

# ATTACHMENT A

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

for the year ended December 31, 2020

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# **CITY OF NANAIMO MANAGEMENT REPORT**

**For the Year Ended December 31, 2020**

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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, 2020.

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**Jake Rudolph**  
**Chief Administrative Officer**

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**Laura Mercer, CPA, CGA**  
**Director, Financial Services**



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Canada  
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## INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Nanaimo

### *Opinion*

We have audited the financial statements of the City of Nanaimo (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, including the schedules of operations by segment and tangible capital assets

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020 and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Victoria, Canada  
Date

**CITY OF NANAIMO**  
**STATEMENT OF FINANCIAL POSITION**  
as at December 31, 2020, with comparative figures for 2019

	2020	2019
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	\$ 165,007,070	\$ 86,646,891
Accounts receivable (Note 2)	24,891,134	19,378,525
Development cost charges receivable (Note 3)	1,175,580	514,789
Temporary investments (Note 4)	98,566,400	148,990,798
	<b>289,640,184</b>	<b>255,531,003</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 5)	48,233,281	38,209,488
Compensated absences and termination benefits (Note 6)	8,383,004	8,243,951
Deferred revenue (Note 7)	21,240,818	20,011,567
Deferred development cost charges (Note 8)	56,751,703	49,483,535
Debt (Note 9)	39,306,835	41,616,953
	<b>173,915,641</b>	<b>157,565,494</b>
<b>NET FINANCIAL ASSETS</b>	<b>115,724,543</b>	<b>97,965,509</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 10)	749,351,662	729,839,510
Prepaid expenses	1,694,346	1,834,973
Inventories of supplies	1,465,549	1,407,091
	<b>752,511,557</b>	<b>733,081,574</b>
<b>ACCUMULATED SURPLUS (Note 11)</b>	<b>\$ 868,236,100</b>	<b>\$ 831,047,083</b>

Commitments and contingencies (Note 12)

Contractual rights (Note 23)

Approved on behalf of the Council

\_\_\_\_\_  
Leonard Krog  
Mayor

\_\_\_\_\_  
Ian Thorpe  
Councillor

# CITY OF NANAIMO

## STATEMENT OF OPERATIONS

for the year ended December 31, 2020, with comparative figures for 2019

	2020 Budget (Note 14)	2020	2019
<b>REVENUES</b>			
Taxes	\$ 118,235,289	\$ 118,370,973	\$ 111,483,549
Payments in lieu of taxes	2,042,980	2,111,857	2,077,224
Taxation and payments in lieu (Note 15)	120,278,269	120,482,830	113,560,773
User fees and sales of services (Note 16)	46,490,235	40,618,459	45,848,098
Developer assets received (Note 10)	-	10,400,599	8,134,351
Transfers from other governments-operating (Note 17)	4,935,576	9,730,686	4,565,401
Other revenue	5,338,528	6,960,051	7,904,144
Investment income	3,468,899	4,636,197	5,262,350
Transfers from other governments-capital (Note 17)	3,864,715	4,379,065	7,623,208
Building permits	1,800,000	1,790,008	2,062,637
Development cost charges (Note 8)	4,357,990	1,647,250	6,252,024
Regional recreation sharing	1,335,318	1,335,318	1,231,500
Property rentals	995,493	825,525	1,023,365
Donations and contributions-capital	862,559	735,524	1,865,131
	193,727,582	203,541,512	205,332,982
<b>EXPENSES</b>			
Police	32,034,859	32,238,119	29,605,427
Engineering & public works	31,630,223	29,559,454	28,031,568
Parks, recreation & culture	34,573,290	27,803,649	31,039,154
Fire	18,942,913	18,600,069	17,866,209
Water	18,431,966	16,508,376	15,996,314
Corporate services	16,794,360	15,306,364	14,333,478
Development services	14,545,134	11,130,954	11,586,686
City administration	6,257,074	6,111,310	5,506,080
Sewer	6,242,678	5,644,576	5,239,057
Port of Nanaimo centre	4,728,755	3,449,624	5,239,133
	184,181,252	166,352,495	164,443,106
<b>ANNUAL SURPLUS</b>	9,546,330	37,189,017	40,889,876
<b>ACCUMULATED SURPLUS - BEGINNING OF YEAR</b>	831,047,083	831,047,083	790,157,207
<b>ACCUMULATED SURPLUS - END OF YEAR</b>	\$ 840,593,413	\$ 868,236,100	\$ 831,047,083

**CITY OF NANAIMO**  
**STATEMENT OF CHANGES IN NET FINANCIAL ASSETS**  
for the year ended December 31, 2020, with comparative figures for 2019

		2020 Budget (Note 14)	2020	2019
<b>ANNUAL SURPLUS</b>	\$	9,546,330	\$ 37,189,017	\$ 40,889,876
Acquisition of tangible capital assets		(73,593,653)	<b>(35,855,358)</b>	(48,376,888)
In kind donations of capital assets		-	<b>(70,920)</b>	(226,520)
Developer contributed capital assets		-	<b>(10,400,599)</b>	(8,134,351)
		(73,593,653)	<b>(46,326,877)</b>	(56,737,759)
Amortization of tangible capital assets		26,034,829	<b>25,514,512</b>	24,606,903
(Gain) Loss on disposal of assets		-	<b>(283,403)</b>	679,600
Proceeds on sale of tangible capital assets		-	<b>1,583,616</b>	3,521,501
		(47,558,824)	<b>(19,512,152)</b>	(27,929,755)
Acquisition of inventories of supplies		-	<b>(4,686,334)</b>	(4,672,020)
Acquisition of prepaid expenses		-	<b>(1,221,664)</b>	(1,467,558)
Consumption of inventories of supplies		-	<b>4,627,876</b>	4,525,748
Use of prepaid expenses		-	<b>1,362,291</b>	1,257,892
		-	<b>82,169</b>	(355,938)
<b>CHANGE IN NET FINANCIAL ASSETS</b>		(38,012,494)	<b>17,759,034</b>	12,604,183
<b>NET FINANCIAL ASSETS - BEGINNING OF YEAR</b>		97,965,509	<b>97,965,509</b>	85,361,326
<b>NET FINANCIAL ASSETS - END OF YEAR</b>	\$	59,953,015	\$ <b>115,724,543</b>	\$ 97,965,509

# CITY OF NANAIMO

## STATEMENT OF CASH FLOWS

for the year ended December 31, 2020, with comparative figures for 2019

	2020	2019
<b>CASH PROVIDED BY (USED FOR)</b>		
<b>OPERATING TRANSACTIONS</b>		
Annual Surplus	\$ 37,189,017	\$ 40,889,876
Non-cash items		
Amortization of tangible capital assets	25,514,512	24,606,903
Developer assets received	(10,400,599)	(8,134,351)
In kind donations of capital assets	(70,920)	(226,520)
(Gain) Loss on disposal of tangible capital assets	(283,403)	679,600
Development cost charges recognized as revenue	(1,647,250)	(6,252,024)
Actuarial adjustment on long term debt	(1,260,567)	(1,122,034)
Change in non-cash operating assets and liabilities		
Accounts receivable	(6,173,400)	1,730,010
Accounts payable	10,023,793	7,238,750
Compensated absences termination benefits	139,053	382,712
Deferred revenue	1,229,251	1,261,040
Inventories of supplies	(58,458)	(146,272)
Prepaid expenses	140,627	(209,666)
Net change in cash from operating transactions	54,341,656	60,698,024
<b>CAPITAL TRANSACTIONS</b>		
Cash used to acquire tangible capital assets	(35,855,358)	(48,376,888)
Proceeds from the sale of tangible capital assets	1,583,616	3,521,501
Net change in cash from capital transactions	(34,271,742)	(44,855,387)
<b>INVESTING TRANSACTIONS</b>		
Change in investments	50,424,398	(9,047,059)
<b>FINANCING TRANSACTIONS</b>		
Debt repayment	(3,456,136)	(3,381,656)
Deferred development cost charges	8,915,418	8,770,142
Proceeds from long term borrowing	2,406,585	-
Net change in cash from financing transactions	7,865,867	5,388,486
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	78,360,179	12,184,064
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	86,646,891	74,462,827
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 165,007,070	\$ 86,646,891



