

DATE OF MEETING | May 13, 2019 |

AUTHORED BY | LAURA MERCER, ACTING DIRECTOR, FINANCIAL SERVICES |

SUBJECT 2018 ANNUAL FINANCIAL STATEMENTS

OVERVIEW

Purpose of Report

To present the 2018 Annual Financial Statements for acceptance by Council. |

Recommendation

That Council approve the 2018 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 2018-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 \$18.0 million, allocated as follows:

General Fund	\$5.5	million
Sewer Fund	6.7	
Water Fund	5.8	
	<u>\$ 18.0</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 \$159.9 million at 2018-DEC-31 (2017 – \$141.9 million), allocated as follows:

Work in progress	\$ 32.3 million
Reserve accounts (surplus appropriations)	39.8
Development Cost Charges (developer contributions)	47.0
Statutory Reserves	<u>40.8</u>
	<u>\$159.9 million</u>

A listing of reserve accounts is shown on page 30 of the 2018 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 2019 – 2023 budget.

Development Cost Charges (DCC) can only be used to fund projects specified in the DCC bylaws. DCC revenues in 2018 totaled \$7.1 million (2017 – \$6.4 million). The City continues to construct growth-related projects, which are funded from DCC's (\$3.7 million in 2018).

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 2018-DEC-31:

General Asset Management Reserve	\$ 11,258,946
Community Works Reserve (Gas Tax Agreement)	\$ 8,569,140
Equipment Depreciation Reserve	\$ 6,943,362
Facility Development (Recreation) Reserve	\$ 3,210,785
Water Asset Management Reserve	\$ 4,646,912
Sewer Asset Management Reserve	\$ 2,833,790
Parkland Dedication Reserve	\$ 1,149,945
Property Sales Reserve	\$ 1,140,712
Regional Emissions Reduction Reserve	\$ 549,218
Knowles Estate Reserve	\$ 429,499
Old City Neighbourhood Parking Reserve	\$ 90,891

- Outstanding debt and debt servicing costs

	<u>2018</u>	<u>2017</u>
Outstanding debt	\$ 46.1 million	\$ 42.3 million
Per capita debt	\$ 477	\$ 446
Net increase (decrease) in debt during the year	\$ 3.8 million	\$ (1.6) million

Pages 20 and 21 of the 2018 Financial Statements provide note disclosure of the outstanding debt and details of the principal reductions for the next five years. In 2018, the City borrowed \$3.2 million to fund the construction of Fire Station #1. The City also borrowed an additional \$4.2 million for the remaining equipment purchases for the automated garbage collection project.

Tangible capital assets net book value totals \$702 million at 2018-DEC-31 (2017 - \$686 million). A detailed schedule is found on page 10 of the Statements. Capital asset acquisitions were \$40.7 million (2017 – \$29.7 million), including developer contributed assets of \$4.7 million (2017 - \$3.7 million).

OPTIONS

1. The Council approve the 2018 Annual Financial Statements for the City of Nanaimo.
 - **Budget Implication:** If Council does not approve the 2018 Financial Statements, the statutory deadline of May 15th would be missed. This would significantly impact the City's ability to borrow from the Municipal Finance Authority, as the City would not be compliant with Provincial reporting requirements.
2. Council could request further information pertaining to the 2018 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 2018-DEC-31, once Council has approved the statements.
- By May 15th in each year, a municipality must submit to the Inspector its audited financial statements for the preceding year.
- Accumulated operating surplus at 2018-DEC-31 was \$18.0 million.
- Funds held in reserve at 2018-DEC-31 were \$159.9 million.
- Outstanding debt at 2018-DEC-31 was \$46.1 million.
- Net book value of tangible capital assets at 2018-DEC-31 was \$702 million. |

ATTACHMENTS

- Attachment A: 2018 Annual Financial Statements (including KPMG Audit Findings Report for the year ending December 31, 2018).

Submitted by:

Laura Mercer
Acting Director, Financial Services

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