously.

4. ADOPTION OF MINUTES:

It was moved and seconded that the Minutes of the Finance and Audit Committee Meeting held in the Board Room, Service and Resource Centre, 411 Dunsmuir Street, Nanaimo, BC, on Wednesday, 2017-FEB-08 at 9:30 a.m. be adopted as circulated. The motion carried unanimously.

5. PRESENTATIONS:

- (a) Philip Cooper, Director of Communications and Community Engagement, and Ross Collicutt, Senior Application Analyst, provided a PowerPoint presentation introducing the new City of Nanaimo Website.

It was moved and seconded that the PowerPoint presentation introducing the new City of Nanaimo website be received for information. The motion carried unanimously.

6. ADMINISTRATION:

- (a) Heritage Home Grant Application – 45 Milton Street

It was moved and seconded that the Finance and Audit Committee recommend Council approve a \$2,500 Heritage Home Grant for the installation of a gutter system and storm windows on the Young/Pargeter Residence located at 45 Milton Street. The motion carried unanimously.

- (b) Heritage Facade Grant – 101 Commercial Street

It was moved and seconded that the Finance and Audit Committee recommend Council approve a \$14,999.25 Heritage Facade Grant to rehabilitate the exterior of the Ashlar Lodge Masonic Temple located at 101 Commercial Street. The motion carried unanimously.

Councillor Yoachim vacated the boardroom at 10:24 a.m.  
Discussion was suspended as quorum was lost at 10:24 a.m.  
Councillor Yoachim returned to the boardroom at 10:26 a.m.  
The meeting regained quorum and reconvened at 10:26 a.m.

It was moved and seconded that the Finance and Audit Committee direct Staff to bring forward a report which outlines the regulatory and financial challenges faced by heritage building owners, the purpose of the City's heritage incentive programs, and how these incentives impact the conservation and rehabilitation of the City's heritage buildings. The motion carried unanimously.

- (c) 2016 Budget Carryforwards

It was moved and seconded that the 2016 Budget Carryforwards report dated 2017-MAR-08 be received for information. The motion carried unanimously.



(d) Request to Staff for a Report Regarding 10 Year Property Tax Increase/Decrease Information

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It was moved and seconded that the Finance and Audit Committee direct Staff to provide a report showing the property tax increases and decreases using both the proposed and actual percentages over the past ten years. The report should also include tax and other municipal services comparatives from Langford, Lantzville, and Ladysmith on homes of the same value as they compare to the same priced home in the City of Nanaimo. The motion carried unanimously.

7. ADJOURNMENT:

It was moved and seconded at 10:56 a.m. that the meeting terminate. The motion carried unanimously.

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CHAIR

CERTIFIED CORRECT:

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CORPORATE OFFICER

DATE OF MEETING April 19, 2017

AUTHORED BY CHRIS SHOLBERG, CULTURE/HERITAGE PLANNER, COMMUNITY AND CULTURAL PLANNING

SUBJECT HERITAGE FACADE GRANT – NANAIMO FIREHALL #2 – 34 NICOL STREET

## **OVERVIEW**

### **Purpose of Report**

To obtain Council approval for a heritage facade grant for the Nanaimo Fire Hall #2 building (34 Nicol Street).

### **Recommendation**

That the Finance and Audit Committee recommend that Council:

1. approve a \$14,316 Heritage Facade Grant to rehabilitate the exterior of the Nanaimo Fire Hall #2 building located at 34 Nicol Street; and,
2. provide for the \$9,316 Heritage Facade Grant shortfall through a budget transfer from the Heritage Home Grant Program.

## **BACKGROUND**

A heritage facade grant application has been submitted by the owner (R. Bryson Insurance Consultants Inc.) of the Nanaimo Fire Hall #2 building (34 Nicol Street) to rehabilitate the building's exterior including cleaning, repairing and rebuilding of exterior masonry/stucco, and cleaning and repairing window exteriors.

The Nanaimo Fire Hall #2 is currently on the City's Heritage Register and is listed as a significant heritage building in the Downtown Heritage Conservation Area as contained in the City's Official Community Plan (see Attachment A for the building's historical value statement).

## **PROJECT SCOPE AND EVALUATION**

Staff has reviewed and evaluated the grant application and note that the proposed project satisfies the relevant requirements and objectives of the Heritage Facade Grant Program (as outlined in Attachment B - Heritage Facade Grant Program Purpose and Conditions).

The proposed exterior rehabilitation work will include brick repair and cleaning, as well as window repair and repaint. Photos of the condition of the existing building exterior can be viewed in Attachment C – Existing Exterior Building Condition.

The proposed work is intended to repair, refresh and conserve the appearance of the building consistent with the City's Downtown Heritage Building Design Guidelines and Parks Canada's Standards and Guidelines for the Conservation of Historic Places in Canada.

The total estimated project cost is \$28,631. The project is eligible for up to \$14,316 in grant assistance based on the 50/50 cost sharing model specified under the program, and the

maximum facade allotment of \$10,000 per street frontage. In this case, the property faces onto three separate street frontages.

Due to a previously approved facade grant this year, the 2017 Heritage Facade Grant budget has been reduced to \$5,000 remaining, which leaves a funding shortfall of \$9,316 in order to fully fund the requested grant for this project. Should Council wish to fully fund the grant request as eligible under the grant program, Staff recommend using a budget transfer of \$9,316 from the Heritage Home Grant Program. Currently, the program has \$9,500 remaining in its 2017 budget. Such a transfer of funds will effectively zero out the home grant fund meaning that no additional applications will be accepted this year.

Staff believes the additional funding support is merited in this case given the significant heritage value of the Nanaimo Fire Hall #2 building, the level of deterioration to the building's exterior which has occurred over the past decade, and its high profile on a major road way.

It should be noted that the property did receive a previous facade grant in 2003 totalling \$7,366 for exterior signage. Under the parameters of the Heritage Facade Grant Program, a previous grant does not preclude the property owner from applying and receiving additional funding support.

## OPTIONS

1. That the Finance and Audit Committee recommend Council approve a \$14,316 Heritage Facade Grant to rehabilitate the exterior of the Nanaimo Fire Hall #2 building located at 34 Nicol Street.
  - **Budget Implication:** The Heritage Facade Grant Program currently has \$5,000 left in its annual \$20,000 budget available to partially cover this amount. In order to provide the full eligible funding, an additional \$9,316 is proposed to be transferred from the Heritage Home Grant Program budget.
  - **Strategic Priorities Implication:** The Heritage Facade Grant Program furthers the goals of the Economic Health and Cultural Vitality Community Values of the 2016-2019 Strategic Plan Update, as well as the conservation objectives of the City's Heritage Conservation Program.
2. That Council deny the Heritage Facade Grant application.
  - **Policy Implication:** Could create uncertainty about the City's commitment to the Heritage Facade Grant Program's purpose and parameters.
  - **Strategic Priorities Implication:** Would run counter to the City's cultural vitality and heritage conservation objectives.

### **SUMMARY POINTS**

- R. Bryson Insurance Consultants Inc. has applied for a \$14,316 Heritage Facade Grant to rehabilitate the exterior of the Nanaimo Fire Hall #2 building at 34 Nicol Street.
- The total estimated project cost is \$28,631.
- The grant application satisfies the relevant requirements and objectives of the Heritage Facade Grant Program.

### **ATTACHMENTS**

Attachment A: Nanaimo Fire Hall #2 History and Significance

Attachment B: Heritage Facade Grant Program Purpose and Conditions

Attachment C: Existing Exterior Building Condition

**Submitted by:**



Bruce Anderson  
Manager, Community and Cultural Planning

**Concurrence by:**



Dale Lindsay  
Director of Community Development



## **ATTACHMENT A**

### **NANAIMO FIRE HALL #2 HISTORY AND SIGNIFICANCE**

Built in 1893, the Nanaimo Fire Hall #2 is a very good example of Victorian Italianate architecture, one of the most popular 19<sup>th</sup> century styles. The fortress-like crenellated roofline is particularly appropriate on the fire hall, a widely recognized symbol of protection. The large doors at the front lower level were designed for easy access for the fire company's horses and equipment. Similarly functional, the concrete hose tower, added to the rear of the building in 1914, allowed for the efficient drying of fire hoses.

The Nanaimo Fire Hall #2 speaks to the continuing growth and maturity of the City. Although a volunteer fire brigade existed before construction of the Fire Hall, this substantial and expensive building, whose construction costs were raised through subscription, indicates community commitment to efficient, modern service and faith in the City's future.

Located on a narrow triangular lot between two main thoroughfares and at a major intersection, the Fire Hall is an important downtown gateway building and a highly visible landmark.

## ATTACHMENT B

### HERITAGE FACADE GRANT PROGRAM PURPOSE AND CONDITIONS

The Heritage Façade Grant Program was created by Council in 2003 as part of the City's Downtown Revitalization Strategy. The program is designed to provide financial incentives to encourage rehabilitation and enhancement of heritage buildings located in the City's downtown core, enliven the streetscape, create a more attractive environment for visitors and tenants, and stimulate investment in the area. The program has been successful at leveraging private investment toward rehabilitating and enhancing the exteriors of historic buildings located in the downtown core.

Façade grants are available yearly on a first-come, first-served basis to significant heritage buildings listed in the Downtown Heritage Conservation Area, as outlined in the City's Official Community Plan. The 2017 grant program budget is \$20,000. Each grant covers up to 50% of a project cost, to a maximum of \$10,000 per building side facing onto a street. To date, \$304,049.66 has been paid out under the grant program for 32 exterior building façade improvements leveraging \$7,074,522.00 in private investment.

Should Council approve the grant, the following conditions will also apply as specified under the program:

- The project must be fully completed prior to payment of the grant.
- The owner must agree to register a Heritage Conservation Covenant on the property title for a five-year term prohibiting demolition or exterior alteration of the building, unless the City approves these actions.
- Work must be substantially underway within six months of grant approval and completed within one year.
- Work must be of good quality, meet appropriate building/fire codes or approved equivalent, comply with existing bylaws, be conducted in accordance with a valid building permit (if applicable), and pass municipal inspections.
- Work is subject to inspection. If, during the course of the project, it is determined that the work fails to adhere to the program guidelines, then the award of the grant, in whole or in part, may be rescinded.
- Signage crediting the City's funding will be provided and must be displayed for a mutually agreeable period not to exceed three months after the project is completed. Grant recipients may be asked to participate in other promotional efforts as appropriate.

The applicant shall not involve the City of Nanaimo in any legal action between him/her and any contractors, estimators, employees, workers or agents arising from or out of the facade improvement project.



## ATTACHMENT C

### EXISTING EXTERIOR BUILDING CONDITION



















DATE OF MEETING April 19, 2017

AUTHORED BY LAURA L. MERCER, MANAGER, ACCOUNTING SERVICES

SUBJECT 2016 ANNUAL FINANCIAL STATEMENTS

## **OVERVIEW**

### **Purpose of Report**

To present the 2016 Annual Financial Statements for acceptance by the Finance and Audit Committee.

### **Recommendation**

That the Finance and Audit Committee approve the 2016 Annual Financial Statements for the City of Nanaimo.

## **BACKGROUND**

The Canadian audit standards require that “those with the recognized authority have asserted that they have taken responsibility for the financial statements” prior to the issuance of the audit report. The City’s auditors, KPMG, have completed the audit work and are prepared to issue an unqualified opinion that the financial statements fairly represent the financial position of the City as at 2016-DEC-31, once the Council has approved the statements.

As noted in the Management Report, Council has delegated to management the responsibility for the accuracy, integrity and objectivity of the financial information presented in the financial statements.

The consolidated financial statements as required by the *Community Charter* have been prepared and meet the reporting standards for local governments. Section 167(4) of the *Community Charter* states, by May 15 in each year, a municipality must submit to the Inspector of Municipalities its audited financial statements for the preceding year.

### **Highlights of the Financial Statements:**

- Accumulated operating unallocated surpluses total \$17.3 million, allocated as follows:

General Fund	\$5.1	million
Sewer Fund	6.8	
Water Fund	5.4	
	<u>\$ 17.3</u>	million

Unallocated surplus can be used to fund unexpected future liabilities. For example, due to changes in accounting standards starting in 2015 we needed to record a liability for the cost of remediating contaminated properties the City owns that are not in productive use. The value of this liability was \$110,000 and we were able to use the unallocated surplus to fund all of it. The unallocated surplus allows the City flexibility to fund all or a part of unexpected liabilities that may arise.

- Funds held in reserves total \$127.7 million at 2015-DEC-31 (2015 – \$122.7 million), allocated as follows:

Work in progress	\$ 28.0 million
Reserve accounts (surplus appropriations)	31.1
Development Cost Charges (developer contributions)	42.2
Statutory Reserves	<u>26.4</u>
	<u>\$127.7</u> million

A listing of reserve accounts is shown on page 29 of the 2016 Financial Statements (Attachment A). The majority of the funds have been set aside for specific projects or purposes. Work in progress funds have been targeted to be used to fund existing operating or capital projects in the 2017 – 2022 budget.

Development Cost Charges (DCC) can only be used to fund projects specified in the DCC bylaws. DCC revenues in 2016 totaled \$8.2 million (2015 – \$4.3 million). The City continues to construct growth-related projects, which are funded from DCC's (\$5.4 million in 2016).

Statutory Reserves are established by bylaw and can only be used for the purposes specified in the bylaw. These are the statutory reserve funds and the balance at 2016-DEC-31:

General Asset Management Reserve	\$ 7,551,309
Equipment Depreciation Reserve	\$ 6,148,706
Community Works Reserve (Gas Tax Agreement)	\$ 6,136,926
Facility Development (Recreation) Reserve	\$ 2,133,321
Property Sales Reserve	\$ 1,183,092
Water Asset Management Reserve	\$ 1,135,280
Sewer Asset Management Reserve	\$ 834,516
Knowles Estate Reserve	\$ 435,516
Regional Emissions Reduction Reserve	\$ 377,438
Parkland Dedication Reserve	\$ 375,527
Old City Neighbourhood Parking Reserve	\$ 87,227

- Outstanding debt and debt servicing costs

	<u>2016</u>	<u>2015</u>
Outstanding debt	\$ 43.9 million	\$ 47.8 million
Per capita debt	\$ 471	\$ 530
Net increase (decrease) in debt during the year	\$ (3.9) million	\$ (3.1) million

Pages 19 and 20 of the 2016 Financial Statements provide note disclosure of the outstanding debt and details of the principal reductions for the next five years.