**CITY OF NANAIMO**  
**SCHEDULE OF OPERATIONS BY SEGMENT**  
for the year ended December 31, 2020

	City Admin	Corporate Services	Development Services	Fire	Police	Port of Nanaimo Centre	Parks, Recreation & Culture	Engineering & Public Works	Sewer	Water	2020
<b>Revenues</b>											
Taxes	\$ 6,023,354	\$14,793,887	\$ 6,622,570	\$17,494,036	\$29,765,516	\$ 2,721,195	\$23,160,195	\$17,790,220	\$ -	\$ -	<b>\$ 118,370,973</b>
Payments in lieu of taxes	112,433	178,473	123,618	326,546	555,607	50,794	432,311	332,075	-	-	<b>2,111,857</b>
User fees	(100)	127,002	1,092,158	121,849	62,273	670,016	2,691,171	6,827,192	8,215,799	20,811,099	<b>40,618,459</b>
Developer assets	-	-	-	-	-	-	3,330,526	5,294,858	864,675	910,540	<b>10,400,599</b>
Other revenue	60,234	756,440	2,750,929	2,078,907	404,392	16,502	414,128	394,089	560	83,870	<b>6,960,051</b>
Development cost charges revenue	-	-	-	-	-	-	17,801	824,360	266,624	538,465	<b>1,647,250</b>
Government operating transfers	719,512	357,206	709,397	410,764	1,990,291	60,130	4,880,187	394,187	90,000	119,012	<b>9,730,686</b>
Government capital transfers	-	3,866,429	32,000	-	-	-	-	480,636	-	-	<b>4,379,065</b>
Investment income	122,608	2,498,328	134,805	356,099	605,887	55,391	471,438	386,226	-	5,415	<b>4,636,197</b>
Building permits	-	-	1,790,008	-	-	-	-	-	-	-	<b>1,790,008</b>
Regional recreation sharing	-	-	-	-	-	-	1,335,318	-	-	-	<b>1,335,318</b>
Property rentals	-	-	286,500	7,908	274,644	-	187,821	47,652	-	21,000	<b>825,525</b>
Donations - capital	-	-	-	-	-	-	419,951	109,004	169,838	36,731	<b>735,524</b>
	7,038,041	22,577,765	13,541,985	20,796,109	33,658,610	3,574,028	37,340,847	32,880,499	9,607,496	22,526,132	<b>203,541,512</b>
<b>Expenses</b>											
Wages and salaries	4,001,183	7,930,344	7,667,318	15,594,431	5,133,703	1,075	13,493,126	10,565,886	1,180,424	3,564,491	<b>69,131,981</b>
Contracted services	1,418,950	3,122,851	2,757,544	1,464,003	26,528,680	1,818,934	6,640,084	7,385,553	1,016,836	1,902,698	<b>54,056,133</b>
Amortization	6,770	870,565	495,489	550,840	309,202	1,635,053	3,984,244	10,663,661	1,019,046	5,979,642	<b>25,514,512</b>
Other	143,403	3,193,887	892,714	94,748	199,960	8,849	2,578,306	(2,788,955)	2,167,144	3,487,183	<b>9,977,239</b>
Materials and supplies	541,004	188,717	264,505	777,925	66,574	30,446	1,366,293	3,084,286	189,003	877,314	<b>7,386,067</b>
Interest payments on debt	-	-	-	111,601	-	(44,733)	(252,897)	63,915	70,478	621,602	<b>569,966</b>
(Gain) Loss on disposal of assets	-	-	(946,616)	6,521	-	-	(5,507)	585,108	1,645	75,446	<b>(283,403)</b>
	6,111,310	15,306,364	11,130,954	18,600,069	32,238,119	3,449,624	27,803,649	29,559,454	5,644,576	16,508,376	<b>166,352,495</b>
<b>ANNUAL SURPLUS</b>	926,731	7,271,401	2,411,031	2,196,040	1,420,491	124,404	9,537,198	3,321,045	3,962,920	6,017,756	<b>37,189,017</b>
Capital projects	\$ -	\$ 98,036	\$ 3,135,336	\$ 4,566,711	\$ -	\$ 51,487	\$ 7,811,458	\$15,020,940	\$ 5,792,605	\$ 9,850,304	<b>\$ 46,326,877</b>

**CITY OF NANAIMO**  
**SCHEDULE OF OPERATIONS BY SEGMENT**  
for the year ended December 31, 2019

	City Admin	Corporate Services	Development Services	Fire	Police	Port of Nanaimo Centre	Parks, Recreation & Culture	Engineering & Public Works	Sewer	Water	2019
<b>Revenues</b>											
Taxes	\$ 5,715,594	\$14,031,184	\$ 5,637,134	\$17,077,195	\$28,199,761	\$ 2,737,215	\$22,421,427	\$15,664,039	\$ -	\$ -	<b>\$ 111,483,549</b>
Payments in lieu of taxes	110,775	188,484	109,254	330,976	546,544	53,050	434,554	303,587	-	-	<b>2,077,224</b>
User fees	728	132,519	1,756,686	119,785	82,663	2,397,916	6,993,693	6,195,527	7,694,946	20,473,635	<b>45,848,098</b>
Developer assets	-	-	-	-	-	-	123,200	6,082,967	872,099	1,056,085	<b>8,134,351</b>
Other revenue	123,557	751,762	2,435,771	2,447,099	438,589	20,644	478,551	1,111,644	2,675	93,852	<b>7,904,144</b>
Development cost charges revenue	-	-	-	-	-	-	827,193	3,744,704	1,273,791	406,336	<b>6,252,024</b>
Government operating transfers	144,357	387,715	329,308	431,315	1,883,191	69,133	871,903	392,611	45,000	10,868	<b>4,565,401</b>
Government capital transfers	-	7,623,058	-	-	-	-	-	150	-	-	<b>7,623,208</b>
Investment income	160,534	2,503,369	158,331	479,648	792,047	76,880	629,751	455,800	-	5,990	<b>5,262,350</b>
Building permits	-	-	2,062,637	-	-	-	-	-	-	-	<b>2,062,637</b>
Regional recreation sharing	-	-	-	-	-	-	1,231,500	-	-	-	<b>1,231,500</b>
Property rentals	-	-	285,461	24,695	282,520	-	357,781	51,908	-	21,000	<b>1,023,365</b>
Donations - capital	-	-	-	-	-	-	1,610,692	246,671	1,220	6,548	<b>1,865,131</b>
	6,255,545	25,618,091	12,774,582	20,910,713	32,225,315	5,354,838	35,980,245	34,249,608	9,889,731	22,074,314	<b>205,332,982</b>
<b>Expenses</b>											
Wages and salaries	3,643,378	7,361,633	7,319,186	15,087,529	4,889,670	1,434	15,313,079	10,032,634	1,107,842	3,325,747	<b>68,082,132</b>
Contracted services	1,318,630	2,792,521	2,340,698	1,286,503	24,152,736	3,475,208	7,552,088	7,093,322	929,580	1,889,391	<b>52,830,677</b>
Amortization	6,770	954,108	431,771	541,446	325,195	1,635,053	3,872,995	10,205,079	864,222	5,770,264	<b>24,606,903</b>
Other	129,276	3,097,825	829,783	92,867	162,185	29,240	2,647,926	(2,627,162)	2,068,108	3,251,966	<b>9,682,014</b>
Materials and supplies	408,026	152,391	288,350	738,745	74,869	79,386	1,766,547	3,115,351	228,189	926,953	<b>7,778,807</b>
Interest payments on debt	-	-	-	118,526	-	18,812	(160,482)	116,920	31,070	658,127	<b>782,973</b>
(Gain) Loss on disposal of assets	-	(25,000)	376,898	593	772	-	47,001	95,424	10,046	173,866	<b>679,600</b>
	5,506,080	14,333,478	11,586,686	17,866,209	29,605,427	5,239,133	31,039,154	28,031,568	5,239,057	15,996,314	<b>164,443,106</b>
<b>ANNUAL SURPLUS</b>	749,465	11,284,613	1,187,896	3,044,504	2,619,888	115,705	4,941,091	6,218,040	4,650,674	6,078,000	<b>40,889,876</b>
Capital projects	\$ -	\$ 99,032	\$ 6,102,155	\$ 1,211,381	\$ -	\$ -	\$ 3,850,819	\$23,444,946	\$ 8,875,506	\$13,153,920	<b>\$ 56,737,759</b>

