

Staff Report for Decision

DATE OF MEETING | MAY 25, 2020 |

AUTHORED BY | DAN BAILEY, MANAGER, ACCOUNTING SERVICES |

SUBJECT | 2019 FINANCIAL STATEMENTS

OVERVIEW

Purpose of Report

| To present the 2019 Annual Financial Statements for acceptance by Council. |

Recommendation

That Council approve the 2019 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 2019-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.

On 2020-APR-02, the Province of BC made changes to the submission dates relating to Financial reporting as a result of the COVID-19 Pandemic. The deadline for submission of the audited financial statements and Local Governments Data Entry (LGDE) forms has been extended to 2020-AUG-31 in the event a municipality does not have the resources to complete them by May 15th. As the audit of the 2019 Financial Statements is complete, they are now ready to be approved by Council.

Highlights of the Financial Statements:

- Accumulated operating unallocated surpluses total \$18.5 million, allocated as follows:

General Fund	\$5.8 million
Sewer Fund	6.9
Water Fund	<u>5.8</u>

\$ 18.5 million

In 2020, the accumulated operating unallocated surpluses noted above were allocated to operating reserve funds in accordance with the new reserve policy, which was effective on 2020-JAN-01.

- Funds held in reserves total \$174.4 million at 2019-DEC-31 (2018 – \$159.9 million), allocated as follows:

Work in progress	\$ 32.0	million
Reserve accounts (surplus appropriations)	44.2	
Development Cost Charges (developer contributions)	49.5	
Statutory Reserves	<u>48.7</u>	
	<u>\$174.4</u>	million

A listing of reserve accounts is shown on page 30 of the 2019 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 2020 – 2024 budget.

Development Cost Charges (DCC) can only be used to fund projects specified in the DCC bylaws. DCC revenues in 2019 totaled \$7.6 million (2018 – \$7.1 million). The City continues to construct growth-related projects, which are funded from DCC's (\$6.3 million in 2019).

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 2019-DEC-31:

General Asset Management Reserve	\$ 9,172,413
Community Works Reserve (Gas Tax Agreement)	\$ 13,610,936
Equipment Depreciation Reserve	\$ 8,416,206
Facility Development (Recreation) Reserve	\$ 3,350,653
Water Asset Management Reserve	\$ 6,919,104
Sewer Asset Management Reserve	\$ 2,227,853
Parkland Dedication Reserve	\$ 1,747,348
Property Sales Reserve	\$ 2,061,173
Regional Emissions Reduction Reserve	\$ 637,950
Knowles Estate Reserve	\$ 439,868
Old City Neighbourhood Parking Reserve	\$ 123,741

- Outstanding debt and debt servicing costs

	<u>2019</u>	<u>2018</u>
Outstanding debt	\$ 41.6 million	\$ 46.1 million
Per capita debt	\$ 417	\$ 477
Net increase (decrease) in debt during the year	\$ (4.5) million	\$ 3.8 million

Pages 20 and 21 of the 2019 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 \$730 million at 2019-DEC-31 (2018 - \$702 million). A detailed schedule is found on page 10 of the Statements. Capital asset acquisitions were \$56.7 million (2018 – \$40.7 million), including developer contributed assets of \$8.1 million (2018 - \$4.7 million). |

OPTIONS

1. That Council approve the 2019 Annual Financial Statements for the City of Nanaimo.
 - Financial Implications: If Council does not approve the 2019 Financial Statements, it could 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 2019 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 2019-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. Due to the COVID-19 Pandemic, this deadline has been extended to 2020-AUG-31.
- Accumulated operating surplus at 2019-DEC-31 was \$18.5 million.
- Funds held in reserve at 2019-DEC-31 were \$174.4 million.
- Outstanding debt at 2019-DEC-31 was \$41.6 million.
- Net book value of tangible capital assets at 2019-DEC-31 was \$730 million.

ATTACHMENTS:

Attachment A – 2019 Financial Statements (including KPMG Audit Findings Report for the year ending 2019-DEC-31) |

Submitted by:

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Concurrence by:

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