- Tangible capital assets net book value totals \$681 million at 2016-DEC-31 (2015 - \$670 million). A detailed schedule is found on page 9 of the Statements. Capital asset acquisitions were \$36.1 million (2015 – \$36.0 million), including developer contributed assets of \$8.1 million (2014 - \$4.2 million).

## **OPTIONS**

1. Council approve the 2016 Annual Financial Statements
  - **Implications:** If the 2016 Financial Statements are not approved by Council this would significantly impact the City's ability to borrow from the Municipal Finance Authority and affect its good Provincial financial standing.
2. Council could request further information pertaining to the 2016 financial statements.

## **SUMMARY POINTS**

- The City's auditors, KPMG, have completed the audit work and are prepared to issue an unqualified opinion that the financial statements fairly represent the financial position of the City as at 2016-DEC-31, once the Finance and Audit Committee has approved the statements.
- By May 15 in each year, a municipality must submit to the Inspector its audited financial statements for the preceding year.
- Accumulated operating surplus at 2016-DEC-31 was \$17.3 million.
- Funds held in reserve at 2016-DEC-31 were \$127.7 million.
- Outstanding debt at 2016-DEC-31 was \$43.9 million.
- Net book value of tangible capital assets at 2016-DEC-31 was \$681 million.

## **ATTACHMENTS**

- Appendix A: 2016 Annual Financial Statements (including KPMG Audit Findings Report for the year ending December 31, 2016).



**Submitted by:**



Laura L. Mercer  
Manager, Accounting Services

**Concurrence by:**



Victor Mema  
Chief Financial Officer

**CITY OF NANAIMO, BRITISH COLUMBIA, CANADA**  
**FINANCIAL REPORT**

**for the year ended December 31, 2016**

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## **CITY OF NANAIMO MANAGEMENT REPORT**

**For the Year Ended December 31, 2016**

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The Council of the City of Nanaimo has delegated the responsibility for the integrity and objectivity of the financial information contained in the financial statements to the management of the City of Nanaimo. The financial statements which, in part, are based on informed judgments and estimates, have been prepared by management in accordance with Canadian public sector accounting standards, which have been applied on a basis consistent with that of the preceding year.

To assist in carrying out their responsibility, management maintains an accounting system and internal controls to provide reasonable assurance that transactions are properly authorized and recorded in compliance with legislative and regulatory requirements and that financial records are reliable for preparation of financial statements. These systems are monitored and evaluated by management.

The City of Nanaimo's independent auditors, KPMG LLP, are engaged to express an opinion as to whether these financial statements present fairly the City of Nanaimo's financial position and operating results in accordance with Canadian public sector accounting standards. Their opinion is based on procedures they consider sufficient to support such an opinion.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in accordance with Canadian public sector accounting standards. These statements present, in all significant respects, the financial position of the City of Nanaimo as at December 31, 2016.



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**Tracy Samra, LL.B., LL.M.**  
**Chief Administrative Officer**



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**Victor Mema, CPA, CMA**  
**Chief Financial Officer**

## **Auditors' Report**

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To the Shareholders  
City of Nanaimo

This is a placeholder.

**City of Nanaimo**

**CITY OF NANAIMO**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at December 31, 2016, with comparative figures for 2015

	2016	2015
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 69,589,008	\$ 66,205,116
Accounts receivable (Note 2)	15,712,240	18,065,818
Development cost charges receivable (Note 3)	312,517	768,904
Temporary investments (Note 4)	112,666,810	100,726,222
	<b>198,280,575</b>	<b>185,766,060</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 5)	31,198,247	26,580,762
Compensated absences and termination benefits (Note 6)	6,989,480	6,824,923
Deferred revenue (Note 7)	16,980,784	16,526,003
Deferred development cost charges (Note 8)	42,228,902	38,658,888
Debt (Note 9)	43,925,300	47,773,593
	<b>141,322,713</b>	<b>136,364,169</b>
<b>NET FINANCIAL ASSETS</b>	<b>56,957,862</b>	<b>49,401,891</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 10)	681,128,718	669,581,917
Prepaid expenses	1,185,506	1,980,822
Inventories of supplies	818,664	665,746
	<b>683,132,888</b>	<b>672,228,485</b>
<b>ACCUMULATED SURPLUS (Note 11)</b>	<b>\$ 740,090,750</b>	<b>\$ 721,630,376</b>

Commitments and contingencies (Note 12)

Approved on behalf of the Council

\_\_\_\_\_  
**William B. McKay**  
Mayor

\_\_\_\_\_  
**Bill Bestwick**  
Councillor, Chair Finance & Audit Committee

**CITY OF NANAIMO**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
for the year ended December 31, 2016, with comparative figures for 2015

	2016 Budget (Note 14)	2016	2015
<b>REVENUES</b>			
Taxes	\$ 98,450,880	\$ 98,006,106	\$ 96,670,960
Payments in lieu of taxes	1,501,404	1,459,260	1,517,802
Taxation and payments in lieu (Note 15)	99,952,284	99,465,366	98,188,762
User fees and sales of services (Note 16)	36,301,724	38,348,292	34,809,133
Developer assets received (Note 10)	-	8,126,066	4,234,016
Other revenue	4,823,923	5,881,915	7,570,409
Development cost charges (Note 8)	11,096,874	5,390,435	7,762,983
Transfers from other governments-operating (Note 17)	3,879,549	4,331,607	4,357,443
Transfers from other governments-capital (Note 17)	7,610,880	3,679,418	3,604,561
Investment income	2,775,415	3,010,006	3,021,276
Building permits	1,232,498	1,619,320	1,581,979
Regional recreation sharing	1,091,640	1,091,640	1,039,101
Property rentals	946,705	1,021,916	1,456,243
Donations and contributions-capital	4,098,067	1,018,653	1,359,744
Municipal Finance Authority refunds and debt forgiven	-	4,449	22,283
	173,809,559	172,989,083	169,007,933
<b>EXPENSES</b>			
Police	28,313,439	29,399,255	26,451,642
Engineering and public works	26,747,552	26,388,970	24,540,975
Parks and recreation	25,332,523	25,581,174	24,672,695
Fire	16,968,427	16,915,612	17,034,998
Waterworks	15,518,475	14,312,684	10,934,950
Corporate services	12,926,948	12,030,219	11,881,012
Development services	12,143,524	11,776,206	12,274,380
City administration	8,368,239	7,866,458	8,308,642
Port of Nanaimo Centre	5,483,858	5,507,047	5,478,144
Sewer System	5,447,312	4,751,084	4,513,648
	157,250,297	154,528,709	146,091,086
<b>ANNUAL SURPLUS</b>	16,559,262	18,460,374	22,916,847
<b>ACCUMULATED SURPLUS - BEGINNING OF YEAR</b>	721,630,376	721,630,376	698,713,529
<b>ACCUMULATED SURPLUS - END OF YEAR</b>	\$ 738,189,638	\$ 740,090,750	\$ 721,630,376

**CITY OF NANAIMO**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS**  
for the year ended December 31, 2016 , with comparative figures for 2015

		2016 Budget (Note 14)	2016	2015
<b>ANNUAL SURPLUS</b>	\$	16,559,262	\$ 18,460,374	\$ 22,916,847
Acquisition of tangible capital assets		(50,245,388)	(27,932,015)	(31,665,508)
Developer contributed capital assets		-	(8,126,066)	(4,234,016)
		(50,245,388)	(36,058,081)	(35,899,524)
Amortization of tangible capital assets		23,174,277	22,926,296	20,288,865
Loss on disposal of tangible capital assets		-	1,533,210	1,363,185
Proceeds on sale of tangible capital assets		-	51,774	21,809
		(27,071,111)	(11,546,801)	(14,225,665)
Acquisition of inventories of supplies		-	(3,539,706)	(3,235,705)
Acquisition of prepaid expenses		-	(1,145,403)	(2,018,028)
Consumption of inventories of supplies		-	3,386,788	3,212,591
Use of prepaid expenses		-	1,940,719	1,763,354
		-	642,398	(277,788)
<b>CHANGE IN NET FINANCIAL ASSETS</b>		(10,511,849)	7,555,971	8,413,394
<b>NET FINANCIAL ASSETS - BEGINNING OF YEAR</b>		49,401,891	49,401,891	40,988,497
<b>NET FINANCIAL ASSETS - END OF YEAR</b>	\$	38,890,042	\$ 56,957,862	\$ 49,401,891

**CITY OF NANAIMO**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2016, with comparative figures for 2015

	2016	2015
<b>CASH PROVIDED BY (USED FOR)</b>		
<b>OPERATING TRANSACTIONS</b>		
Annual Surplus	\$ 18,460,374	\$ 22,916,847
Non-cash items		
Amortization of tangible capital assets	22,926,296	20,288,865
Developer assets received	(8,126,066)	(4,234,016)
Loss on disposal of tangible capital assets	1,533,210	1,363,185
Development cost charges recognized as revenue	(5,390,435)	(7,762,983)
Actuarial adjustment on long term debt	(748,340)	(719,319)
Change in non-cash operating assets and liabilities		
Accounts Receivable	2,809,965	1,773,705
Accounts payable	4,782,042	(4,260,039)
Deferred revenue	454,781	1,400,265
Inventories of supplies	(152,918)	(23,114)
Prepaid expenses	795,316	(254,674)
Net change in cash from operating transactions	37,344,225	30,488,722
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(27,932,015)	(31,665,508)
Proceeds from the sale of tangible capital assets	51,774	21,809
Net change in cash from capital transactions	(27,880,241)	(31,643,699)
<b>INVESTING TRANSACTIONS</b>		
Change in investments	(11,940,588)	3,864,091
<b>FINANCING TRANSACTIONS</b>		
Debt repayment	(3,099,953)	(2,367,091)
Deferred development cost charges	8,960,449	5,023,526
Net change in cash from financing transactions	5,860,496	2,656,435
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,383,892	5,365,549
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	66,205,116	60,839,567
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 69,589,008	\$ 66,205,116

**CITY OF NANAIMO**  
**SCHEDULE OF OPERATIONS BY SEGMENT**  
for the year ended December 31, 2016

	City Admin	Corporate Services	Development Services	Fire	Police	Port of Nanaimo Centre	Parks and Recreation	Engineering and Public Works	Sewer System	Waterworks	Consolidated
<b>Revenues</b>											
Taxes	\$ 5,295,440	\$10,881,034	\$ 8,017,066	\$15,683,358	\$25,137,578	\$ 2,551,060	\$15,165,931	\$15,274,639	\$ -	\$ -	\$ 98,006,106
Payments in lieu of taxes	82,131	108,001	124,343	243,246	389,879	39,566	235,220	236,874	-	-	1,459,260
User fees	1,479,305	143,773	456,739	106,850	104,369	2,043,538	6,664,001	4,499,119	6,291,738	16,558,860	38,348,292
Developer assets	-	-	-	-	-	-	2,708,146	4,206,303	779,385	432,232	8,126,066
Other revenue	545,852	743,379	1,674,497	1,483,337	413,105	19,460	412,217	503,473	97	86,498	5,881,915
DCC revenue	-	-	-	-	-	-	4,878	178,666	4,327,736	879,155	5,390,435
Gov't operating transfers	55,907	105,107	406,074	180,576	1,959,568	1,036,015	401,782	186,578	-	-	4,331,607
Gov't capital transfers	-	3,587,994	-	-	-	-	64,025	27,399	-	-	3,679,418
Investment income	103,656	1,287,828	156,931	306,994	492,056	49,935	296,866	309,027	-	6,713	3,010,006
Building permits	-	-	1,619,320	-	-	-	-	-	-	-	1,619,320
Regional recreation	-	-	-	-	-	-	1,091,640	-	-	-	1,091,640
Property rentals	30,000	-	344,231	21,450	295,627	-	280,726	28,882	-	21,000	1,021,916
Donations - capital	-	-	337,600	-	-	-	211,598	417,260	1,000	51,195	1,018,653
MFA refunds	-	-	-	-	-	-	-	4,449	-	-	4,449
	7,592,291	16,857,116	13,136,801	18,025,811	28,792,182	5,739,574	27,537,030	25,872,669	11,399,956	18,035,653	172,989,083
<b>Expenses</b>											
Wages and salaries	4,196,929	5,507,772	6,346,373	14,138,523	5,327,685	671	13,429,260	9,346,188	1,018,293	3,014,076	62,325,770
Contracted services	2,216,834	2,979,408	2,224,944	1,273,856	23,476,187	2,896,935	5,921,727	6,853,364	838,345	1,232,046	49,913,646
Amortization	454,236	701,368	816,487	605,087	323,435	1,623,554	3,118,984	9,122,369	657,189	5,503,587	22,926,296
Other	481,002	2,656,642	2,091,583	81,607	170,978	48,089	997,249	(2,624,447)	1,921,874	2,935,573	8,760,150
Materials and supplies	477,402	185,029	296,819	647,590	100,970	55,440	1,932,432	2,558,022	265,340	809,498	7,328,542
Interest payments on debt	40,055	-	-	133,653	-	882,358	(74,456)	-	-	759,485	1,741,095
Loss on disposal	-	-	-	35,296	-	-	255,978	1,133,474	50,043	58,419	1,533,210
	7,866,458	12,030,219	11,776,206	16,915,612	29,399,255	5,507,047	25,581,174	26,388,970	4,751,084	14,312,684	154,528,709
<b>ANNUAL SURPLUS (DEFICIT)</b>	(274,167)	4,826,897	1,360,595	1,110,199	(607,073)	232,527	1,955,856	(516,301)	6,648,872	3,722,969	18,460,374
Capital projects	\$ 211,701	\$ 291,057	\$ 373,842	\$ 227,274	\$ 3,114	\$ 22,167	\$ 6,418,290	\$10,510,522	\$ 7,086,442	\$10,913,672	\$ 36,058,081