**CITY OF NANAIMO**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
for the year ended December 31, 2020

	COST					ACCUMULATED AMORTIZATION				
	Balance December 31, 2019	Additions	Disposals	Transfers	Balance December 31, 2020	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2020	NET BOOK VALUE
Land	\$ 99,069,560	\$ 5,485,399	\$ 600,061	\$ -	\$ 103,954,898	\$ -	\$ -	\$ -	\$ -	\$ 103,954,898
Land improvements	40,387,766	2,931,886	2,900	185,257	43,502,009	17,855,193	1,469,881	2,900	19,322,174	24,179,835
Leasehold improvements	3,215,921	-	95,620	-	3,120,301	1,893,959	84,126	95,620	1,882,465	1,237,836
Marine structures	829,224	126,553	-	72,590	1,028,367	560,777	38,214	-	598,991	429,376
Buildings	198,607,545	1,606,112	-	2,418,822	202,632,479	86,446,834	5,494,421	-	91,941,255	110,691,224
Vehicles and equipment	38,595,682	3,312,890	725,241	283,159	41,466,490	20,945,671	2,495,081	620,197	22,820,555	18,645,935
IT Infrastructure	9,848,274	10,454	26,305	-	9,832,423	8,819,677	341,149	26,305	9,134,521	697,902
Drainage	111,107,145	2,594,087	862,290	327,077	113,166,019	33,150,682	1,708,748	349,905	34,509,525	78,656,494
Transportation	323,460,531	8,859,727	912,037	1,743,063	333,151,284	182,637,335	7,139,970	906,403	188,870,902	144,280,382
Sewer	51,906,257	5,460,379	29,889	6,046,154	63,382,901	14,227,164	1,010,118	28,244	15,209,038	48,173,863
Water	273,778,573	8,453,996	459,014	1,666,647	283,440,202	79,941,435	5,732,804	383,570	85,290,669	198,149,533
Work In Progress	25,511,759	7,485,394	-	(12,742,769)	20,254,384	-	-	-	-	20,254,384
	\$1,176,318,237	\$ 46,326,877	\$ 3,713,357	\$ -	\$1,218,931,757	\$ 446,478,727	\$25,514,512	\$ 2,413,144	\$ 469,580,095	\$ 749,351,662

**CITY OF NANAIMO**  
**SCHEDULE OF TANGIBLE CAPITAL ASSETS**  
for the year ended December 31, 2019

	COST				ACCUMULATED AMORTIZATION					
	Balance December 31, 2019	Additions	Disposals	Transfers	Balance December 31, 2019	Balance December 31, 2019	Additions	Disposals	Balance December 31, 2019	NET BOOK VALUE
Land	\$ 97,177,758	\$ 5,678,724	\$ 3,786,922	\$ -	\$ 99,069,560	\$ -	\$ -	\$ -	\$ -	\$ 99,069,560
Land improvements	37,262,334	2,847,186	72,425	350,671	40,387,766	16,566,517	1,358,084	69,408	17,855,193	22,532,573
Leasehold improvements	3,215,921	-	-	-	3,215,921	1,805,967	87,992	-	1,893,959	1,321,962
Marine structures	829,224	-	-	-	829,224	519,614	41,163	-	560,777	268,447
Buildings	197,791,273	792,776	-	23,496	198,607,545	81,065,405	5,381,429	-	86,446,834	112,160,711
Vehicles and equipment	37,883,676	1,431,122	1,073,699	354,583	38,595,682	19,414,495	2,435,610	904,434	20,945,671	17,650,011
IT Infrastructure	9,766,391	29,951	-	51,932	9,848,274	8,395,497	424,180	-	8,819,677	1,028,597
Drainage	107,680,841	3,717,634	346,000	54,670	111,107,145	31,832,218	1,662,398	343,934	33,150,682	77,956,463
Transportation	312,306,475	11,192,400	899,644	861,300	323,460,531	176,658,013	6,823,799	844,477	182,637,335	140,823,196
Sewer	48,692,971	3,107,066	29,000	135,220	51,906,257	13,388,132	857,986	18,954	14,227,164	37,679,093
Water	266,051,887	8,234,369	991,249	483,566	273,778,573	75,223,804	5,534,262	816,631	79,941,435	193,837,138
Work In Progress	8,120,666	19,706,531	-	(2,315,438)	25,511,759	-	-	-	-	25,511,759
	\$1,126,779,417	\$ 56,737,759	\$ 7,198,939	\$ -	\$1,176,318,237	\$ 424,869,662	\$ 24,606,903	\$ 2,997,838	\$ 446,478,727	\$ 729,839,510

# **CITY OF NANAIMO**

## **NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended December 31, 2020**

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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 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. All transactions and balances between funds have been eliminated.

#### **Reporting Entity**

As at December 31, 2020, the City does not control any significant external entities.

#### **(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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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

**(i) Debt**

Debt is presented net of repayments and actuarial adjustments.

**(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	8-80
Leasehold Improvements	15-30
Marine Structures	15-35
Buildings	10-40
Vehicles and Equipment	2-25
IT Infrastructure	5-10
Drainage	40-75
Transportation - Linear Infrastructure, Lighting and Signals	10-80
Sewer - Linear Infrastructure and Equipment	25-60
Water - Linear Infrastructure and Equipment	8-80

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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**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. 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>2020</u>	<u>2019</u>
Utilities	\$ 14,574,106	\$ 9,293,795
Property Taxes	4,274,391	3,740,485
Trade and Other	2,145,814	2,362,657
Due from Provincial Government	905,449	903,051
Municipal Finance Authority Debt Reserve	834,189	976,776
Due from Federal Government	1,162,693	627,909
Interest on Investments	615,461	1,282,965
Due from Regional Government	379,031	190,887
	<u>\$ 24,891,134</u>	<u>\$ 19,378,525</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

**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>2020</u>	<u>2019</u>
Installments:								
2021	\$ 17,612	\$ 334,587	\$ 3,122	\$ 102,674	\$ 62,395	\$ 322,845	\$ 843,235	\$ 425,088
2022	6,915	131,166	441	40,258	26,997	126,568	332,345	89,701
	<u>\$ 24,527</u>	<u>\$ 465,753</u>	<u>\$ 3,563</u>	<u>\$ 142,932</u>	<u>\$ 89,392</u>	<u>\$ 449,413</u>	<u>\$ 1,175,580</u>	<u>\$ 514,789</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>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Term deposits	\$ 93,601,731	\$ 93,744,907	\$ 135,535,284	\$ 136,012,282
Debentures	4,964,669	5,227,406	13,455,514	13,620,017
	<u>\$ 98,566,400</u>	<u>\$ 98,972,313</u>	<u>\$ 148,990,798</u>	<u>\$ 149,632,299</u>

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

	<u>2020</u>	<u>2019</u>
Trade and Other	\$ 8,487,746	\$ 12,395,826
RCMP Contract	13,104,121	9,974,701
Deposits	10,843,253	10,175,078
Accrued wages and benefits	3,203,026	4,472,979
Contaminated sites	170,000	170,000
Other governments	12,425,135	1,020,904
	<u>\$ 48,233,281</u>	<u>\$ 38,209,488</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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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, 2019 and the results are extrapolated to December 31, 2020. The current valuation was completed in 2020. Significant assumptions used in the valuation include a discount rate of 3.5%, inflation of 1.75% and compensation increases, excluding merit and promotion, of 2.75%. There is an unamortized actuarial loss of \$607,289 (2019 – loss of \$678,448).

