

Staff Report for Decision

DATE OF MEETING APRIL 14, 2021

AUTHORED BY DAN BAILEY, MANAGER, ACCOUNTING SERVICES

SUBJECT 2020 ANNUAL FINANCIAL STATEMENTS

OVERVIEW

Purpose of Report

To present the 2020 Annual Financial Statements for acceptance by the Finance and Audit Committee.

Recommendation

That the Finance and Audit Committee recommend that Council accept the 2020 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 2020-DEC-31, once the Council has accepted 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 surplus has been allocated to reserves in accordance with the new reserve policy, which was effective on 2020-JAN-01. \$7.5 million of the \$8.5 million general operating surplus from 2020 was allocated to the Special Initiatives reserve, and the remaining \$1.0 million was transferred to the Property Acquisition reserve. The \$600,000 sewer operating surplus was transferred to sewer reserves.

- Funds held in reserves total \$217.7 million at 2020-DEC-31 (2019 – \$174.4 million), allocated as follows:

Work in progress	\$ 56.2 million
Reserve accounts (surplus appropriations)	33.3
Development Cost Charges (developer contributions)	56.8
Statutory Reserves	<u>71.4</u>
	<u>\$217.7 million</u>

A listing of reserve accounts is shown on page 32 of the 2020 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 2021 – 2025 budget.

- Development Cost Charges (DCC) can only be used to fund projects specified in the DCC bylaws. DCC revenues in 2020 totaled \$7.9 million (2019 – \$7.6 million). The City continues to construct growth-related projects, which are funded from DCC's (\$1.7 million in 2020).
- Statutory Reserves are established by bylaw and can only be used for the purposes specified in the bylaw. A listing of each statutory reserve fund and their balance at 2020-DEC-31 are as follows:

Community Works Reserve Fund (Gas Tax Agreement)	\$ 15,088,694
Equipment Depreciation Reserve	\$ 9,066,494
Facility Development (Recreation) Reserve	\$ 3,634,205
Property Sales Reserve	\$ 3,129,464
Knowles Estate Reserve	\$ 410,565
Parkland Dedication Reserve	\$ 1,126,691
Old City Neighborhood Parking Reserve	\$ 165,628
General Asset Management Reserve	\$ 11,464,273
Sewer Asset Management Reserve	\$ 3,441,257
Water Asset Management Reserve	\$ 7,604,782
Emission Reduction Reserve	\$ 513,697
Copier Replacement Reserve	\$ 382,026
Information Technology Reserve	\$ 1,827,833
NDSS Community Field Reserve	\$ 94,661
Parking Reserve	\$ 1,040,669
911 Reserve	\$ 1,596,057
Property Acquisition Reserve	\$ 3,440,266
Housing Legacy Reserve	\$ 2,973,608
Strategic Infrastructure Reserve	\$ 4,025,304
Sustainability Reserve	\$ 420,880

- Outstanding debt and debt servicing costs

	<u>2020</u>	<u>2019</u>
Outstanding debt	\$ 39.3 million	\$ 41.6 million
Per capita debt	\$ 388	\$ 417
Net decrease in debt during the year	\$ (2.3) million	\$ (4.5) million

Pages 20 and 21 of the 2020 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 \$749 million at 2020-DEC-31 (2019 - \$730 million). A detailed schedule is found on page 10 of the Statements. Capital asset acquisitions were \$46.3 million (2019 – \$56.7 million), including developer contributed assets of \$10.4 million (2019 - \$8.1 million).

OPTIONS

1. That the Finance and Audit Committee recommend that Council accept the 2020 Annual Financial Statements for the City of Nanaimo.
 - **Budget Implication:** If Council does not accept the 2020 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. The Finance and Audit Committee could request further information pertaining to the 2020 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 2020-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.
- Funds held in reserve at 2020-DEC-31 were \$217.7 million.
- Outstanding debt at 2020-DEC-31 was \$39.3 million.
- Net book value of tangible capital assets at 2020-DEC-31 was \$749 million.

ATTACHMENTS:

Attachment A: 2020 Annual Financial Statements (including KPMG Audit Findings Report for the year ending 2020-DEC-31) |

Submitted by:

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Concurrence by:

Laura Mercer
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