**CITY OF NANAIMO**  
**SCHEDULE OF OPERATIONS BY SEGMENT**  
for the year ended December 31, 2015

	City Admin	Corporate Services	Development Services	Fire	Police	Port of Nanaimo Centre	Parks and Recreation	Engineering and Public Works	Sewer System	Waterworks	Consolidated
<b>Revenues</b>											
Taxes	\$ 6,290,745	\$11,493,123	\$ 7,846,465	\$14,370,506	\$24,483,482	\$ 2,634,146	\$15,003,689	\$14,548,804	\$ -	\$ -	<b>\$ 96,670,960</b>
Payments in lieu of taxes	99,071	129,592	128,254	234,893	400,194	43,056	237,497	245,245	-	-	<b>1,517,802</b>
User fees	1,436,306	136,874	180,352	93,775	101,903	1,835,151	6,410,086	4,477,059	5,973,772	14,163,855	<b>34,809,133</b>
DCC revenue	-	-	-	-	-	-	127,640	967,151	42,833	6,625,359	<b>7,762,983</b>
Other revenue	547,361	370,769	1,885,392	1,739,050	442,583	22,732	476,155	2,004,444	7,464	74,460	<b>7,570,410</b>
Gov't operating transfers	62,124	111,357	532,817	147,292	2,086,596	889,575	224,190	303,492	-	-	<b>4,357,443</b>
Developer assets	8,036	-	-	-	-	-	1,096,577	2,416,349	421,593	291,461	<b>4,234,016</b>
Gov't capital transfers	-	-	-	-	-	-	-	133,461	-	3,471,100	<b>3,604,561</b>
Investment income	128,032	1,210,161	165,745	303,557	517,178	55,643	316,932	316,888	-	7,140	<b>3,021,276</b>
Building permits	-	-	1,581,979	-	-	-	-	-	-	-	<b>1,581,979</b>
Property rentals	30,000	-	333,826	23,100	736,358	-	285,484	28,574	-	18,900	<b>1,456,242</b>
Donations - capital	-	502,987	-	-	-	-	29,653	703,700	-	123,404	<b>1,359,744</b>
Regional recreation sharing	-	-	-	-	-	-	1,039,101	-	-	-	<b>1,039,101</b>
MFA refunds	-	-	-	-	-	-	2,973	-	-	19,310	<b>22,283</b>
	8,601,675	13,954,863	12,654,830	16,912,173	28,768,294	5,480,303	25,249,977	26,145,167	6,445,662	24,794,989	<b>169,007,933</b>
<b>Expenses</b>											
Wages and salaries	5,030,875	5,472,672	6,291,653	14,397,535	5,016,502	387	12,599,549	9,079,438	1,051,365	2,329,772	<b>61,269,748</b>
Contracted services	1,857,423	3,013,808	2,551,499	1,148,853	20,836,682	2,770,633	6,019,430	6,425,651	638,843	941,443	<b>46,204,265</b>
Amortization	445,413	738,572	827,255	581,183	326,119	1,623,554	3,126,474	9,045,748	584,167	2,990,380	<b>20,288,865</b>
Other	398,268	2,442,409	2,050,441	88,553	162,959	46,992	950,048	(2,895,020)	1,857,149	3,041,765	<b>8,143,564</b>
Materials and supplies	496,548	210,897	289,367	659,770	82,747	51,636	1,715,982	2,446,971	277,727	705,575	<b>6,937,220</b>
Interest payments on debt	54,657	-	-	140,307	-	984,942	(53,302)	(6,236)	-	763,871	<b>1,884,239</b>
Loss on disposal	25,458	2,654	264,165	18,797	26,633	-	314,514	444,423	104,397	162,144	<b>1,363,185</b>
	8,308,642	11,881,012	12,274,380	17,034,998	26,451,642	5,478,144	24,672,695	24,540,975	4,513,648	10,934,950	<b>146,091,086</b>
<b>ANNUAL SURPLUS (DEFICIT)</b>	293,033	2,073,851	380,450	(122,825)	2,316,652	2,159	577,282	1,604,192	1,932,014	13,860,039	<b>22,916,847</b>
Capital projects	\$ 193,895	\$ 1,341,221	\$ -	\$ 581,958	\$ -	\$ -	\$ 2,768,463	\$ 8,124,085	\$ 4,704,967	\$18,184,935	<b>\$ 35,899,524</b>



**CITY OF NANAIMO**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
for the year ended December 31, 2016

	ASSETS					ACCUMULATED AMORTIZATION					
	Balance December 31, 2015	Additions	Disposals	Transfers	Balance December 31, 2016	Balance December 31, 2015	Additions	Disposals	Balance December 31, 2016	NET BOOK VALUE	
Land	\$ 85,701,341	\$ 3,071,774	\$ 1,123,636	\$ -	\$ 87,649,479	\$ -	\$ -	\$ -	\$ -	\$ 87,649,479	
Land improvements	28,963,652	3,625,590	446,158	3,022,990	35,166,074	13,604,535	1,206,898	443,000	14,368,433	20,797,641	
Leasehold improvements	2,174,294	30,738	111,891	40,599	2,133,740	1,865,382	64,722	111,891	1,818,213	315,527	
Marine structures	867,490	-	-	-	867,490	702,915	28,087	-	731,002	136,488	
Buildings	192,493,386	937,702	517,724	107,028	193,020,392	65,780,144	5,211,712	229,186	70,762,670	122,257,722	
Vehicles and equipment	30,813,100	2,249,255	1,483,428	69,035	31,647,962	18,622,072	1,833,819	1,450,284	19,005,607	12,642,355	
IT Infrastructure	9,092,424	27,188	106,182	41,881	9,055,311	7,867,886	507,099	106,182	8,268,803	786,508	
Drainage	101,499,787	2,549,881	36,057	48,316	104,061,927	27,773,662	1,596,438	18,716	29,351,384	74,710,543	
Transportation	297,826,583	4,133,400	555,562	492,900	301,897,321	159,371,904	6,643,004	551,958	165,462,950	136,434,371	
Sewer	36,200,686	5,487,692	289,700	448,614	41,847,292	11,613,626	651,856	239,657	12,025,825	29,821,467	
Water	242,097,287	9,072,681	385,364	468,503	251,253,107	60,244,093	5,182,661	319,844	65,106,910	186,146,197	
Work In Progress	9,298,106	4,872,180	-	(4,739,866)	9,430,420	-	-	-	-	9,430,420	
	\$ 1,037,028,136	\$ 36,058,081	\$ 5,055,702	\$ -	\$ 1,068,030,515	\$ 367,446,219	\$ 22,926,296	\$ 3,470,718	\$ 386,901,797	\$ 681,128,718	

**CITY OF NANAIMO**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
for the year ended December 31, 2015

	ASSETS				ACCUMULATED AMORTIZATION					
	Balance December 31, 2014	Additions	Disposals	Transfers	Balance December 31, 2015	Balance December 31, 2014	Additions	Disposals	Balance December 31, 2015	NET BOOK VALUE
Land	\$ 82,935,268	\$ 3,088,859	\$ 322,786	\$ -	\$ 85,701,341	\$ -	\$ -	\$ -	\$ -	\$ 85,701,341
Land improvements	26,681,742	1,827,677	193,713	647,946	28,963,652	12,704,534	1,083,102	183,101	13,604,535	15,359,117
Leasehold improvements	2,174,294	-	-	-	2,174,294	1,787,007	78,375	-	1,865,382	308,912
Marine structures	867,490	-	-	-	867,490	671,855	31,060	-	702,915	164,575
Buildings	188,457,593	3,659,739	753,651	1,129,705	192,493,386	61,119,960	5,101,660	441,476	65,780,144	126,713,242
Vehicles and equipment	30,066,205	1,359,404	913,280	300,771	30,813,100	17,700,630	1,790,416	868,974	18,622,072	12,191,028
IT Infrastructure	8,844,062	290,930	58,409	15,841	9,092,424	7,380,834	542,806	55,754	7,867,886	1,224,538
Drainage	98,501,700	3,095,421	400,000	302,666	101,499,787	26,308,088	1,593,308	127,734	27,773,662	73,726,125
Transportation	293,282,933	4,094,258	967,474	1,416,866	297,826,583	153,485,920	6,570,046	684,062	159,371,904	138,454,679
Sewer	32,170,274	3,100,547	356,600	1,286,465	36,200,686	11,287,311	578,836	252,521	11,613,626	24,587,060
Water	171,339,130	14,366,991	389,511	56,780,677	242,097,287	57,556,312	2,919,256	231,475	60,244,093	181,853,194
Work In Progress	70,038,012	1,141,031	-	(61,880,937)	9,298,106	-	-	-	-	9,298,106
	\$1,005,358,703	\$ 36,024,857	\$ 4,355,424	\$ -	\$1,037,028,136	\$ 350,002,451	\$ 20,288,865	\$ 2,845,097	\$ 367,446,219	\$ 669,581,917

# **CITY OF NANAIMO**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended December 31, 2016

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The City of Nanaimo (the City) was incorporated December 24, 1874 under a statute of the Province of British Columbia now known as the *Community Charter*. The principal activities of the City are preservation, protection and enhancement of the quality of life in Nanaimo through the facilitation of municipal services in an equitable, efficient and effective manner.

### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The City prepares its consolidated financial statements in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The following include significant policies that have been adopted by the City:

#### **(a) Basis of Presentation**

The City's resources and operations are segregated into general, water and sewer, capital and reserve funds for accounting and financial reporting purposes. The financial statements reflect the assets, liabilities, revenues and expenses of these funds.

#### **Consolidated Entities**

The reporting entity is comprised of all organizations controlled by the City. These organizations include the Nanaimo Economic Development Corporation.

#### **(b) Basis of Accounting**

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of the delivery of goods or services and/or upon the creation of a legal obligation to pay. Expenses paid in the current period and attributable to a future period are recorded as prepaid.

#### **(c) Cash and Cash Equivalents**

Cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition. Cash equivalents also include investments in the Municipal Finance Authority of British Columbia (MFA) Money Market Funds which are recorded at cost plus earnings reinvested in the funds.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Accounts Receivable**

Accounts receivable are presented net of an allowance for doubtful accounts and therefore represent amounts expected to be collected.

**(e) Development Cost Charges**

Deferred development cost charges are restricted by legislation to expenditures on capital infrastructure and related debt servicing costs and operating projects. These amounts are deferred upon receipt and recognized as revenue when the expenditures are incurred in accordance with the restrictions.

**(f) Temporary Investments**

Temporary investments consist of term deposits and debentures which are expected to be held for a term exceeding 90 days. Investments are recorded at cost. When, in the opinion of management, there is a decline in value, other than a temporary decline, investments are written down to their net realizable value.

**(g) Compensated Absences and Termination Benefits**

The City and its employees make contributions to the Municipal Pension Plan. As this plan is a multi-employer plan, contributions are expensed as incurred. Compensated absences and termination benefits also accrue to the City's employees. The liabilities related to these termination benefits and earned sick leave are actuarially determined based on service and best estimates of retirement ages and expected future salary and wage increases. The liabilities under these benefit plans are accrued based on projected benefits prorated as employees render services necessary to earn the future benefits. Actuarial gains and losses on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains and losses are amortized over the average remaining service period of the active employees.

**(h) Deferred Revenue**

The City defers a portion of the revenue collected from permits, licenses and other fees and recognizes this revenue in the year in which related inspections are performed or other related expenditures are incurred.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Debt**

Debt is presented net of related sinking fund balances.

**(j) Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They may have useful lives extending beyond the current year and are not intended to be sold in the ordinary course of operations.

**(i) Tangible Capital Assets**

Tangible capital assets are comprised of capital assets and capital works in progress, and are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development or betterment of the assets. The cost of the tangible capital assets, excluding land, is amortized on a straight-line basis over the estimated useful lives of the assets, commencing at the time the assets are available for use.

Estimated useful lives in years are as follows:

<b>Asset</b>	
Land Improvements	10-60
Leasehold Improvements	15-30
Marine Structures	15-35
Buildings	10-40
Vehicles and Equipment	5-25
IT Infrastructure	2-10
Drainage	2-75
Transportation - Linear Infrastructure, Lighting and Signals	14-80
Sewer - Linear Infrastructure and Equipment	25-60
Water - Linear Infrastructure and Equipment	25-80

Tangible capital assets are written down to their residual value when conditions indicate that they no longer contribute to the City's ability to provide goods and services, or when the value of the future economic benefits associated with the asset is less than the book value of the asset.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Non-Financial Assets (continued)**

**(ii) Contribution of Tangible Capital Assets**

Subdivision streets, lighting, sidewalks, drainage and other infrastructure assets are required to be provided by subdivision developers. Tangible capital assets received from developers are recorded at their fair values at the date of receipt and also recorded as revenue. The City is not involved in the construction and does not budget for assets received from developers.

**(iii) Natural Resources, Works of Art and Cultural and Historical Assets**

Natural Resources, works of art, and cultural and historical assets are not recognized as assets in the financial statements.

**(iv) Interest Capitalization**

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

**(v) Leased Tangible Capital Assets**

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets with a corresponding lease liability. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

**(vi) Inventories of Supplies**

Inventories of supplies are recorded at cost, net of an allowance for obsolete stock. Cost is determined on a weighted average basis.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Contaminated Sites**

A liability for contaminated sites is recognized when a site is not in productive use and the following criteria are met:

- i. An environmental standard exists;
- ii. Contamination exceeds the environmental standard;
- iii. The City is directly responsible or accepts responsibility;
- iv. It is expected that future economic benefits will be given up; and
- v. A reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

**(l) Revenue Recognition**

**(i) Taxation Revenue**

Annual levies for non-optional municipal services and general administrative services are recorded as taxes for municipal purposes. Levies imposed by other taxing authorities are not included as taxes for municipal purposes. Taxes are recognized as revenue in the year they are levied.

Through the BC Assessment appeal process, taxes may be adjusted by way of supplementary roll adjustments. The impacts of these adjustments on taxes are recognized at the time they are awarded.