	<u>2020</u>	<u>2019</u>
Actuarial Benefit Obligation, beginning of year	\$ 8,922,399	\$ 8,478,144
Unamortized Actuarial Loss, beginning of year	(678,448)	(616,905)
	<u>8,243,951</u>	<u>7,861,239</u>
Current Service Cost	696,593	807,296
Interest Costs	308,081	338,576
Benefits Paid	(936,780)	(824,111)
Amortization of Actuarial Loss	71,159	60,951
	<u>8,383,004</u>	<u>8,243,951</u>
Actuarial Benefit Obligation, end of year	8,990,293	8,922,399
Unamortized Actuarial Loss, end of year	(607,289)	(678,448)
Accrued Benefit Liability, end of year	<u>\$ 8,383,004</u>	<u>\$ 8,243,951</u>

Actuarial gains and losses are amortized over 12 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 \$1,075,833 (2019 - \$1,206,823).

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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

	<u>2020</u>	<u>2019</u>
Tax Prepayments	\$ 13,405,043	\$ 12,821,621
Other Prepayments	7,835,775	7,189,946
	<u>\$ 21,240,818</u>	<u>\$ 20,011,567</u>

**NOTE 8 - DEFERRED DEVELOPMENT COST CHARGES**

	<u>2020</u>	<u>2019</u>
Deferred Development Cost Charges - beginning of year	\$ 49,483,535	\$ 46,965,417
Additions	7,877,509	7,591,978
Interest Earned	1,037,909	1,178,164
Revenue Recognized	(1,647,250)	(6,252,024)
Deferred Development Cost Charges - end of year	<u>\$ 56,751,703</u>	<u>\$ 49,483,535</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.

\$39,306,835 (2019 – \$41,616,953) of debt is with the MFA. Payments and actuarial allocations of \$38,474,486 on the gross amount borrowed of \$77,781,321 are held in a sinking fund by the MFA. The rates of interest on the principal amount of the MFA debentures vary between 0.91% and 3.85% per annum.

	<u>2020</u>	<u>2019</u>
Total Outstanding Debt - beginning of year	\$ 41,616,953	\$ 46,120,643
Reduction of Long-term Debt	(4,716,703)	(4,503,690)
Proceeds from long-term borrowing	2,406,585	-
Total Outstanding Debt - end of year	<u>\$ 39,306,835</u>	<u>\$ 41,616,953</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 2020 at December 31, 2019 was \$44,839,046. The actual liability servicing cost was \$5,286,663 and the estimated cost on unissued debt is \$874,113, leaving \$38,678,270 of liability servicing capacity available.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

**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>
2021	\$ 3,395,317	\$ 978,667	\$ 4,373,984
2022	3,445,190	1,017,814	4,463,004
2023	2,992,836	1,058,526	4,051,362
2024	2,472,492	1,100,867	3,573,359
2025	2,538,697	1,144,901	3,683,598
Thereafter	7,539,248	11,622,280	19,161,528
	<u>\$ 22,383,780</u>	<u>\$ 16,923,055</u>	<u>\$ 39,306,835</u>

					Balance Outstanding	
Bylaw #	MFA Issue #		Interest Rate %	Year Matures	2020	2019
<u>General Fund - Tax Supported</u>						
5425	72	Leisure and Aquatic Centre	1.67	2020	\$ -	\$ 336,528
5457	73	Leisure and Aquatic Centre	1.67	2020	-	306,614
5750	99	Port of Nanaimo Centre	1.75	2026	5,785,884	6,624,625
5750	101	Port of Nanaimo Centre	2.25	2027	6,624,625	7,431,107
7050	102	Fire Station #4	2.25	2027	1,656,157	1,857,777
7257	146	Fire Station #1	3.20	2038	2,990,930	3,114,948
7257	152	Fire Station #1	0.91	2040	2,000,000	-
		Garbage Trucks-Equipment	1.22	2022	578,687	879,778
		Garbage Trucks-Equipment	1.22	2023	2,360,791	3,201,494
		Garbage Trucks-Equipment	1.22	2025	386,706	-
					<u>22,383,780</u>	<u>23,752,871</u>
<u>Waterworks Fund - User Fee Supported</u>						
7127	126	Water Treatment Plant	3.85	2033	9,772,327	10,337,466
7127	127	Water Treatment Plant	3.30	2034	7,150,728	7,526,616
					<u>16,923,055</u>	<u>17,864,082</u>
					<u>\$ 39,306,835</u>	<u>\$ 41,616,953</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 10 - TANGIBLE CAPITAL ASSETS**

<u>Net Book Value</u>	<u>2020</u>	<u>2019</u>
Land	\$ 103,954,898	\$ 99,069,560
Land Improvements	24,179,835	22,532,573
Leasehold Improvements	1,237,836	1,321,962
Marine Structures	429,376	268,447
Buildings	110,691,224	112,160,711
Vehicles and Equipment	18,645,935	17,650,011
IT Infrastructure	697,902	1,028,597
Drainage	78,656,494	77,956,463
Transportation	144,280,382	140,823,196
Sewer	48,173,863	37,679,093
Water	198,149,533	193,837,138
	<hr/>	<hr/>
	729,097,278	704,327,751
Work In Progress	20,254,384	25,511,759
	<hr/>	<hr/>
	<u>\$ 749,351,662</u>	<u>\$ 729,839,510</u>

See schedule of tangible capital assets (page 10) for more information. There were no write downs of tangible capital assets for 2019 and 2020. Developer contributed assets recognized in 2020 were \$10,400,599 (2019 - \$8,134,351) 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 FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

**NOTE 11 - ACCUMULATED SURPLUS**

	<u>2020</u>	<u>2019</u>
Reserve Accounts (Note 21)	\$ 89,515,381	\$ 76,198,807
Surplus - General *	-	5,842,097
Surplus - Sewer *	-	6,898,003
Surplus - Water *	-	5,827,039
Investment in Tangible Capital Assets (Note 18)	707,273,665	687,573,892
Community Works Reserve Fund (Gas Tax Agreement)	15,088,694	13,610,936
Equipment Depreciation Reserve	9,066,494	8,416,206
Facility Development (Recreation) Reserve	3,634,205	3,350,653
Property Sales Reserve	3,129,464	2,061,173
Knowles Estate Reserve	410,565	439,868
Parkland Dedication Reserve	1,126,691	1,747,348
Old City Neighborhood Parking Reserve	165,628	123,741
General Asset Management Reserve	11,464,273	9,172,413
Sewer Asset Management Reserve	3,441,257	2,227,853
Water Asset Management Reserve	7,604,782	6,919,104
Emission Reduction Reserve	513,697	637,950
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	-
	<u>\$ 868,236,100</u>	<u>\$ 831,047,083</u>

\* Accumulated Operating Surplus transferred to Reserves in 2020

\*\* New Statutory Reserves in 2020



**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**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.

**(b) BC Assessment Authority Appeals**

As at December 31, 2020, 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 \$1,661,815 (2019 – \$1,951,342) 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.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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

**(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. 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.

**(e) Commitments**

The City has \$29,600,000 (2019 - \$16,800,000) 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 \$2,000,000 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 financial statements. At December 31, 2020, the balance of funds held in trust was \$603,907 (2019 - \$590,988).