**(ii) Development Cost Charges**

Development cost charges are recognized as revenue during the period in which the related costs are incurred.

**(iii) Government Transfers**

Government transfers without stipulations restricting their use are recognized in the financial statements as revenue in the period in which the transfers are authorized. Government transfers with stipulations restricting their use are recognized in the financial statements as revenues in the period in which eligible expenses are incurred provided they are authorized and meet eligible criteria.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of compensated absences and termination benefits, collectability of accounts receivable, useful lives of tangible assets for calculation of amortization and provisions for contingencies. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

**NOTE 2 - ACCOUNTS RECEIVABLE**

	<u>2016</u>	<u>2015</u>
Utilities	\$ 6,788,646	\$ 6,992,756
Property Taxes	3,720,173	4,437,849
Trade and Other	1,492,159	1,159,844
Due from Provincial Government	1,166,388	2,779,686
Municipal Finance Authority Debt Reserve	885,056	860,991
Due from Federal Government	784,213	734,602
Interest on Investments	723,596	872,800
Due from Regional Government	152,009	227,290
	<u>\$ 15,712,240</u>	<u>\$ 18,065,818</u>



**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 3 - DEVELOPMENT COST CHARGES RECEIVABLE**

	<u>Water Distribution</u>	<u>Roads</u>	<u>Drainage</u>	<u>Sewer</u>	<u>Parks</u>	<u>Water Supply</u>	<u>2016</u>	<u>2015</u>
Installments:								
2016	\$ 3,715	\$ 48,350	\$ 7,147	\$ 10,382	\$ 19,658	\$ 67,006	\$ 156,258	\$ 418,548
2017	3,715	48,350	7,147	10,382	19,658	67,007	156,259	350,356
	<u>\$ 7,430</u>	<u>\$ 96,700</u>	<u>\$ 14,294</u>	<u>\$ 20,764</u>	<u>\$ 39,316</u>	<u>\$ 134,013</u>	<u>\$ 312,517</u>	<u>\$ 768,904</u>

Development cost charges are collected on the approval of a subdivision or the issuance of a building permit. These funds assist the City in the cost of development, including constructing capital improvements, operating projects and the related debt servicing costs. Installments receivable represent funds due from developers within two years and are secured by irrevocable standby letters of credit and/or cash on deposit. No interest is charged on these outstanding installments.

**NOTE 4 - TEMPORARY INVESTMENTS**

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Temporary Investments	\$ 93,731,114	\$ 93,912,139	\$ 100,726,222	\$ 101,214,712
Debentures	18,935,696	18,889,165	-	-
	<u>\$ 112,666,810</u>	<u>\$ 112,801,304</u>	<u>\$ 100,726,222</u>	<u>\$ 101,214,712</u>

**NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>2016</u>	<u>2015</u>
Trade and Other	\$ 13,295,218	\$ 11,943,227
RCMP Contract	8,404,290	6,049,632
Deposits	5,072,714	4,136,976
Accrued wages and benefits	3,746,383	3,631,343
Contaminated sites	110,000	110,000
Other governments	569,642	709,584
	<u>\$ 31,198,247</u>	<u>\$ 26,580,762</u>

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 6 - COMPENSATED ABSENCES AND TERMINATION BENEFITS**

The City provides certain post-employment benefits, non-vested sick leave, compensated absences and termination benefits to its employees. An actuarial valuation for these benefits was performed to determine the City's accrued benefit obligation as at December 31, 2013 and the results are extrapolated to December 31, 2016. The next valuation will be performed as of December 31, 2016 and the results will be extrapolated through to December 31, 2019. Significant assumptions used in the valuation include a discount rate of 4.75%, inflation of 2% and compensation increases, excluding merit and promotion, of 3%. There are unamortized actuarial gains of \$146,513 (2015– \$153,663).

	<u>2016</u>	<u>2015</u>
Actuarial Benefit Obligation, beginning of year	\$ 6,671,260	\$ 6,476,781
Unamortized Actuarial Gain, beginning of year	153,663	160,813
	<hr/>	<hr/>
	6,824,923	6,637,594
Current Service Cost	488,406	457,118
Interest Costs	313,517	305,022
Benefits Paid	(630,216)	(567,661)
Amortization of Actuarial Gain	(7,150)	(7,150)
	<hr/>	<hr/>
	6,989,480	6,824,923
	<hr/>	<hr/>
Actuarial Benefit Obligation, end of year	6,842,967	6,671,260
Unamortized Actuarial Gain, end of year	146,513	153,663
	<hr/>	<hr/>
Accrued Benefit Liability, end of year	\$ 6,989,480	\$ 6,824,923
	<hr/>	<hr/>

Actuarial gains and losses are amortized over 12 – 14 years, being the expected average remaining service period of the related employee groups, commencing the year after the gain or loss arises. The total expense recorded in the financial statements in respect of obligations under this plan amounts to \$794,773 (2015 - \$754,990).

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 7 - DEFERRED REVENUE AND OTHER LIABILITIES**

	<u>2016</u>	<u>2015</u>
Tax Prepayments	\$ 11,577,802	\$ 11,559,862
Other Prepayments	5,402,982	4,966,141
	<u>\$ 16,980,784</u>	<u>\$ 16,526,003</u>

**NOTE 8 - DEFERRED DEVELOPMENT COST CHARGES**

	<u>2016</u>	<u>2015</u>
Deferred Development Cost Charges - beginning of year	\$ 38,658,888	\$ 41,398,345
Additions	8,224,116	4,298,709
Interest Earned	736,333	724,817
Revenue Recognized	(5,390,435)	(7,762,983)
Deferred Development Cost Charges - end of year	<u>\$ 42,228,902</u>	<u>\$ 38,658,888</u>

**NOTE 9 - DEBT, NET OF MUNICIPAL FINANCE AUTHORITY (MFA) SINKING FUND DEPOSITS**

The City issues debt instruments through the MFA pursuant to security issuing bylaws under authority of the *Community Charter* to finance certain capital expenditures.

\$43,925,300 (2015 – \$46,847,697) of debt is with the MFA. Payments of \$20,924,700 on the gross amount borrowed of \$64,850,000 are held in a sinking fund by the MFA. The remaining \$925,896 in 2015 was borrowed from the Royal Bank. This balance was repaid in 2016. The rates of interest on the principal amount of the MFA debentures vary between 1.6% and 4.82% per annum.

	<u>2016</u>	<u>2015</u>
Total Outstanding Debt - beginning of year	\$ 47,773,593	\$ 50,860,003
Reduction of Long-term Debt	(3,848,293)	(3,086,410)
Total Outstanding Debt - end of year	<u>\$ 43,925,300</u>	<u>\$ 47,773,593</u>

The City of Nanaimo is subject to 'Liability Servicing Limits' as outlined in Section 174 of the *Community Charter*. The maximum value of liability servicing cost for a given year is 25% of a municipality's controllable and sustainable revenues for the previous year. The calculated liability servicing limit for the City of Nanaimo for 2016 at December 31, 2015 was \$37,733,162. The actual liability servicing cost was \$5,339,746, leaving \$32,393,416 of liability servicing capacity available.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 9 - DEBT, NET OF MUNICIPAL FINANCE AUTHORITY (MFA) SINKING FUND DEPOSITS (CONTINUED)**

Future payments on net outstanding debt over the next five years and thereafter are as follows:

<u>Year</u>	<u>General</u>	<u>Water</u>	<u>Total</u>
2017	\$ 2,205,420	\$ 836,569	\$ 3,041,989
2018	2,296,455	870,032	3,166,487
2019	2,391,258	904,833	3,296,091
2020	2,489,986	941,026	3,431,012
2021	1,920,717	978,667	2,899,384
Thereafter	12,145,949	15,944,388	28,090,337
	<u>\$ 23,449,785</u>	<u>\$ 20,475,515</u>	<u>\$ 43,925,300</u>

					Balance Outstanding	
Bylaw #	MFA Issue #		Interest Rate %	Year Matures	2016	2015
<u>General Fund - Tax Supported</u>						
5425	72	Leisure and Aquatic Centre	2.10	2020	\$ 1,261,630	\$ 1,543,830
5457	73	Leisure and Aquatic Centre	1.60	2020	1,149,486	1,406,600
Royal Bank	-	Harbourfront Parkade	5.48	2016	-	925,896
5750	99	Port of Nanaimo Centre	1.75	2026	8,952,209	9,669,168
5750	101	Port of Nanaimo Centre	4.52	2027	9,669,168	10,358,552
7050	102	Fire Station #4	4.82	2027	2,417,292	2,589,638
					<u>23,449,785</u>	<u>26,493,684</u>
<u>Waterworks Fund - User Fee Supported</u>						
7127	126	Water Treatment Plant	3.85	2033	11,905,777	12,388,861
7127	127	Water Treatment Plant	3.30	2034	8,569,738	8,891,048
					<u>20,475,515</u>	<u>21,279,909</u>
					<u>\$ 43,925,300</u>	<u>\$ 47,773,593</u>

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 10 - TANGIBLE CAPITAL ASSETS**

<u>Net Book Value</u>	<u>2016</u>	<u>2015</u>
Land	\$ 87,649,479	\$ 85,701,341
Land Improvements	20,797,641	15,359,117
Leasehold Improvements	315,527	308,912
Marine Structures	136,488	164,575
Buildings	122,257,722	126,713,242
Vehicles and Equipment	12,642,355	12,191,028
IT Infrastructure	786,508	1,224,538
Drainage	74,710,543	73,726,125
Transportation	136,434,371	138,454,679
Sewer	29,821,467	24,587,060
Water	186,146,197	181,853,194
	<hr/>	<hr/>
	671,698,298	660,283,811
Work In Progress	9,430,420	9,298,106
	<hr/>	<hr/>
	<u>\$ 681,128,718</u>	<u>\$ 669,581,917</u>

See schedule of tangible capital assets (page 9) for more information. There were no write downs of tangible capital assets for 2015 and 2016. Developer contributed assets recognized in 2016 were \$8,126,066 (2015 - \$4,234,016) recorded at fair value at the time of receipt. These include transportation, drainage, sewer and water infrastructure and the land under these assets.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 11 - ACCUMULATED SURPLUS**

	<u>2016</u>	<u>2015</u>
Reserve Accounts (Note 22)	\$ 59,153,370	\$ 65,292,759
Surplus - General	5,139,416	3,752,211
Surplus - Sewer System	6,765,372	6,695,163
Surplus - Waterworks	5,430,316	5,356,715
Investment in Tangible Capital Assets (Note 18)	637,203,418	621,808,324
Community Works Reserve Fund (Gas Tax Agreement)	6,136,926	2,490,950
Equipment Depreciation Reserve	6,148,706	5,590,647
Facility Development (Recreation) Reserve	2,133,321	1,680,653
Property Sales Reserve	1,183,092	1,331,516
Knowles Estate Reserve	435,516	430,717
Parkland Dedication Reserve	375,527	211,565
Old City Neighborhood Parking Reserve	87,227	85,647
General Asset Management Reserve	7,551,309	4,863,087
Sewer Asset Management Reserve	834,516	512,605
Water Asset Management Reserve	1,135,280	1,225,984
Regional Emissions Reduction Reserve	377,438	301,833
	<u>\$ 740,090,750</u>	<u>\$ 721,630,376</u>

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

**(a) Liability Claims**

In the ordinary course of business, various claims and lawsuits are brought against the City. The City records an accrual in respect of legal claims that are likely to be successful and for which a liability amount is reasonably determinable. The remaining claims, should they be successful as a result of litigation, will be recorded when a liability is likely and determinable. Liability insurance is carried by the City, subject to a deductible of \$25,000 per claim.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**(b) BC Assessment Authority Appeals**

As at December 31, 2016, there were various appeals pending with respect to assessed values of properties. The outcome of those appeals may result in adjustments to property taxes receivable for the current and prior years. The City makes a provision against property taxes receivable for the impact of appeals where the losses are likely and the amounts are reasonably determinable.

**(c) Joint and Several Liabilities**

The City has a contingent liability with respect to debentures of the Regional District of Nanaimo and the Regional Hospital District of Nanaimo, to the extent provided for in their respective Acts of Incorporation. Management does not consider payment under this contingency to be likely and therefore no amounts have been accrued.

The City issues its debt instruments primarily through the MFA. Demand notes are executed in connection with each debenture whereby the City may be required to pay certain amounts to the Regional District of Nanaimo. These demand notes of \$1,871,727 (2015 – \$1,871,727) are contingent in nature and given the low likelihood of payment are not reflected in the accounts.

The City is a participant in the Municipal Insurance Association of British Columbia (the Association). Should the Association pay out claims in excess of premiums received, it is possible that the City, along with other participants, would be required to contribute towards the deficit.

**(d) Subsidence of Mines**

Continued existence of abandoned underground mines has resulted in risk to private land and public roads due to potential collapse or instability. The full impact of the abandoned mines and any potential liabilities are unknown at this time and a partnership with the Province of BC to complete studies to address any potential risks has been requested. No determination of the City's liability, if any, has been made and no estimate of potential loss can be made or recorded at this time. A liability will be recorded if remediation costs are determined to be likely and the amounts are reasonably determinable.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**(e) Commitments**

The City has \$6.9 million in open purchase orders at year end which have not been recorded in the financial statements. The funding for the majority of these obligations has been set aside in reserves for future expenditures. These amounts will be recorded in the period that the goods and services, to which they relate, are received.

**(f) Guarantees**

The City has guaranteed the amount of a \$2 million line of credit for the Port Theatre Society. Management considers the likelihood of payment on the guarantee to be low.

**NOTE 13 - CEMETERY CARE FUND**

The City operates the cemetery and maintains a cemetery perpetual care fund in accordance with the *Cremation, Interment and Funeral Services Act*. The trust fund assets and liabilities are not included in the consolidated financial statements. At December 31, 2016, the balance of funds held in trust was \$556,668 (2015 - \$545,088).

**NOTE 14 - ANNUAL BUDGET**

These financial statements include the Annual Budget as approved by Council on May 2, 2016. No amendments subsequent to this date have been included. The following is a reconciliation of the budget presentation required for the financial statements and the annual financial plan bylaw:

	<u>2016</u>
Annual Budgeted Surplus - Statement of Operations	\$ 9,930,513
Cemetery Care Fund - not in reporting entity	<u>7,500</u>
Annual Surplus from the 2016 Financial Plan	9,938,013
Amortization, not funded	23,174,277
Capital Expenditures	(50,245,388)
Principal Repayment of Debt	(3,060,719)
Transfers from Accumulated Surplus	<u>20,193,817</u>
Net Annual Budget - as approved	<u><u>\$ -</u></u>



**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 15 - TAXATION AND PAYMENTS IN LIEU**

	<u>Municipal</u>	<u>Other</u>	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
Property Taxes	\$ 92,240,459	\$ 59,751,226	\$ 151,991,685	\$ 149,951,400
Local Improvements Frontage Fees	2,119	-	2,119	18,985
Business Improvement Area Levies	231,923	-	231,923	229,631
Vancouver Island Regional Library	4,108,327	-	4,108,327	3,907,839
Taxes in Lieu of Licenses	1,423,278	-	1,423,278	1,390,851
Payments in Lieu of Taxes	1,459,260	487,326	1,946,586	2,027,952
	<u>\$ 99,465,366</u>	<u>\$ 60,238,552</u>	<u>\$ 159,703,918</u>	<u>\$ 157,526,658</u>
			<u>2016</u>	<u>2015</u>
Less Collections for Other Governments:				
Province of British Columbia (School Tax)			\$ 38,128,393	\$ 38,338,515
Regional District of Nanaimo			17,334,012	16,256,554
Nanaimo Regional Hospital District			3,742,866	3,675,389
Other Agencies			1,033,281	1,067,438
			<u>60,238,552</u>	<u>59,337,896</u>
Taxation and Payments in Lieu			<u>\$ 99,465,366</u>	<u>\$ 98,188,762</u>

**NOTE 16 - USER FEES AND SALES OF SERVICES**

	<u>2016</u>	<u>2015</u>
Waterworks	\$ 16,558,860	\$ 14,163,855
Recreation Programs	6,664,001	6,410,086
Sewer System	6,291,738	5,973,772
Garbage Collection	3,776,182	3,766,514
Vancouver Island Conference Centre	2,043,538	1,835,151
Public Works	722,937	710,545
Parking	1,454,039	1,420,363
Other	625,778	333,169
Community Safety	211,219	195,678
	<u>\$ 38,348,292</u>	<u>\$ 34,809,133</u>

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 17 - TRANSFERS FROM OTHER GOVERNMENTS**

	<u>2016</u>	<u>2015</u>
<u>Federal</u>		
Gas Tax	\$ 3,587,994	\$ 3,471,100
Other	76,185	53,400
	<u>3,664,179</u>	<u>3,524,500</u>
<u>Provincial</u>		
Casino Gaming	2,593,933	2,485,884
Revenue Sharing	1,211,761	1,373,272
Other	329,784	376,106
	<u>4,135,478</u>	<u>4,235,262</u>
<u>Regional District of Nanaimo</u>		
Other	211,368	202,242
	<u>211,368</u>	<u>202,242</u>
Total Transfers from Other Governments	<u>\$ 8,011,025</u>	<u>\$ 7,962,004</u>
Transfers from Other Governments - Capital	\$ 3,679,418	\$ 3,604,561
Transfers from Other Governments - Operating	4,331,607	4,357,443
	<u>4,331,607</u>	<u>4,357,443</u>
Total Transfers from Other Governments	<u>\$ 8,011,025</u>	<u>\$ 7,962,004</u>

**NOTE 18 - INVESTMENT IN TANGIBLE CAPITAL ASSETS**

	<u>2016</u>	<u>2015</u>
Investment in Tangible Capital Assets - beginning of year	\$ 621,808,324	\$ 604,496,249
Add:		
Capital Additions	36,058,081	35,899,524
Reductions in Long-term Debt	3,848,293	3,086,410
Less:		
Amortization	(22,926,296)	(20,288,865)
Net Book Value of Asset Disposals	(1,584,984)	(1,384,994)
	<u>(1,584,984)</u>	<u>(1,384,994)</u>
Investment in Tangible Capital Assets - end of year	<u>\$ 637,203,418</u>	<u>\$ 621,808,324</u>

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 19 - MUNICIPAL PENSION PLAN**

The City and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trusteesd pension plan. The Board of Trustees, representing plan members and employers, is responsible for administering the plan, including investment of the assets and administration of benefits. The Plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. The Plan has about 189,000 active members and approximately 85,000 retired members. Active members include approximately 37,000 contributors from Local Government.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. During 2016, City of Nanaimo contributions to the plan were:

	<u>2016</u>	<u>2015</u>
Employer Portion	\$ 4,902,227	\$ 5,048,233
Employee Portion	4,128,271	4,272,288
	<u>\$ 9,030,498</u>	<u>\$ 9,320,521</u>

The next valuation will be as at December 31, 2018 with results available in 2019.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 20 - FINANCIAL INSTRUMENTS**

**(a) Financial Risk and Fair Market Values**

The City's financial instruments consist of cash and cash equivalents, accounts receivable, development cost charges receivable, temporary investments, accounts payable and accrued liabilities and debt. The City does not hold any asset-backed commercial paper or hedge funds. The financial risk is the risk to the City's earnings that arises from fluctuations in interest rates, foreign exchange rates, and the degree of volatility of these rates. The City does not use derivative instruments to reduce its exposure to interest rate risk nor foreign exchange risk as management does not consider the risks material. Based on available market information, the carrying value of the City's financial instruments approximates their fair value with the exception of temporary investments for which market values are disclosed in Note 4.

**(b) Credit Risk**

The City is not exposed to significant risk from its accounts receivables. The City's tax base has a significant number of participants which reduces the concentration of credit risk. Credit risk is further minimized as the City has the ability to expropriate land in the event of non-payment of property tax receivables.

**NOTE 21 - COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

**NOTE 22 - RESERVES**

	<u>Work in Progress</u>	<u>Available for Future Commitments</u>	<u>2016</u>	<u>2015</u>
<u>General Revenue Fund Reserve Accounts</u>				
Fire & Emergency Services	\$ 150,000	\$ 1,897,367	\$ 2,047,367	\$ 1,707,678
Parks & Recreation	167,094	40,856	207,950	277,264
Strategic Partnerships	-	250,000	250,000	250,000
General Capital	841,352	4,286,003	5,127,355	6,839,897
Prior Year Carry Forwards	4,367,140	-	4,367,140	5,551,321
Housing Legacy Reserve	159,790	2,255,862	2,415,652	2,761,573
Uncollected Taxes	-	2,112,533	2,112,533	2,472,037
Uninsured Claims	-	2,682,939	2,682,939	2,580,995
Allowance for Bad Debts	10,000	40,000	50,000	50,000
RCMP Contract	212,071	2,866,761	3,078,832	3,290,903
Information Technology Infrastructure	1,136,608	479,062	1,615,670	1,835,560
Sustainability Initiatives	440,687	286,044	726,731	790,470
Parking Reserve	358,245	261,520	619,765	988,211
Conference Centre	111,885	648,241	760,126	700,682
Snow Removal	-	400,000	400,000	400,000
Property Acquisition	1,025,040	938,037	1,963,077	1,334,833
Colliery Dam Reserve	172,684	69,770	242,454	972,479
Photocopier Reserve	53,000	256,408	309,408	295,639
Casino Funds	-	723,611	723,611	256,613
	<u>9,205,596</u>	<u>20,495,014</u>	<u>29,700,610</u>	<u>33,356,155</u>
<u>Sewer Revenue Reserve Accounts</u>				
General Capital	5,343,695	5,489,323	10,833,018	10,938,977
Growth Related Projects	-	916	916	916
	<u>5,343,695</u>	<u>5,490,239</u>	<u>10,833,934</u>	<u>10,939,893</u>
<u>Waterworks Revenue Fund Reserve Accounts</u>				
General Capital	13,423,929	3,195,236	16,619,165	19,487,050
Growth Related Projects	-	1,900,000	1,900,000	1,410,000
Local Improvement Projects	-	99,661	99,661	99,661
	<u>13,423,929</u>	<u>5,194,897</u>	<u>18,618,826</u>	<u>20,996,711</u>
Total Reserve Accounts	<u>\$ 27,973,220</u>	<u>\$ 31,180,150</u>	<u>\$ 59,153,370</u>	<u>\$ 65,292,759</u>

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 23 - SEGMENT REPORTING**

The City's operations and activities are organized and reported by Fund. City services are provided by departments and their activities are reported in these funds. See Schedule of Operations by Segment (page 7).

**GENERAL REVENUE FUND**

Certain departments have been separately disclosed in the segmented information, along with the services they provide as follows:

**City Administration**

The Chief Administrative Officer's office assists Council to establish its strategic direction for the City and takes the lead role in managing the implementation of policy direction established by Council. The Office also provides managerial leadership and direction to all City departments and operations.

The City Administration department is responsible for the City's regulatory services, including legislative services, and the bylaw, animal control, and parking functions.

**Corporate Services**

Providing service to both the internal organization and the community, the Corporate Services Department is responsible for Human Resources and Organizational Planning, Information Technology, Financial Services and Purchasing.

**Development Services**

Development Services is responsible for a variety of tasks relating to planning and development. This includes processing development applications and developing related policies and regulations. The Development Services Department is also the liaison to the Nanaimo Economic Development Corporation.

**Fire**

The Fire Department has the responsibility of protecting the City's citizens and infrastructure through prevention and quick and high quality response to fire, medical and other emergency incidents in the most effective and responsive manner possible. Fire services also include emergency management, planning and coordination functions.

**CITY OF NANAIMO**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
for the year ended December 31, 2016

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**NOTE 23 - SEGMENT REPORTING (CONTINUED)**

**Police**

The City contracts the Royal Canadian Mounted Police to provide top quality policing services in Nanaimo. With administrative support services provided by City employees, the detachment provides all standard policing services, including response to emergency and non-emergency calls, criminal investigations and traffic safety measures.

**Port of Nanaimo Centre**

The operation of the Vancouver Island Conference Centre provides a full-service convention centre that hosts meetings, conferences, tradeshow, and weddings for up to 1,300 delegates.

**Parks and Recreation**

The Parks and Recreation department manages, facilitates and maintains a system of services, facilities, parks and open spaces and works to enhance the quality of life for the citizens of Nanaimo.

**Engineering and Public Works**

Engineering and Public Works is responsible for the planning, design, construction, operation and maintenance of the City's infrastructure including the City's water, sanitary sewer, drainage and transportation infrastructure. Department operations also include maintenance of the City's fleet, cemeteries, solid waste collection and recycling.

**SEWER SYSTEM**

The City Sanitary Sewer Utility is a self-funded entity that operates and maintains a sewer collection system that serves the City.

**WATERWORKS**

The City Waterworks Utility is a self-funded entity that delivers water to residential, commercial and industrial premises in Nanaimo. The Utility operates and maintains a supply system consisting of dams, transmission mains, reservoirs and treatment facilities as well as a distribution system.



# City of Nanaimo

**Audit Findings Report**  
**For the year ended December 31, 2016**

*KPMG LLP*

Prepared for the meeting on April 19, 2017

[kpmg.ca/audit](http://kpmg.ca/audit)





The contacts at KPMG in connection with this report are:

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# Executive summary

## Purpose of this report\*

The purpose of this Audit Findings Report is to assist you, as members of the Finance and Audit Committee, in your review of the results of our audit of the consolidated financial statements of the City of Nanaimo as at and for the year ended December 31, 2016.

This Audit Findings Report builds on the Audit Plan we presented to the Finance and Audit Committee on October 4, 2016.

## Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

## Audit focus and results

We discussed with you at the start of the audit a number of financial areas where we would focus the audit:

- Financial reporting
- Information technology
- Revenue recognition
- Infrastructure management
- Human resources
- Management override

By focusing on these areas, we established an overall audit strategy and effectively targeted our audit procedures. We are satisfied that our audit work has appropriately dealt with these areas.

We discuss other matters in this report that have been identified throughout the course of our audit that we would like to bring to your attention.

## Adjustments and differences

There were two uncorrected audit differences identified. One related to the accrual for retroactive pay for the RCMP contract that expired in January of 2015, and the other related to the correction of revenue recorded for developer contributed assets relating to 2015. The net impact of the uncorrected audit differences on the annual surplus would be an increase of \$4,180.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

*See page 9 and Appendix 1b (containing the Management representation letter)*

\* This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance and Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Executive summary

## Finalizing the audit

We have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- completing our discussions with the Finance and Audit Committee.
- obtaining evidence of Council's approval of the financial statements.
- obtaining the signed management representation letter.
- completing subsequent event review procedures up to the date of Council approval of the financial statements, including updating our discussions with management regarding any changes to our understanding of legal matters.

We will update you on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

## Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting.

## Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

The critical areas of estimates relate to: the amortization of tangible capital assets, estimates for contaminated sites, contingent liabilities, and employee future benefits.

## Independence

We are independent with respect to the City (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

## Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

# Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our findings in respect of financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

## Significant financial reporting risks

As part of our audit planning, we identified the financial reporting risk that, by its nature, requires special audit consideration. By focusing on this risk, we established an overall audit strategy and effectively target our audit procedures.

The *significant* financial reporting risk identified during our audit planning is listed below:

Professional requirements	Why	Our response and findings
Risk of management override	Required to be identified as a significant risk per professional standards	<p>We performed the required procedures under professional standards:</p> <ul style="list-style-type: none"> <li>• Test all material journal entries made in the preparation of the year-end financial statements, entries potentially related to fraud or management override of controls, and inspect the relevant documentation for authorization and appropriateness.</li> <li>• A retrospective review of estimates, including the assumptions used by management</li> <li>• Evaluating the business rationale of significant unusual transactions</li> </ul> <p>We are satisfied that our audit work has appropriately dealt with the risk of management override</p>

# Critical accounting estimates

Management has identified significant areas requiring the use of management's estimates related to the determination of compensated absences and termination benefits, collectability of accounts receivable, useful lives of tangible capital assets for calculation of amortization and provisions for contingencies.