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 14 - ANNUAL BUDGET**

These financial statements include the Annual Budget as approved by Council on May 11, 2020. No amendments subsequent to this date have been included. The following is a reconciliation of the budget presentation required for the 2020 financial statements and the annual financial plan bylaw:

Annual Budgeted Surplus - Statement of Operations	\$ 9,546,330
Cemetery Care Fund - not in reporting entity	10,000
Net Proceeds from Internal Borrowing	1,964,198
Net Development Cost Charges	<u>1,340,903</u>
Annual Surplus from the 2020 Financial Plan	12,861,431
Amortization, not funded	26,034,829
Capital Expenditures	(73,593,653)
Proceeds from Borrowing	4,615,890
Principal Repayment of Debt	(4,705,511)
Transfers from Accumulated Surplus	<u>34,787,014</u>
Net Annual Budget - as approved	\$ -

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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

	<u>Municipal</u>	<u>Other</u>	<u>2020</u> <u>Total</u>	<u>2019</u> <u>Total</u>
Property Taxes	\$ 112,071,369	\$ 64,157,449	\$ 176,228,818	\$ 171,950,803
Business Improvement Area Levies	42,010	-	42,010	41,594
Vancouver Island Regional Library	4,823,864	-	4,823,864	4,733,307
Taxes in Lieu of Licenses	1,433,730	-	1,433,730	1,456,423
Payments in Lieu of Taxes	2,111,857	451,978	2,563,835	2,627,060
	<u>\$ 120,482,830</u>	<u>\$ 64,609,427</u>	<u>\$ 185,092,257</u>	<u>\$ 180,809,187</u>
			<u>2020</u>	<u>2019</u>
Less Collections for Other Governments:				
Province of British Columbia (School Tax)			\$ 34,907,572	\$ 40,114,781
Regional District of Nanaimo			24,390,187	22,039,402
Nanaimo Regional Hospital District			4,144,977	4,036,324
Other Agencies			1,166,691	1,057,907
			<u>64,609,427</u>	<u>67,248,414</u>
Taxation and Payments in Lieu			<u>\$ 120,482,830</u>	<u>\$ 113,560,773</u>

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

	<u>2020</u>	<u>2019</u>
Waterworks	\$ 20,811,099	\$ 20,473,635
Recreation Programs	2,691,171	6,993,693
Sewer System	8,215,799	7,694,946
Garbage Collection	6,137,720	5,957,790
Vancouver Island Conference Centre	670,016	2,397,916
Public Works	689,472	237,737
Parking	999,938	1,639,105
Other	219,122	250,828
Fire Rescue	121,849	119,785
Police Services	62,273	82,663
	<u>\$ 40,618,459</u>	<u>\$ 45,848,098</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

**NOTE 17 - TRANSFERS FROM OTHER GOVERNMENTS**

	<u>2020</u>	<u>2019</u>
<u>Federal</u>		
Capital	\$ 20,000	\$ -
Gas Tax	3,866,429	7,623,058
Other	462,716	279,748
	<u>4,349,145</u>	<u>7,902,806</u>
<u>Provincial</u>		
Capital	492,636	-
Casino Gaming	514,751	2,706,954
Revenue Sharing	1,332,568	1,170,957
COVID-19 Restart Grant	6,693,000	-
Other	621,313	351,815
	<u>9,654,268</u>	<u>4,229,726</u>
<u>Other Governments</u>		
Other	106,338	56,077
	<u>14,109,751</u>	<u>12,188,609</u>
Total transfers from other governments	<u>\$ 14,109,751</u>	<u>\$ 12,188,609</u>
Transfers from other governments - capital	\$ 4,379,065	\$ 7,623,208
Transfers from other governments - operating	9,730,686	4,565,401
Total transfers from other governments	<u>\$ 14,109,751</u>	<u>\$ 12,188,609</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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

	<u>2020</u>	<u>2019</u>
Investment in Tangible Capital Assets - beginning of year	\$ 687,573,892	\$ 659,159,112
Add:		
Capital Additions	46,326,877	56,737,759
Reductions in Long-term Debt	4,716,703	4,503,690
Unused Borrowing - Fire Hall	1,238,851	2,209,305
Less:		
Funding from Deferred Capital Fund	(1,152,043)	(2,857,969)
Amortization	(25,514,512)	(24,606,903)
Used Borrowing - Fire Hall	(2,209,305)	(3,370,000)
New Borrowing - Fire Hall	(2,000,000)	-
New Borrowing - Garbage Truck	(406,585)	-
Net Book Value of Asset Disposals	(1,300,213)	(4,201,102)
Investment in Tangible Capital Assets - end of year	<u>\$ 707,273,665</u>	<u>\$ 687,573,892</u>

**NOTE 19 - MUNICIPAL PENSION PLAN**

The City and its employees contribute to the Municipal Pension Plan (the Plan), a jointly trustee 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 213,000 active members and approximately 106,000 retired members. Active members include approximately 41,000 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 surplus and will be adjusted for the amortization of any unfunded liability.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 19 - MUNICIPAL PENSION PLAN (CONTINUED)**

The most recent valuation for the Municipal Pension Plan as at December 31, 2018 indicated a \$2,866 million funding surplus for basic pension benefits on a going concern basis. During 2020, City of Nanaimo contributions to the plan were:

	<u>2020</u>	<u>2019</u>
Employer Portion	\$ 5,916,889	\$ 5,492,219
Employee Portion	4,976,591	4,590,287
	<u>\$ 10,893,480</u>	<u>\$ 10,082,506</u>

The next valuation will be as at December 31, 2021 with results available in 2022.

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.

**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.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 20 - FINANCIAL INSTRUMENTS (CONTINUED)**

**(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. There has been no significant change to risk exposure over 2019.



**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

**NOTE 21 - RESERVES**

	<u>Work in Progress</u>	<u>Available for Future Commitments</u>	<u>2020</u>	<u>2019</u>
<u>General Revenue Fund Reserve Accounts</u>				
Fire & Emergency Services	\$ -	\$ -	\$ -	\$ 3,397,729
Parks & Recreation	-	195,305	195,305	368,599
Strategic Partnerships	-	200,043	200,043	200,043
General Capital	211,658	3,086,388	3,298,046	6,040,729
Prior Year Carry Forwards	5,411,586	-	5,411,586	5,183,981
Housing Legacy	-	-	-	2,588,638
Uncollected Taxes	-	-	-	2,384,445
Uninsured Claims	-	-	-	2,732,755
Allowance for Bad Debts	-	-	-	44,000
RCMP Contract	225,000	1,783,433	2,008,433	2,816,942
Information Technology Infrastructure	-	-	-	1,341,690
Sustainability Initiatives	-	-	-	307,205
Fitzwilliam Street Parking	-	142,868	142,868	1,875,602
Conference Centre	110,200	669,982	780,182	680,182
Snow Removal	-	1,200,000	1,200,000	300,000
Property Acquisition	-	-	-	2,600,218
Strategic Infrastructure	-	-	-	3,090,982
General Financial Stability	2,108,806	15,580,329	17,689,135	814,012
Special Initiatives	6,396,164	5,799,567	12,195,731	4,968,073
Colliery Dam	-	-	-	130,538
Photocopier	-	-	-	394,133
Casino Funds	716,933	526,442	1,243,375	1,448,844
Sanitation Leveling	28,000	746,008	774,008	774,008
	<u>15,208,347</u>	<u>29,930,365</u>	<u>45,138,712</u>	<u>44,483,348</u>
<u>Sewer Revenue Reserve Accounts</u>				
General Capital	5,704,135	11,137,898	16,842,033	11,250,976
Sewer Financial Stability	-	500,000	500,000	-
	<u>5,704,135</u>	<u>11,637,898</u>	<u>17,342,033</u>	<u>11,250,976</u>
<u>Waterworks Revenue Fund Reserve Accounts</u>				
General Capital	12,398,237	12,935,344	25,333,581	18,564,483
Growth Related Projects	-	-	-	1,900,000
Water Financial Stability	-	1,701,055	1,701,055	-
	<u>12,398,237</u>	<u>14,636,399</u>	<u>27,034,636</u>	<u>20,464,483</u>
Total Reserve Accounts	<u>\$ 33,310,719</u>	<u>\$ 56,204,662</u>	<u>\$ 89,515,381</u>	<u>\$ 76,198,807</u>

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 22 - 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 8).

**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 also responsible for Human Resources and Organizational Planning, Legislative Services, and Communications.