We have summarized our assessment of some of the subjective areas.

## Critical accounting estimates

Asset / liability	Balance	KPMG comment
Compensated absences and termination benefits	\$ 6,989,480	<ul style="list-style-type: none"> <li>We performed substantive analytical procedures on the provision for payroll and vacation accruals prepared by Management</li> <li>We assessed the reasonableness of the discount rates and assumptions used by Nexus, the City's actuary</li> <li>The current valuation was performed as at December 31, 2013 with results being extrapolated to December 31, 2016.</li> </ul>
Useful lives of tangible capital assets	\$681,128,718	<ul style="list-style-type: none"> <li>We recalculated and reviewed the tangible capital asset continuity schedules and performed substantive analytical procedures on amortization expense</li> <li>We assessed the reasonability and consistency of Management's estimates of useful lives for the various categories of assets.</li> </ul>
Contaminated sites	\$ 110,000	<ul style="list-style-type: none"> <li>We obtained an understanding and assessed the reasonability of Management's analysis of non-productive sites and associated liabilities</li> <li>We performed testing over the completeness and reasonability of identified sites.</li> <li>There have been no additional sites identified in 2016.</li> </ul>

We believe management's process for identifying critical accounting estimates is considered adequate.

# Other matters

Professional standards require us to communicate to Council Other Matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the City's related parties, significant difficulties encountered during the audit, and disagreements with management.

None of the above described matters were noted.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
<b>Nanaimo Economic Development Corporation ("NEDC")</b> <ul style="list-style-type: none"> <li>In December 2016, the City announced that it intends to wind-up and dissolve the NEDC during 2017.</li> <li>Subsequent to January 31, 2017, NEDC's administrative, tourism marketing and most of its economic development operations ended. The NEDC net debt and non-financial assets will be transferred to the City during 2017.</li> <li>It is anticipated that the NEDC will cease all activities by June 30, 2017 and the transfer of NEDC's net debt and non-financial assets will occur on or around that date.</li> <li>Going forward the City of Nanaimo is to deliver economic development services.</li> </ul>	<ul style="list-style-type: none"> <li>Subsequent to the dissolution of NEDC and transfer of NEDC's net debt and non-financial assets the City will no longer prepare its financial statements on a consolidated basis.</li> </ul>
<b>Reserves Policy</b> <ul style="list-style-type: none"> <li>We have been made aware that management is in the process of establishing a comprehensive Reserve Policy for the City to help facilitate the management of the City's reserves.</li> </ul>	<ul style="list-style-type: none"> <li>We support this initiative and consider it appropriate to have such a policy in place.</li> </ul>

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the City's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

## Adjustments and differences

Adjustments and differences identified during the audit have been categorized as "Corrected adjustments" or "Uncorrected differences". These include disclosure adjustments and differences.

Professional standards require that we request of management and Council that all identified differences be corrected. We have already made this request of management.

### Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

### Uncorrected differences

The management representation letter includes the Summary of Uncorrected Audit Misstatements, which disclose the impact of all uncorrected differences considered to be other than clearly trivial. Please see the next page for the summary of uncorrected differences.

## Uncorrected differences

Based on both qualitative and quantitative considerations, management have decided not to correct certain differences, and represented to us that the uncorrected differences—individually and in the aggregate—are, in their judgment, not material to the financial statements.

As at and for the year ended December 31, 2016	Income effect	Financial position		
Description of differences greater than \$175,000 individually	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated Surplus (Decrease) Increase
To reduce payables and salaries expense for the RCMP retro pay accrual relating to 2015 and 2016.	\$1,260,000	-	(1,260,000)	1,260,000
To adjust 2016 revenue for the developer contributed assets relating to 2015.	(\$835,820)	-	-	-
<b>Total differences</b>	<b>\$424,180</b>	<b>-</b>	<b>(1,260,000)</b>	<b>1,260,000</b>

We concur with management's representation that the differences are not material to the financial statements. Accordingly, the differences have no effect on our auditors' report.



# Control observations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

## Significant deficiencies

In accordance with professional standards, we are required to communicate to the Finance and Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal control over financial reporting.

We have not identified control deficiencies that we consider to be significant deficiencies in internal controls over financial reporting.

## Other control deficiencies

We have communicated to management other control deficiencies identified during the audit. They are included in our management letter.

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Draft auditors' report**

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**Appendix 3: Draft management representation letter**

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**Appendix 4: Value for fees**

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**Appendix 5: Background and professional standards**

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**Appendix 6: Expanded auditor reporting**

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**Appendix 7: Current developments**

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# Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report in Appendix 2.
- **Audit findings report** – as attached.
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Finance and Audit Committee. See Appendix 3.
- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as Management's responsibilities, are set out in the engagement letter which was provided at the audit planning meeting.
- **Independence** – we confirm that we are independent with respect to the City within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2016 up until the date of this report.
- **Management letter** - we have issued a letter to management related to internal control observations. We did not identify any significant deficiencies in internal controls however we provide an update in the letter to other observations related to internal controls that were noted previously.

# Appendix 2: Draft auditors' report

## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council

We have audited the accompanying consolidated financial statements of the City of Nanaimo, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, including the schedules of operations by segment and tangible capital assets.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City of Nanaimo as at December 31, 2016, and its consolidated results of operations, its changes in net consolidated financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

# Appendix 3: Draft management representation letter

KPMG LLP  
 PO Box 10426  
 777 Dunsmuir Street  
 Vancouver BC V7Y 1K3  
 Canada

## DATE OF FINANCIAL STATEMENT APPROVAL BY COUNCIL

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as “financial statements”) of the City of Nanaimo (“the City”) as at and for the period ended December 31, 2016.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in Attachment I to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **GENERAL:**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 23, 2016, for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with Canadian public sector accounting standards
  - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, and access to such relevant information
  - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
  - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING:**

2. We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

**FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:**

3. We have disclosed to you:
- e) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - f) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
  - g) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
  - h) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
  - i) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**COMMITMENTS & CONTINGENCIES:**

4. There are no:
- j) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation
  - k) other environmental matters that may have an impact on the financial statements
  - l) guarantees, whether written or oral, under which the City is contingently liable.

**SUBSEQUENT EVENTS:**

5. All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

**RELATED PARTIES:**

6. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

**ESTIMATES:**

7. Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

**NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:**

8. We confirm that the City is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the City will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**MISSTATEMENTS:**

9. The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

**ASSETS & LIABILITIES – GENERAL:**

10. The City has satisfactory title to all owned assets.
11. We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or signed as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.
12. We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.

**CONTRACTUAL AGREEMENTS:**

13. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the City's debt agreements.

**ENVIRONMENTAL MATTERS:**

14. The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

**NON-FINANCIAL ASSETS:**

15. We have reviewed non-financial assets, including tangible capital assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

**EMPLOYEE FUTURE BENEFITS:**

16. The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
17. We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.
18. The significant accounting policies the City has adopted in applying PS 3255, Post-employment benefits, compensated absences and termination benefits (hereinafter referred to as "PS3255") are disclosed in the notes to the financial statements.
19. All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:
  - m) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
  - n) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.



- o) compensated absences for which it is expected employees will be paid. These benefits include accumulated sick days, and
  - p) termination benefits.
20. The post-employment benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with PS 3255. In particular:
- a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and
  - b) the best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.
21. The assumptions included in the actuarial valuation are those that management instructed Nexus Actuarial Consultants Ltd. ("Nexus") to use in computing amounts to be used by us in determining pension costs and obligations and in making required disclosures in the above-names financial statements, in accordance with PS 3255.
22. In arriving at these assumptions, management has obtained the advice of Nexus, but has retained the final responsibility for them.
23. The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
24. All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

#### **SEGMENT DISCLOSURES:**

25. The City's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework. The operating segment information disclosed in the financial statements is consistent with the form and content of the information used by the City's chief operating decision maker for the purposes of assessing performance and making operating decisions about the City's individual operations. All significant differences in measures used to determine segment income have been appropriately identified and described in the disclosures of segment information in accordance with the relevant financial reporting framework.

#### **EXPERTS / SPECIALISTS:**

26. The information provided by us to Nexus, and used in the work and findings of Nexus, is complete and accurate. We agree with Nexus's findings in evaluating the accuracy and completeness of employee future benefits and have adequately considered their qualifications in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give nor cause any instructions to be given to Nexus with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on Nexus's independence and objectivity.

#### **OTHER:**

27. Expenditures will be appropriately authorized and actual expenditures will not exceed budgeted expenditures detailed in the budget bylaw.
28. We have appropriately prepared the Form C2 – Home Owner Grant: Treasurer/Auditor Certification in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.
29. We have complied with subsection 2 and 3 section 124 of Part 8 of the School Act.

30. All reserve transactions have been appropriately approved, in accordance with applicable legislation and are appropriately credited to or charged against fund balances. Reserve amounts represent only those amounts that are available for use at the City's discretion and do not include restrictions on use by third parties
31. All transfers out of statutory reserves have been conducted in accordance with the approved bylaws.

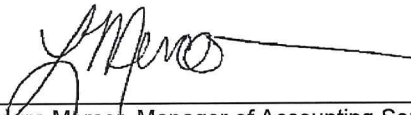
Yours very truly,



Ms. Tracy Samra, Chief Administrative Officer



Mr. Victor Mema, Chief Financial Officer



Ms. Laura Mercer, Manager of Accounting Services

cc: The Mayor and Council of the City of Nanaimo

## Attachment I – Definitions

### Materiality

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### Fraud & error

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### Related parties

In accordance with Public Sector Accounting Standards related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Public Sector Accounting Standards a related party transaction is defined as a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

## Attachment II – Summary of Audit Misstatements

## Uncorrected misstatements:

As at and year ended December 31, 2016	Income effect	Financial position		
Description of misstatements greater than \$175,000 individually	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated surplus (Decrease) Increase
To reduce payables and salaries expense for the RCMP retro pay accrual relating to 2015 and 2016.	\$1,260,000	-	(1,260,000)	1,260,000
To adjust 2016 revenue for the developer contributed assets relating to 2015.	(\$835,820)	-	-	-
<b>Total differences</b>	<b>\$424,180</b>	<b>-</b>	<b>(1,260,000)</b>	<b>1,260,000</b>

# Appendix 4: Value for fees

## The Value of our Audit Services

We recognize that the primary objective of our engagement is the completion of the audit of the consolidated financial statements in accordance with professional standards. We also believe that our role as external auditor of the City and the access to information and people in conjunction with our audit procedures, place us in a position to provide other forms of value. **We know that you expect this of us.**

We understand your expectations. To facilitate a discussion (either in the upcoming meeting or in separate discussions), we have outlined some of the attributes of our team and our processes that we believe enhanced the value of our audit service. We recognize that certain of these items are necessary components of a rigorous audit.

We welcome your feedback.

- Extensive industry experience on our audit team – as you have experienced, the senior members of our team have extensive experience in audits of municipalities in your industry. This experience ensures that we are well positioned to identify and discuss observations and insights that are important to you.
- Current development update sessions – Annually we organize and deliver tailored information sessions on current developments on financial reporting and other matters that are likely to be significant to Municipalities in order to assist clients in proactively responding to / addressing financial reporting and regulatory changes.
- Involvement of specialists – Our audit team is supported by KPMG specialists in income and other taxes, information risk management, valuations, derivatives, as needed.

# Appendix 5: Background and professional standards

## Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

## Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

# Appendix 6: Expanded auditor reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

## What's new?

The new standards are intended to provide greater insight and transparency for users of financial statements.

The most significant changes to the auditors' report impacting listed entities include:

- description of key audit matters; and
- disclosure of the name of the engagement partner.

Other changes impacting listed and non-listed entities include changing the format and style of the auditors' report, expanding description of management's responsibilities, introducing descriptions of the responsibilities of those charged with governance, and expanding the description of the auditors' responsibilities.

## When are the new requirements effective?

While the new standards have already been issued by the International Auditing and Assurance Standards Board (IAASB), effective for 2016 calendar year-ends, they have yet to be adopted as Canadian Auditing Standards (CASs).

While the Public Company Accounting Oversight Board (PCAOB) issued a re-exposure draft of its new enhanced auditors' reporting standards in 2016, which are generally aligned with the IAASB's new and revised auditor reporting standards, those proposals have not yet been finalized.

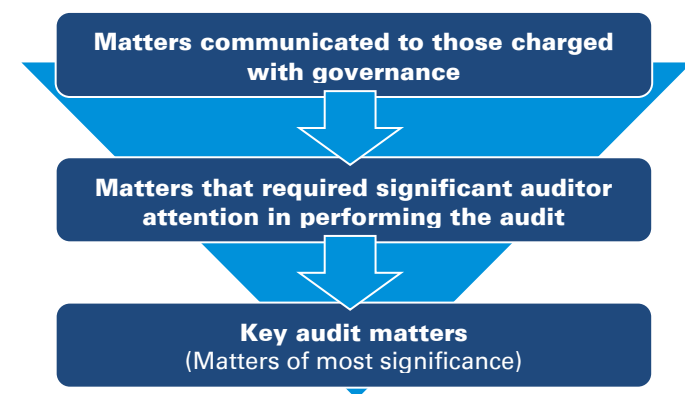
The Auditing and Assurance Standards Board in Canada (AASB) continues to deliberate the new and revised auditor reporting standards, including possible

effective dates, whether to allow for early application and whether to include the additional reporting requirements with respect to other information such as annual reports. According to the [November 2016 message from the Chair of the AASB](#), the AASB expects to be in a position to determine the impact of the PCAOB proposals in Canada and approve the new and revised standards for auditor reporting and other standards in the spring of 2017. The AASB currently does not anticipate making the new and revised standards effective prior to periods ending on or after December 15, 2018; however, early adoption will be permitted, or in some cases may be required by law or regulation. Furthermore, the AASB expects that the description of key audit matters will initially only be required for audits of listed entities on the Toronto Stock Exchange. Therefore, the AASB is still deliberating whether key audit matters should be required for audits of other listed entities.