**Corporate Services**

Providing service to both the internal organization and the community, the Corporate Services Department is responsible for Emergency Management, 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. Development Services is also responsible for bylaw, animal control, and parking.

**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.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 22 - 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, Recreation and Culture**

The Parks, Recreation and Culture 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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 23 - CONTRACTUAL RIGHTS**

The City of Nanaimo has entered into various contracts for rental revenue within the normal course of operations. The estimated contractual rights under these contracts for the years ending December 31 are as follows:

2021	\$ 997,100
2022	1,012,180
2023	1,094,425
2024	1,094,425
2025	1,094,425
	<u>\$ 5,292,555</u>

In addition to these contractual rights, the City has agreements with several parties that provide for the recovery of costs and payments of annual fees and commissions based on annual results.

**NOTE 24 - COVID-19**

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and measures taken by various governments to contain the virus have affected economic activity. The City has taken a number of measures to monitor and mitigate the effects of COVID-19, as follows:

- i. Provided staff with all necessary personal protective equipment (PPE), implemented additional safety measures and initiated the Park Ambassador Program.
- ii. CAO authorized all vacant position postings on a priority needs basis.
- iii. Repurposed Parks and Recreation staff to fill vacancies and seasonal positions.
- iv. Cut expenditures for staff travel and conferences, space rental and service contracts.

While governments and central banks have reacted with monetary and fiscal interventions designed to stabilize economic conditions, the duration and extent of the impact of the COVID-19 outbreak on financial markets as well as the effectiveness of government and central bank responses, remains unclear at this time. Management will continue to monitor and adapt as the City sees fit.

**CITY OF NANAIMO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2020

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**NOTE 25 - COMPARATIVE FIGURES**

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

**SAFE RESTART GRANT SCHEDULE (UNAUDITED)**

Safe Restart Grant received November 2020	\$ 6,693,000
Revenue Shortfalls:	
Casino	(1,985,248)
Parks, Recreation & Culture	(3,786,664)
Parking	(284,527)
Total Revenue Shortfalls	(6,056,439)
Unplanned Pandemic Expenditures	(636,561)
Total eligible costs incurred	(6,693,000)
Balance, December 31, 2020	\$ -





# City of Nanaimo

Audit Findings Report for the year ended December 31, 2020

*KPMG LLP*

Prepared on April 7, 2021 for presentation on April 14, 2021

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



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This Audit Findings Report is intended solely for the information and use of Management, the Finance & Audit Committee, and the Mayor and City Council and should not be used for any other purpose or any other party. 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

## Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Audit Committee, in your review of the results of our audit of the financial statements of the City of Nanaimo (the “City”) as at and for the year ended December 31, 2020. This Audit Findings Report builds on the Audit Plan we presented to the Finance and Audit Committee on November 18, 2020.

### Changes from the audit plan

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

### Finalizing the audit

As of April 7, 2021, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with the Finance and Audit Committee;
- Obtaining the signed management representation letter;
- Obtaining evidence of Council’s approval of the financial statements; and,
- Completing subsequent event review procedures up to the date of Council’s approval of the financial statements.

We will update Council on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors’ report, a draft of which is attached to the enclosed draft financial statements, will be dated upon the completion of any remaining procedures.

### Adjustments and differences

#### Uncorrected differences

We did not identify differences that remain uncorrected.

#### Corrected adjustments

We did not identify any differences that were corrected that impacted net income. There was one correction to the disclosure of contractual rights.

The management representation letter includes all adjustments identified as a result of the audit, communicated to management and subsequently corrected in the financial statements.

### 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.

### Control and other observations

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

### 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, 2020 up to the date of this report.

### Current developments

Please refer to Appendix 3 for a summary of upcoming changes to Public Sector Accounting Standards and various resource links, including those related to COVID-19.



# What's new in 2020

## COVID-19 pandemic

Areas of impact	Key observations
<b>Financial reporting impacts</b>	<ul style="list-style-type: none"><li>- We considered impacts to financial reporting due to the COVID-19 pandemic and the increased disclosures needed in the financial statements. Suggestions were provided to management to enhance disclosures which have been reflected in the financial statements. Disclosure of the use of Safe Restart Funding has been appropriately included in an unaudited schedule appended to the financial statements.</li></ul>
<b>Internal control over financial reporting</b>	<ul style="list-style-type: none"><li>- There were minimal changes to internal controls over financial reporting due to the COVID-19 pandemic as the City did not move to a fully remote working environment and was able to maintain its internal controls and processes.</li></ul>
<b>Risk assessment</b>	<ul style="list-style-type: none"><li>- We performed a more thorough risk assessment specifically targeted at the impacts of the COVID-19 pandemic, including an assessment of fraud risk factors (i.e., conditions or events that may be indicative of an incentive/pressure to commit fraud, opportunities to commit fraud, rationalizations of committing fraud). No significant new risks were identified.</li></ul>
<b>Auditing remotely</b>	<ul style="list-style-type: none"><li>- We used virtual work rooms, video conferencing, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management.</li><li>- We used secure technologies to conduct walkthroughs, perform tests of controls and substantive tests.</li><li>- We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.</li></ul>
<b>Direction and supervision of the audit</b>	<ul style="list-style-type: none"><li>- The Senior Manager and Engagement Partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the City's financial reporting and the City's internal control over financial reporting.</li><li>- The Senior Manager and Engagement Partner implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.</li></ul>
<b>Substantive testing – Response</b>	<ul style="list-style-type: none"><li>- COVID-19 impacted revenues from recreation programs, the casino and the Vancouver Island Conference Centre. We performed procedures over these transactions to assess the reasonability of amounts factoring in the impact of closures of facilities on revenues.</li><li>- As there were minimal changes to other parts of the City's business during the year, we did not change other areas of our approach for the audit.</li></ul>

# What's new in 2020 continued

## New auditing standard

Standard	Key observations
<b>CAS 540, Auditing Accounting Estimates and Related Disclosures</b>	<ul style="list-style-type: none"><li>- The new standard was applied on all estimates within the financial statements that had a risk of material misstatement due to estimation uncertainty.</li><li>- We assessed the risk of material misstatement due to estimation uncertainty for all estimates within the financial statements and not just “key estimates”, “critical accounting estimates”, or “estimates with significant risk”. In assessing this risk, we considered the degree of complexity, uncertainty and subjectivity involved in making each accounting estimate to determine the level of audit response.</li><li>- We considered the potential for management bias.</li><li>- The estimate over the calculation of compensated absences and termination benefits had a risk of material misstatement due to estimate uncertainty that was greater than remote and additional audit procedures were performed in line with the new standard. No issues were noted as a result of these additional procedures.</li><li>- No other estimates had a risk of material misstatement due to estimation uncertainty that was greater than remote.</li></ul>

# Audit risks

## Professional requirements

Fraud risk from management override of controls

## Why is this significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

## Our response

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments.
- Performing a retrospective review of significant estimates.
- Evaluating the business rationale of significant unusual transactions.

We used KPMG's data and analytics tools to select unusual or unexpected journal entries impacting reserves, including unusual journal entry pairings.

## Significant findings

There were no issues noted in our testing.

# Areas of audit focus

## Area of audit focus

Tangible capital assets and developer contributed assets

## Our response and significant findings

Our procedures:

- We tested asset additions by agreeing amounts to invoices or other supporting documentation.
- We calculated expected amortization expense based on known amortization rates and compared the expected amortization expense to actual.
- We performed testing over the developer contributed tangible capital assets by obtaining reports of assets contributed during the year and agreeing these reports to supporting approval of subdivisions.
- We tested transfers from construction in progress to asset classes and confirmed the transfer occurred in the correct period and to the appropriate asset class.

No issues or adjustments were noted.

# Areas of audit focus continued

## Area of audit focus

Cash and Investments

## Our response and significant findings

Our procedures:

- We confirmed cash and investment balances held as at December 31, 2020 with the appropriate financial institutions and reviewed bank reconciliations for all key operating accounts to identify and verify any significant period end reconciling items.