## Key audit matters

**Key audit matters** are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period.

We will be required to include in our auditors' report why the key audit matter is of most significance and what procedures we performed to address the matter.





# Appendix 7: Current developments

## Public Sector Accounting Standards:

The following is a summary of current Public Sector Accounting Standards developments:

Standard	Summary and implications
Related Party Transactions and Inter-entity Transactions	<ul style="list-style-type: none"> <li>— Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017.</li> <li>— Related parties include entities that control or are controlled by a reporting entity, entities that are under common control and entities that have shared control over or that are subject to shared control of a reporting entity.</li> <li>— Individuals that are members of key management personnel and close members of their family are related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required.</li> <li>— Determining which related party transactions to disclose is a matter of judgment based on assessment of:               <ul style="list-style-type: none"> <li>• the terms and conditions underlying the transactions;</li> <li>• the financial significance of the transactions;</li> <li>• the relevance of the information; and</li> <li>• the need for the information to enable users' understanding of the financial statements and for making comparisons.</li> </ul> </li> <li>— A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis.</li> <li>— Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.</li> </ul>
Assets, Contingent Assets and Contractual Rights	<ul style="list-style-type: none"> <li>— Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017.</li> <li>— The intended outcome of the three new Handbook Sections is improved consistency and comparability.</li> <li>— The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity.</li> <li>— Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.</li> </ul>

Standard	Summary and implications
Restructuring Transactions	<ul style="list-style-type: none"> <li>— A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018.</li> <li>— A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.</li> <li>— The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense.</li> <li>— Restructuring-related costs are recognized as expenses when incurred.</li> <li>— Financial information prior to the restructuring date would not be restated.</li> </ul>
Employee Future Benefit Obligations	<ul style="list-style-type: none"> <li>— Given the complexity of issues involved and potential implications of any changes that may arise from review of PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, PSAB is undertaking this project in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits.</li> <li>— An Invitation to Comment was issued in November 2016, closing March 2017, seeking guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets.</li> <li>— Separate invitations to comment will be issued in the future on discount rate and other aspects of the PSAB project.</li> <li>— The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.</li> </ul>
Asset Retirement Obligations	<ul style="list-style-type: none"> <li>— A new standard is under development addressing the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB current contains no specific guidance in this area.</li> <li>— In August 2014, a Statement of Principles was issued and in March 2017, an exposure draft was released with responses requested by June 15, 2017.</li> </ul>
Revenue	<ul style="list-style-type: none"> <li>— PSAB is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and an Exposure Draft is anticipated to be published in early 2017.</li> <li>— Adoption of these principles would result in a need to assess current accounting policies.</li> <li>— In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.</li> <li>— For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.</li> </ul>

Standard	Summary and implications
<b>Financial Instruments</b>	<ul style="list-style-type: none"> <li>— Effective for governments for fiscal years beginning on or after April 1, 2019.</li> <li>— This standard requires that all financial instruments that are equity instruments and trade in an active market or derivatives be recorded at fair value.</li> <li>— The standard requires that all other financial instruments are recorded at cost but permits the option of fair value for any financial instruments that are managed and reported at fair value.</li> <li>— This standard also includes a requirement to identify and report embedded derivatives separate from the host contract with an option to value the full contract which includes the embedded derivatives at fair value.</li> </ul>
Conceptual Framework	<ul style="list-style-type: none"> <li>— A consultation paper was issued on the conceptual framework and closed in August 2015. A Statement of Principles is anticipated in 2017 which includes a number of presentation recommendations to enhance accountability objective of public sector financial statements.</li> <li>— A new “Statement of Comprehensive Financial Results” replaces the Statement of Operations and Statement of Remeasurement Gains and Losses. Revenues and expenses to be grouped to show the net results of services.</li> <li>— Below net results of services, non-operating items presented such as: grants recognized for the acquisition of tangible capital assets, unrealized remeasurement gains and losses, and unusual transactions.</li> <li>— Grants received for the purpose of a tangible capital asset used to provide services for a defined number of years proposed to be recognized in operating revenue as the liability is settled.</li> </ul>
Public Private Partnerships	<ul style="list-style-type: none"> <li>— A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. A phased approach will address the definition and measurement of transactions with P3s. A Statement of Principles is anticipated in 2017.</li> </ul>
PSAB Strategic Plan	<ul style="list-style-type: none"> <li>— In October 2016, PSAB issued an Invitation to Comment seeking feedback on its 2017-2020 draft strategic plan and how it can best serve public interest through improving information for accountability and decision-making. PSAB is currently deliberating comments and expects to finalize its strategic plan by March 2017 for implementation beginning April 2017.</li> </ul>

## Thought Leadership

### [@gov - Inspiring innovative government Transforming Government in the Age of Technology](#)

@gov is a new digital magazine designed to deliver forward thinking and transformative insights to government professionals as they face increasing demands and emerging societal needs in a changing world. Through regular publishing of thought-provoking articles, blogs, podcasts and videos, we will provide insights governments can use to navigate a changing world and get ahead of emerging societal needs. Our first theme for @gov is innovation in technology. Within these pages we will explore topics ranging from cyber security, to digital identity, to the strategic use of mobile and social media by governments.

### [Data and analytics: opportunities for government](#)

KPMG professionals and civil servants from across government, discuss the opportunities data and analytics can provide.

### [Big data boom drives need for new Chief Data Officer role](#)

As governments at all levels recognize how data and analytics (D&A) can help improve their services and outcomes, many are recruiting chief data officers (CDOs) to help build data science capabilities. However, these newly-hired executives are wise to take careful, initial steps to overcome typical policy, organizational, cultural and technical barriers, to help their agencies gain full value from the vast data at their disposal.

### [2016 Global CEO Outlook: CEOs recognize it's 'Now or never' to drive business transformation](#)

Despite current economic and market uncertainty, Global CEOs express confidence in future growth. KPMG's 2016 Global CEO Outlook study provides a vivid image of global CEOs' expectations for business growth, the challenges they face and their strategies to chart organizational success. This annual study by KPMG International captures the perspectives and insights of nearly 1,300 CEOs from companies across 11 industries in 10 countries.

### [Technology and speed: The fourth industrial revolution](#)

The fourth industrial revolution ushers in the era of the Internet of Things, machine learning, cognitive computing and artificial intelligence. The speed of change will be, quite literally, inhuman, as the advance of D&A and cognitive and machine learning drive forward change more quickly than humans alone could ever achieve. At the same time, CEOs are in learning mode themselves about what the new technologies mean for their business.

### [Top trends and predictions for 2017](#)

The Q4 2016 survey showed a measured but growing optimism regarding global economic conditions in 2017. Compared to last year, fewer respondents cited a weak economy or inadequate IT infrastructure as negative trends.

[kpmg.ca/audit](http://kpmg.ca/audit)



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DATE OF MEETING April 19, 2017

AUTHORED BY BRUCE ANDERSON, MANAGER, COMMUNITY AND CULTURAL PLANNING

SUBJECT DOWNTOWN EVENT AND REVITALIZATION FUNDING PROGRAM - 2017 DOWNTOWN EVENT GRANT RECOMMENDATIONS

### **OVERVIEW**

#### **Purpose of Report**

To obtain Council approval for the 2017 Downtown Event Grants to support downtown Nanaimo events.

#### **Recommendation**

That the Finance and Audit Committee recommend Council approve the 2017 Downtown Event Grant funding recommendations of \$115,841 for eligible applications.

### **BACKGROUND**

Council established a new Downtown Event and Revitalization Funding Program for 2017 to support events and initiatives which attract residents and visitors to the downtown, support the vibrancy of the downtown, and stimulate business activity. The total budget available for the 2017 Downtown Event Grant fund is \$117,121. The City issued a call for grant applications for this Downtown Event and Revitalization Funding Program, with a submission deadline of 2017-MAR-31.

There were 29 applications received by the grant deadline. Of the applications submitted, 25 applications were determined to be eligible and these represent a total funding request of \$213,879.20 (Attachment A). Staff further reviewed the eligible applications relative to the event grant guidelines and criteria for the Downtown Event and Revitalization Funding Program (Attachment B) and recommend allocating a total of \$115, 841 to the eligible applicants as outlined in the attached Downtown Event Grant Recommendations (Attachment A). Of the four applications deemed ineligible, one application is subject to further review regarding eligibility. The amount tentatively allocated to this application is \$1,280 and is being held back at this time.

The eligible applications received represent both renewed events from previous years, as well as some new events for the downtown in 2017. Of the former DNBIA Signature Events, applications have been made for all but four of these (Easter Spring Fling, Halloween Howl, Santa Fly-In & Santa's Workshop, and Harvest Festival). With respect to the significant amount of funding requested relative to the available budget, Staff applied the program requirement of funding 35% of an event budget to the applications and then subsequently reviewed, on an individual application basis, whether there was merit in an increase above the 35%. This allowed funding recommendations of eligible applications to fall within the limit of the \$117,121 allocated for the grant fund in 2017.



## OPTIONS

1. That the Finance and Audit Committee recommend Council approve the 2017 Downtown Event Grant funding recommendations of \$115,841 for eligible applications.
  - **Budget Implication:** The recommendations do not exceed the total available budget of \$117,121 for 2017 Downtown Event Grants.
  - **Policy Implication:** The grant recommendations implement the objectives of the Downtown Event and Revitalization Funding Program.
  - **Strategic Priorities Implication:** The Downtown Event Grants provide support for events in the downtown and furthers the goals of Economic Health and Cultural Vitality.
2. That the Finance and Audit Committee provide alternate funding recommendations.

## SUMMARY POINTS

- The City received 21 eligible applications with a total request of \$213,879.20 for the 2017 Downtown Event Grants funding program.
- An allocation of \$115,841 to eligible applicants of the total \$117,121 Downtown Event Grants budget is recommended.

## ATTACHMENTS

Attachment A: Downtown Event Grant Recommendations

Attachment B: Downtown Event and Revitalization Funding Program – Grant Guidelines and Criteria

**Submitted by:**



Bruce Anderson  
Manager, Community and Cultural Planning

**Concurrence by:**



Dale Lindsay  
Director, Community Development

# ATTACHMENT A

## DOWNTOWN EVENT GRANT RECOMMENDATIONS

Event Applications	Funding Request	Funding Recommendation
Gingerbread Homes	\$15,000.00 65.22%	\$5,680.00 24.70%
Bathtub Days Street Fair	\$19,000.00 32.73%	\$15,000.00 25.84%
Canada's 150th Anniversary Anthology	\$3,000.00 60.00%	\$1,080.00 21.60%
Gallery Row Art Festival	\$3,000.00 46.15%	\$2,090.00 32.15%
Light Up A Life	\$7,500.00 88.24%	\$2,440.00 28.71%
LIT LIT LIT LIT VIII Nanaimo	\$500.00 89.19%	\$330.00 58.87%
Lunchtime Music Series - Noon-hour concerts in th	\$7,500.00 93.75%	\$1,600.00 20.00%
Multicultural Festival	\$15,000.00 95.24%	\$6,400.00 40.63%
Nanaimo Art Walk	\$2,252.95 35.00%	\$2,250.00 34.95%
Nanaimo Dragon Boat Festival Society	\$5,000.00 3.19%	\$4,660.00 2.97%
Nanaimo Heritage Days	\$9,613.00 50.00%	\$6,160.00 32.04%
Nanaimo International Jazz Festival	\$22,000.00 15.82%	\$9,900.00 7.12%
Nanaimo Marine Festival	\$20,000.00 10.29%	\$16,000.00 8.23%
National Aboriginal Day Celebration	\$10,000.00 48.78%	\$5,890.00 28.73%
Pride Week	\$5,000.00 15.77%	\$4,330.00 13.65%
Selby Street Stravaganza	\$15,000.00 60.00%	\$3,330.00 13.32%
Summertime Blues Festival	\$25,000.00 10.98%	\$16,000.00 7.03%
Symphony Community Days	\$5,000.00 50.00%	\$3,160.00 31.60%
The Nanaimo Fringe Festival	\$5,000.00 12.94%	\$3,830.00 9.91%
Trick or Treat Theatre	\$1,632.75 35.00%	\$0.00 0.00%
Victoria Crescent Annual Scavenger Hunt	\$5,925.50 35.00%	\$1,251.00 7.39%
Beard O Rama	\$2,000.00 66.67%	\$450.00 15.00%
Crescent Days	\$4,955.00 50.00%	\$3,470.00 35.00%
Fresh Start	\$3,000.00 100.00%	\$540.00 18.00%
Downtown Tree Light Up	\$2,000.00 80.00%	\$0.00 0.00%

**TOTAL:**

**\$213,879.20**

**\$115,841.00**



# ATTACHMENT B

## DOWNTOWN EVENT AND REVITALIZATION FUNDING PROGRAM

### Grant Guidelines and Criteria

The City of Nanaimo is committed to supporting its Downtown. The Event Grant Funding Program is intended to support events and initiatives which attract residents and visitors to the Downtown, support the vibrancy of the Downtown, and stimulate business activity.

#### **Purpose of the Funding:**

Grant funding can be used to assist with the costs of staging annual, festive, outdoor public events in Downtown Nanaimo. The intention of the grant is to recognize the value annual events have in building vitality in the Downtown and enhancing Nanaimo's profile as a destination of choice. The grants will serve as an incentive to event organizers to enhance, expand and improve their events.

#### **Assessment of Events:**

Determination of successful application will be based on whether the event:

- Promotes the Downtown as a great place to visit and experience for residents and visitors
- Supports local business
- Enhances the vitality and vibrancy of the Downtown
- Promotes local arts, products, culture, history and attractions
- Fosters partnerships
- Contributes to building a sustainable celebration series and annual festivals
- Has strong potential to attract out-of-town visitors and overnight stays
- Is accessible to the general public (with or without gated admission)

#### **Application Requirements:**

Successful Applicants will need to demonstrate:

- How the enhancement or new event concept will positively impact the Downtown
- The clarity of objectives, deliverables and distinctiveness
- Alignment of the event objectives with some or all of the City's priorities
- How the funding will improve, enhance or expand the event
- The ability of the applicant/organization to execute the event
- How the event will provide good value-for-money including out of town visitation
- The event will not duplicate existing initiatives
- The proposed budget is balanced, reasonable and sufficiently detailed to assess success (grant applications can be submitted for up to 35% of the total event budget; requests above 35% will be reviewed on a case-by-case basis)

#### **Eligibility:**

Applicants must be an incorporated non-profit society or community organization, active for at least a full year prior to application, or a private business in good standing with the City of Nanaimo. Individuals are also eligible to apply. Charitable status is not required.