No issues or adjustments were noted.

## Area of audit focus

Revenues and receivables

## Our response and significant findings

Our procedures:

- We compared revenue balances on a financial statement account level to budget.
- We performed analytical procedures over property tax revenue, investment income, and user fees and sales of services.
- We performed substantive testing over government transfers by agreeing revenues to supporting documentation and cash receipt.
- We performed analytical procedures over the year-end accounts receivable balance.
- We concur with management's assessment that there is a low valuation risk associated with the City's year-end accounts receivable balances.

No issues or adjustments were noted.

# Areas of audit focus continued

## Area of audit focus

Salaries and benefits

## Our response and significant findings

Our procedures:

- We obtained an understanding of the payroll processes.
- We calculated expected payroll expense and payroll accruals based on known staff numbers and salary increases. In each case our calculated expectation was within an acceptable range from the actual payroll expense, or payroll accrual recorded in the financial statements.
- We tested the completeness and accuracy of the underlying payroll data used in the development of our expectation including agreeing amounts to employment contracts.
- We tested the reliability of the underlying data used by the actuary in estimating the liability of future employee benefits.
- We performed a review of assumptions and methods used by the actuary in estimating the liability of future employee benefits to determine if the assumptions and methods used are reasonable and consistent with Public Sector Accounting Standards.

No issues or adjustments were noted.

## Area of audit focus

Expenses, procurement and payables

## Our response and significant findings

Our procedures:

- We performed a search for unrecorded liabilities by testing payments made subsequent to year end and assessing the completeness of liabilities and expenses.
- We compared actual balances to expectations taking into account known significant transactions.

No issues or adjustments were noted.

# Control and other observations

In accordance with professional standards, we are required to communicate to the Committee significant deficiencies in internal control over financial reporting (“ICFR”) that we identified during our audit.

The purpose of our audit is to express an opinion on the financial statements. Our audit included consideration of ICFR 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 ICFR.

The matters being reported are limited to those deficiencies that we have identified during our audit and that we have concluded are of sufficient importance to merit being reported to the Committee and to meet professional standards.

## Significant deficiencies

We did not identify any significant deficiencies in internal control over financial reporting.

## Other observations

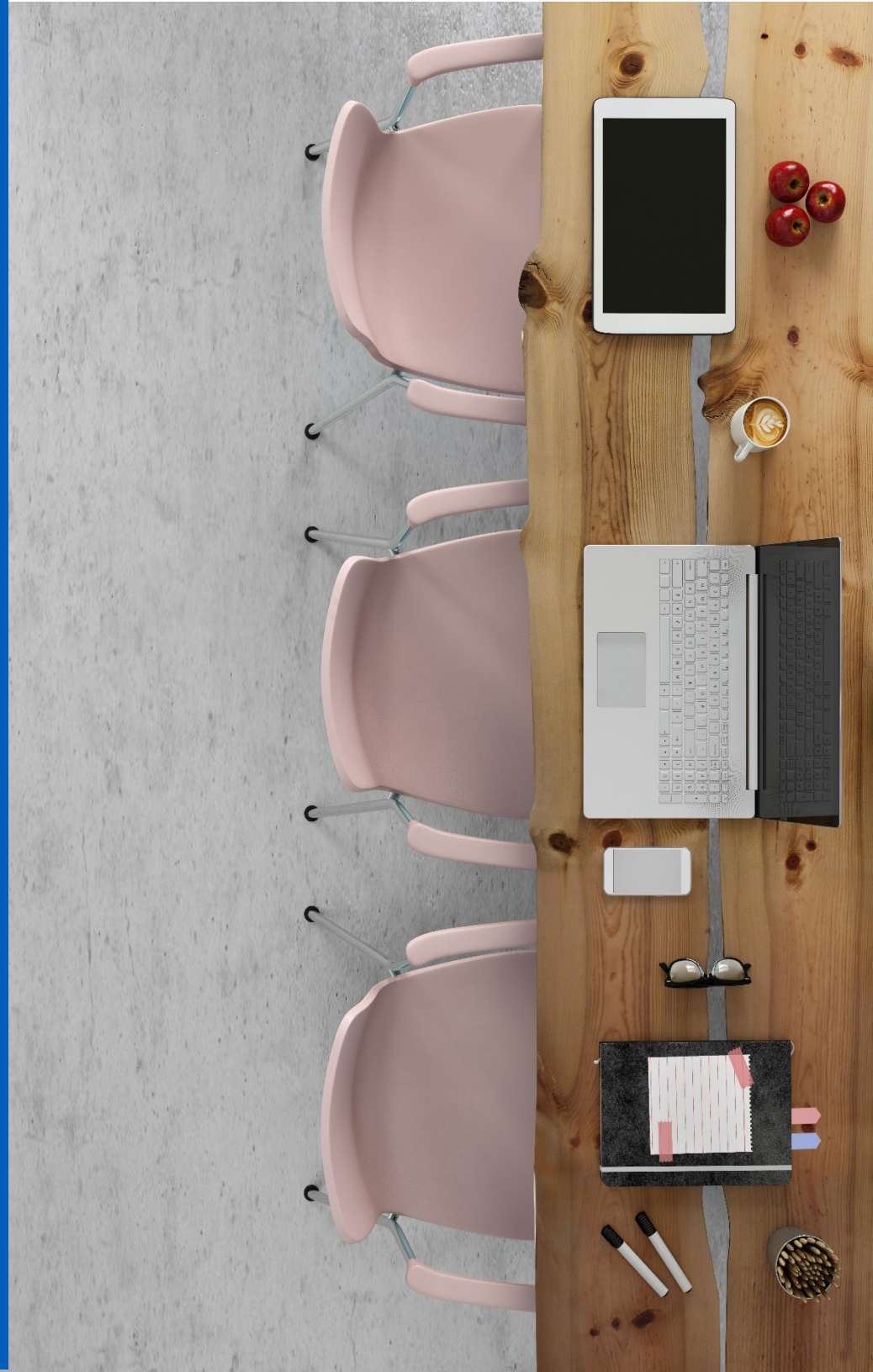
We did not identify any other observations related to internal controls in the current year. In the prior year we identified a minor other control observation. A follow up on this matter is included in our management letter.

# Appendices

**Appendix 1: Required communications**

**Appendix 2: Management representation letter**

**Appendix 3: Current developments and audit trends**





# Appendix 1: Required communications

## Draft auditors' report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.

## Management representation letter

In accordance with professional standards, a copy of the management representation letter is included in Appendix 2.

## Independence

In accordance with professional standards, we have confirmed our independence.

## Management letter

We have issued a letter on control observations to management detailing our follow up on a minor control observation identified in the prior year. We had no new observations to report in the current year.

# Appendix 2: Management representation letter

Date of approval of financial statements

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 financial statements (hereinafter referred to as “financial statements”) of City of Nanaimo (“the City”) as at and for the period ended December 31, 2020.

## **General:**

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 also 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:

## **Responsibilities:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated April 1, 2019 including 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 the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements (“relevant information”), such as financial records, documentation and other matters, including:
    - the names of all related parties and information regarding all relationships and transactions with related parties;
    - the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and committees of Council that may affect the financial statements. All significant actions are included in such summaries.
  - c) providing you with unrestricted access to such relevant information.
  - d) providing you with complete responses to all enquiries made by you during the engagement.
  - e) providing you with additional information that you may request from us for the purpose of the engagement.

- f) providing you with unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
- g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
- h) 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 we are aware.

**Fraud & non-compliance with laws and regulations:**

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
    - management;
    - employees who have significant roles in internal control over financial reporting; or
    - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) 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.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Subsequent events:**

- 4) 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:**

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

**Estimates:**

- 8) The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

**Going concern:**

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.
- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the City's ability to continue as a going concern.

**Misstatements:**

- 11) We approve the corrected misstatements to decrease the contractual rights note by \$330,000 to exclude variable revenue from the disclosure.