The grant is not intended for:

- Events where participation is based on fundraising pledges
- Events that receive other financial or in-kind support from the City of Nanaimo sources in excess of 75% of event costs
- Events or activities which are politically partisan or primarily focused on commercial activity (e.g. tradeshow), religion or health care.
- Events occurring outside of the Downtown. The City reserves the right to determine the boundaries of the Downtown for the purpose of this funding program.

**Review Process:**

Grant applications will be accepted until March 31 each year. All applications received by this date will be evaluated together and funds distributed accordingly. Applications received after March 31 will be considered if funds are available.

Grant applications will be reviewed by staff based on program criteria and will be forwarded to Council for final approval.

**Funding Acknowledgement**

Successful applicants must acknowledge the support of the City of Nanaimo in all print and publicity material for the special event (e.g. brochures, banners, on-site signs). The City of Nanaimo will provide grant recipients with an acknowledgement statement and access to the appropriate materials including logos.

**Post Event Report**

Successful applicants will provide a Final Report in the prescribed format to the City of Nanaimo within 90 days of completion of the event. The focus of the final report is to determine how well the event met the objectives of the grant and how the City's support benefits their organization and future event plans. This report provides an opportunity for event assessment and discussion with staff on future plans for improvement. Receipt of the Final Report is a pre-condition for consideration of an applicant's future grant applications in any funding program offered by the City of Nanaimo.

DATE OF MEETING April 19, 2017

AUTHORED BY MICHELLE LOREE, FINANCIAL ANALYST

**SUBJECT                   FEDERAL GAS TAX FUND – STRATEGIC PRIORITIES FUND GRANT APPLICATION**

## **OVERVIEW**

### **Purpose of Report**

To obtain a Council resolution endorsing three applications under the Federal Gas Tax Fund – Strategic Priorities Fund Grant for the 2017-JUN-01 application deadline.

### **Recommendation**

1. That Council provide direction on which two capital projects they will endorse for the Federal Gas Tax Fund – Strategic Priorities Fund under the Capital Infrastructure Projects Stream; and,
2. That Council endorse the Facilities and Park Amenities Condition Assessment Program for the Federal Gas Tax Fund – Strategic Priorities Fund under the Capacity Building Stream.

## **BACKGROUND**

The Strategic Priorities Fund (SPF) is a funding program established through the Gas Tax Agreement. The Gas Tax Agreement is a ten year commitment (renewed in 2014) of Federal funding for investments in Local Government infrastructure and capacity building projects in British Columbia. The SPF is an application based program that funds investments considered large in scale, regional in impact, or innovative; and that support the Gas Tax Fund national objectives of productivity and economic growth, a clean environment, and strong cities and communities.

This program provides 100% funding for eligible projects under the two funding streams:

### **Capital Infrastructure Projects Stream**

Local Governments may submit two applications under this stream within the following eligible project categories:

- |  |                               |
|--|-------------------------------|
| • Public Transit                                 | • Brownfield Redevelopment    |
| • Local Roads, Bridges and Active Transportation | • Local and Regional Airports |
| • Solid Waste                                    | • Short-sea Shipping          |
| • Community Energy Infrastructure                | • Short-line Rail             |
| • Drinking Water                                 | • Highways                    |
| • Wastewater                                     | • Broadband Connectivity      |

- Disaster Mitigation
- Recreational Infrastructure
- Tourism Infrastructure
- Culture Infrastructure
- Sport Infrastructure

### **Capacity Building Stream**

Local Governments may submit one application under this stream within the following project categories:

- Asset Management Planning
- Integrated Community Sustainability Planning
- Long-term Infrastructure Planning

City Staff across departments met to shortlist projects that best fit the program guidelines to bring forth to Council for consideration. Four projects were identified under the Capital Infrastructure Projects Stream and only one project under the Capacity Building Stream.

## **OPTIONS**

### **1. Capital Infrastructure Projects Stream**

That Council choose two of the following capital projects for the Federal Gas Tax Fund – Strategic Priorities Grant under the Capital Infrastructure Projects Stream:

#### **i) CNG Automated Refuse Collector Trucks**

Recently Council has made the decision to move forward with automating the City's solid waste collection service. Implementing the automated collection system, although beneficial in the long-term, will require a substantial initial investment for the City including the purchase of 8 refuse trucks and 72,000 wheeled bins for garbage, organics and recycling. The City has already purchased two Compressed Natural Gas (CNG) Automated units, and due to the environmental benefits of CNG powered trucks, the City plans to complete the refuse collection fleet with CNG trucks. Staff proposes that we apply for funding for the remaining 6 trucks needed at an estimated cost of \$2.4 million.

- **Budget Implication:** Implementation of the automated collection system is expected to begin in late 2017. Based on business cases prepared, the cost of trucks will be funded through the equipment depreciation reserve and borrowing which will be repaid by user fees. The 2018-2022 Financial Plan and user fees will reflect these changes.

#### **ii) Waterfront Walkway**

In the 2016-2019 Strategic Plan update, Council identified the Waterfront Walkway as one of the five key capital projects. The City is currently preparing an implementation plan that will set out a program to construct a walkway from Departure Bay to the Nanaimo River Estuary within a 10 year time frame. For 2018, Council has identified five separate areas to construct 1,500m of walkway. Staff proposes that we apply for the funding of these five additional sections which have an approximate cost of \$2.4 million.

- **Budget Implication:** The additional five sections of walkway are not currently in the Financial Plan. It is anticipated that waterfront development projects will be funded from Payment in Lieu of Taxes revenue (PILTS) and the new Strategic Infrastructure Reserve Fund.

iii) **Emergency Water Supply**

In 2011, the City of Nanaimo and Nanaimo Forest Products entered into an Emergency Water Supply agreement to supply water to each other in the event of emergency. The City can obtain water from Harmac by constructing a pump station to lift it into the City's supply network. In 2012 the interconnecting pipeline for supply was completed, and the pump station is slated to begin in 2017. The pump station would supply the City's average day demand. Should the emergency supply system be activated, residents would be put on an immediate boil water order, as the water would not meet Island Health regulations. However, the water would be available for fire protection and non-potable uses such as bathing, laundry and toilet flushing.

- **Budget Implication:** Staff proposes that we apply for the \$3.3 million pump station which is currently in the 2017-2021 Financial Plan to be started in 2017. The current funding source for this project is the Water Supply Reserve.

iv) **Boxwood Connector**

The Boxwood connector includes development of a new road from the intersection of Boxwood Road to Bowen Road at the south entrance to Beban Park. These improvements will reduce congestion at the intersection of Bowen and Northfield Roads, improve access to Beban Park, and improve the pedestrian and cycling network.

- **Budget Implication:** This project is budgeted in the 2017-2021 Financial Plan at approximately \$11 million to be completed in the years 2019 and 2021. Of this, \$8.7 million will be funded from Development Cost Charges. Staff proposes we apply for the remaining \$2.3 million that is to be funded General Revenues, General Capital Reserves, and Water Reserves

**Capacity Building Stream**

That council endorse the Facilities and Park Amenities Condition Assessment Program for the Federal Gas Tax Fund – Strategic Priorities Grant under the Capacity Building Stream.

The City has put much effort into building their Asset Management Capacity over the years and we are looking to continually improve and update our asset management plan and long term planning. The majority of City owned facilities are listed in the asset management plan; however, only the top 30 facilities (by dollar value) had almost complete information leaving room for improvement. Improvements include a complete inventory and condition assessment information of City buildings, facilities, parks, playgrounds, sport fields and their components. Room has been made in the budget to make these efforts over time, however if grant funding could be secured, this project



would put the organization years ahead. Staff proposes we apply for \$500k which would establish the framework for the facilities and park amenities plan.

- **Budget Implication:** This project is in the current 2017 – 2021 Financial Plan at \$950,000 (\$150k in 2017 and \$200k per year from 2018 through 2021) funded from General Revenues. Funding received may reduce the budget in future years, however the intent is to you use this funding to build our capacity sooner than what was provided for in the Financial Plan.
2. That Council decline to endorse the projects above for the Federal Gas Tax Fund – Strategic Priorities Fund applications.
- **Budget Implication:** The above projects would move forward using existing funding sources and timelines.

### **SUMMARY POINTS**

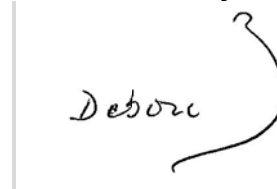
- The Federal Gas Tax Fund – Strategic Priorities Fund provides up to 100% funding for eligible project costs.
- The City may submit two applications under the Capital Infrastructure Projects Stream and one application under the Capacity Building Stream.
- Applications are due by 2017-JUN-01.
- City staff is seeking Council direction as to which two capital infrastructure projects to apply for under the Capital Infrastructure Projects Stream, as well as endorsement to apply for the Facilities Park Amenities Condition Assessment Program under the Capacity Building Stream.

**Submitted by:**



Michelle Loree  
Financial Analyst

**Concurrence by:**



Deborah Duncan  
Deputy Director, Financial Services

DATE OF MEETING April 19, 2017

AUTHORED BY VICTOR MEMA, CHIEF FINANCIAL OFFICER,  
DEBORAH DUNCAN, DEPUTY DIRECTOR, FINANCIAL SERVICES

SUBJECT **2017 – 2021 FINANCIAL PLAN UPDATE**

## **OVERVIEW**

### **Purpose of Report**

To update the Finance and Audit Committee on key changes in the 2017 – 2021 Financial Plan.

### **Recommendation**

That the 2017 – 2021 Financial Plan Update report dated 2017-APR-19 be received for information.

## **DISCUSSION**

Further to direction received at the 2017-APR-12 Finance and Audit Committee meeting, the 2017 – 2021 Financial Plan has been updated with the following changes:

- Delay implementation of the proposed Debt Stabilization Reserve. The creation of a Debt Stabilization Reserve will be considered during development and review of a Reserve and Reserve Fund Policy later in 2017.
- The annual decrease in repayment costs for Port of Nanaimo Centre debt and general reserves will offset budget increases including SNIC.

### **Key 2017 Budget Drivers**

Final changes have now been updated to the 2017 – 2021 Financial Plan for Council's consideration. These changes reflect the impact of the recent severe winter, lower growth and other new information.

The 2017 key budget drivers include changes in expenditure and revenue budgets:

- \$1.0 million expenditure increase for contribution to General Asset Management Reserve
- \$1.3 million expenditure increase for wages and two new positions
- \$349,000 expenditure increase for RCMP contract
- \$393,000 expenditure increase for snow and ice control budgets
- \$288,000 expenditure increase for road repair budgets
- \$115,000 expenditure decrease for downtown grant
- \$128,000 net expenditure decrease for the Vancouver Island Conference Centre
- \$274,000 expenditure decrease for Economic Development and Tourism pending completion of organizational/service delivery restructuring
- \$637,000 expenditure decrease for debt repayment re Port of Nanaimo Centre
- \$600,000 funding change for annual Property Acquisition allocation from general revenues to Strategic Infrastructure Reserve
- \$75,000 revenue decrease for investment income



- \$200,000 revenue decrease due to elimination of prior year surplus funding
- \$1.3 million revenue decrease due to transition of Casino and Fortis revenues to new reserve for strategic projects
- \$1.5 million increased property tax revenues due to growth
- \$294,000 increased Grants in Lieu revenues

t expenditure increase is \$1.4 million.

As previously reported in the Staff Report dated 2016-DEC-19, user fee increases are:

- 5% sewer user fee increase for contribution to Sewer Asset Management Reserve;
- 7.5% water user fee increase that includes a 5% increase for contribution to Water Asset Management Reserve; and,
- 2% solid waste collection user fee increase pending implementation of automation service delivery.

A summary of the projected property tax increases is provided below.

	2017	2018	2019	2020	2021
2016 - 2020 Financial Plan	2.8%	1.8%	0.7%	1.0%	
Draft 2017 - 2021 Financial Plan	2.4%	1.0%	0.9%	1.0%	0.5%
Provisional 2017 - 2021 Financial Plan	1.5%	1.6%	1.9%	1.5%	0.4%
Annual 2017 - 2021 Financial Plan	1.5%	2.1%	2.5%	2.4%	1.5%

The property tax increases include 1% for increased annual contribution to the General Asset Management Reserve Fund for all five years, and the impact of transitioning revenues to the Strategic Infrastructure Reserve for years 2017 to 2020.

These increases do not include the impact of increased requisitions or levies from the Vancouver Island Regional Library, the Regional District of Nanaimo, School District 68, Island Health Authority, Municipal Finance Authority and BC Assessment.

### **SUMMARY POINTS**

- Provide updated information on the 2017 – 2021 Financial Plan for Council's review and direction.
- Provide information on proposed Debt Stabilization Reserve.
- The property tax increase for 2017 is 1.5% which includes a 1% increase for contribution to the General Asset Management Reserve.
- User fee increases for 2017 are: 5% for sewer, 7.5% for water and 2% for solid waste collection.
- The 2017 – 2021 Financial Plan bylaw amendment and the 2017 Property Tax Rates bylaw will be presented to Council at the 2017-APR-24 Council meeting for review and approval.
- Establish a Reserve and Reserve Fund Policy in 2017 to provide guidance with respect to the development, maintenance and use of City Reserve Funds to support the City's long term financial sustainability.

**Submitted by:**

A handwritten signature in cursive script, appearing to read "Deborah", enclosed within a vertical rectangular box.

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Deborah Duncan  
Deputy Director, Financial Services

**Concurrence by:**

A handwritten signature in cursive script, appearing to read "V. Mema", enclosed within a vertical rectangular box.

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Victor Mema  
Chief Financial Officer