**Other information:**

- 12) We confirm that the final version of Annual Report 2020 will be provided to you when available, and prior to issuance by the City, to enable you to complete your audit procedures in accordance with professional standards.

**Assets & Liabilities - General**

- 13) The City has satisfactory title to all owned assets.
- 14) 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.
- 15) We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.

**Contractual Agreements:**

- 16) 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:**

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

**Non-Financial Assets:**

- 18) 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:**

- 19) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 20) 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.
- 21) 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.
- 22) 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:
  - a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.
  - b) 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.
  - c) compensated absences for which it is expected employees will be paid. These benefits include accumulated sick days, and termination benefits.
- 23) 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.
- 24) 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.
- 25) In arriving at these assumptions, management has obtained the advice of Nexus, but has retained the final responsibility for them.
- 26) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.
- 27) 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:**

- 28) 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:**

- 29) 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:**

- 30) Expenditures will be appropriately authorized and actual expenditures will not exceed budgeted expenditures detailed in the budget bylaw.
- 31) 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
- 32) All transfers out of statutory reserves have been conducted in accordance with the approved bylaws.

**Non-SEC registrants or non-reporting issuers:**

- 33) 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).
- 34) We also confirm that the financial statements of the City will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

**Yours very truly,**

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Mr. Jake Rudolph, Chief Administrative Officer

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Ms. Laura Mercer, Director, Finance

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.

Information is material if omitting, misstating or obscuring it 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 perception of the needs of, or the characteristics of, the users of the financial statements and, the size or nature of a misstatement, or a combination of both while also considering the entity's own circumstances.

Information is obscured if it is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- c) dissimilar items, transactions or other events are inappropriately aggregated;
- d) similar items, transactions or other events are inappropriately disaggregated; and
- e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

### **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.



# Appendix 3: Current developments and audit trends

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting public sector entities today, or expected to impact them over the next few years. We provide this information to help public sector entities understand upcoming changes and challenges they may face in their industry. Some of these developments may not impact the City directly, but we believe it is important for Council to understand what is happening in the sector.

## Public Sector Accounting Standards

Standard	Summary and implications
Impact of COVID-19	<ul style="list-style-type: none"><li>– In response to the impact of COVID-19 on public sector entities, PSAB has approved deferral of all upcoming accounting standards by one year and will issue non-authoritative guidance on the effects of COVID-19.</li></ul>
Asset Retirement Obligations	<ul style="list-style-type: none"><li>– The new standard is effective for fiscal years beginning on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.</li><li>– The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.</li><li>– The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life.</li><li>– As a result of the new standard, the public sector entity will have to:<ul style="list-style-type: none"><li>• Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;</li><li>• Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;</li><li>• Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.</li></ul></li></ul>

# Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
Revenue	<ul style="list-style-type: none"> <li>– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19.</li> <li>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.</li> <li>– The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.</li> <li>– The standard notes that unilateral revenues arise when no performance obligations are present, and 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>
Employee Future Benefit Obligations	<ul style="list-style-type: none"> <li>– PSAB has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. In July 2020, PSAB approved a revised project plan.</li> <li>– PSAB intends to use principles from International Public Sector Accounting Standard 39 <i>Employee Benefits</i> as a starting point to develop the Canadian standard.</li> <li>– Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues.</li> </ul>
International Strategy	<ul style="list-style-type: none"> <li>– PSAB has reviewed all proposed options for its international strategy, and in accordance with its due process, approved the option to adapt International Public Sector Accounting Standards when developing future standards. PSAB noted that the decision will apply to all projects beginning on or after April 1, 2021.</li> <li>– An exposure draft to modify the GAAP hierarchy has been issued with responses due by February 15, 2021.</li> </ul>
Purchased Intangibles	<ul style="list-style-type: none"> <li>– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles.</li> <li>– PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized.</li> <li>– The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.</li> </ul>

## Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> <li>– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.</li> <li>– PSAB has released four exposure drafts for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. Comments on the exposure drafts are due in May 2021.</li> <li>– PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.</li> <li>– In addition, PSAB is proposing:               <ul style="list-style-type: none"> <li>• Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.</li> <li>• Separating liabilities into financial liabilities and non-financial liabilities.</li> <li>• Restructuring the statement of financial position to present non-financial assets before liabilities.</li> <li>• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).</li> <li>• Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.</li> <li>• A new provision whereby an entity can use an amended budget in certain circumstances.</li> <li>• Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.</li> </ul> </li> </ul>

## Appendix 3: Current developments and audit trends (continued)

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	<ul style="list-style-type: none"> <li>– The accounting standards, PS3450 <i>Financial Instruments</i>, PS2601 <i>Foreign Currency Translation</i>, PS1201 <i>Financial Statement Presentation</i> and PS3041 <i>Portfolio Investments</i> are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19.</li> <li>– Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.</li> <li>– Hedge accounting is not permitted.</li> <li>– A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations.</li> <li>– In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 <i>Financial Instruments</i> which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 <i>Financial Instruments</i>. The exposure drafts were released in summer 2020 with a 90-day comment period.</li> </ul>
Public Private Partnerships ("P3")	<ul style="list-style-type: none"> <li>– PSAB has proposed new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. PSAB is in the process of reviewing feedback provided by stakeholders on the exposure draft.</li> <li>– The exposure draft proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.</li> <li>– The exposure draft proposes that the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.</li> <li>– The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.</li> <li>– The final standard was approved in December 2020 with an issuance date of April 1, 2021 and an effective date of April 1, 2023.</li> </ul>

# Appendix 3: Current developments and audit trends (continued)

Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace - both from an audit and industry perspective - indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

## Thought leadership

Thought leadership	Overview	Link
<b>2020 Audit Quality and Transparency Report</b>	Learn about KPMG's ongoing commitment to continuous audit quality improvement. KPMG maintains a system of audit quality control that is designed to meet or exceed the requirements of the applicable professional standards. In fact, we are continuously reviewing our policies and practices to ensure we're aligned with all regulatory and professional requirements, which if our firm commitment to each other as well as to our clients and to the capital markets we serve.	<a href="#">Link to report</a>
<b>Put your data to work to gain competitive advantage</b>	There is no "digital economy". The economy is digital and "digits" refer to data. Data is the lifeblood of every organization on this planet and organizations that embrace this notion are well positioned to grow as industries continue to evolve and disrupt at an ever increasing pace.	<a href="#">Link to report</a>
<b>Predictive analytics, it works</b>	CEOs recognize the value that predictive analytics delivers to their decision-making process.	<a href="#">Link to report</a>
<b>Creating the workforce of the future</b>	You can't transform the organization without also transforming the workforce. It may be time to rethink the people strategy.	<a href="#">Link to report</a>
<b>Accelerate</b>	Introducing KPMG's 2021 edition of Accelerate, a series of articles and videos offering insight into the key issues driving Board agendas, including: <ul style="list-style-type: none"><li>– Cyber risk</li><li>– Internal control over financial reporting, disclosures and regulation</li><li>– Digital disruption</li><li>– Enterprise risk management</li><li>– The evolution of environmental, social and governance (ESG) and disclosures</li></ul>	<a href="#">Link to report</a>
<b>Board Leadership Centre</b>	KPMG provides leading insights to help Board members maximize boardroom opportunities.	<a href="#">Link to site</a>

# Appendix 3: Current developments and audit trends (continued)

## COVID-19 pandemic resources

Resources	Summary	Links
<b>Resources for management and the Board of Directors</b>	<p>Please visit our COVID-19 website for resources regarding the topics below. This site is being <u>updated daily</u> based on information being released by federal, provincial and municipal news releases.</p> <ul style="list-style-type: none"><li>– Business continuity guide</li><li>– Immediate actions to take</li><li>– Medium to long-term actions</li><li>– Tax considerations and a summary of federal and provincial programs</li><li>– Legal considerations</li><li>– Financial reporting and audit considerations</li><li>– Global perspectives</li></ul>	<a href="#">COVID-19 Alerts (Live Link)</a>



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



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