

Memo

Date: April 29, 2021
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of December 31, 2020
Consolidated Financial Statements

Report Prepared by: Corporate Finance Manager



Purpose of Public Sector Financial Statements

Public sector statements differ from business enterprise statements in that the public sector exists to provide services to the public rather than to generate profit. The result is a set of statements that provide an overview of resources used and resources available to provide services. The statement formats are a reporting requirement of the Public Sector Accounting Standards (PSAS) under standards and guidance established by the Public Sector Accounting Board (PSAB).

Consolidated Financial Statements

Consolidated statements include the financial results for each of the General, Airport, Wastewater, and Water funds and provide an aggregated view of the financial position of the City which assists in measuring the overall financial well-being of the organization.

The consolidated financial statements that the City prepares consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows; and
- Notes to the Financial Statements

A description of the purpose each statement will be provided as each statement is reviewed.

Consolidated Statement of Financial Position

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2020 and December 31, 2019, which provides information on the cumulative impact of past transactions and events on future revenue requirement and service capacity.

The City's net financial assets are equal to its financial assets less its financial liabilities. The City's financial assets consist of cash and cash equivalents, accounts receivable, accrued interest, portfolio investments, long term investments in other entities and assets held for resale. These are the financial resources available to discharge the existing liabilities as well as finance future operations. The City's liabilities consist of accounts payable, performance deposits, deferred revenue, deferred development cost charges and long-term debt.

The City's non-financial assets consist of prepaid expenses, inventory, work in progress and tangible capital assets and are employed to provide future services without the need to be financed from current revenues.

The City's accumulated surplus is the total that the City's historical revenues have exceeded its historical expenses. The accumulated surplus is equal to the sum of the net financial assets and non-financial assets representing resources (both financial and non-financial) that may be used to provide future services.

Net Financial Assets

The City's net financial assets increased by \$42.4M from \$300.2M at December 31, 2019 to \$342.6M at December 31, 2020 indicating the City has sufficient assets to settle existing liabilities. The increase in Net Financial Assets in the year is attributable to an increase of \$57.6M in cash and cash equivalents, a (\$10.3M) decrease in accounts receivable, a \$5.1M increase in assets held for resale and an increase of \$17.2M in accounts payable. The extent to which the City's assets exceed liabilities represents liquidity and is a positive indicator of the City's financial strength.

Financial Assets

The City's financial assets increased by \$50.6M from \$621.7M at December 31, 2019 to \$672.3M at December 31, 2020.

A. Cash and cash equivalents

Cash and cash equivalents represent funds held in the City either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The City's cash and cash equivalents increased \$57.6M in the year ended December 31, 2020. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

B. Accounts Receivable

The 2020 balance of \$29.8M is a decrease of (\$10.3M) over the prior year. This is primarily due to reductions in provincial government grant funding receivable of (\$5.1M), development cost charges of (\$3.2M), and the impact of COVID-19 on casino and gaming revenues of (\$1.1M).

C. Assets Held for Resale

Under PSAS requirements, assets held for sale must be disclosed separately as the intention is not to use these assets to provide future services.

In 2020, assets held for resale totaled \$10.2M in cost. Assets held for resale may include land, buildings, and machinery and equipment. The \$5.1M increase for 2020 is due to land additions for 380 Harvey Ave and 1746 Water St offset by the disposal of 4753 Gordon Dr as well as reductions in machinery and equipment for waste management curbside vehicles. The City continues to hold a portion of the CN Rail Corridor acquisition in Assets Held for Resale to accommodate the Lake Country Agreement.

In 2019 land additions included 4753 Gordon Dr and machinery and equipment additions included waste management curbside vehicles. Land disposals in 2019 included properties on Cross Rd and Clifton Rd along with a portion of the holding for the CN Rail Corridor.

Liabilities

A. Accounts Payable

Accounts payable at the end of 2020 totaled \$80.5M, an increase of \$17.2M in the year mainly due to the school tax accrual of \$26.7M resulting from a change in the due date because of the pandemic. This was partially offset by reductions in various holdbacks of (\$6.0M).

Non-Financial Assets

Non-Financial Assets are comprised of Tangible Capital Assets (TCA), Inventory, and Prepaid Expenses that the City has available and will use to provide future services rather than to settle liabilities. The City's Non-Financial assets increased \$20.3M from \$1.84B at December 31, 2019 to \$1.86B at December 31, 2020.

A. Work-in-Progress (WIP)

The City's work-in-progress (WIP) represents expenditures on incomplete projects that are not in use and therefore not eligible to be capitalized to tangible capital assets or subject to amortization. WIP decreased by (\$37.5M) to the 2020 balance of \$24.1M. The change in WIP is the result of:

- o An increase of \$47M primarily due to \$7.0M for SEKID Separation, \$3.7M for Westpoint Transmission (Phase 2), \$3.5M for Landfill Liner Design and Construction, \$2.6M for Airport ATB Expansion, \$2.3M for Ethel 5 DCC and \$1.9M for the South End Water Upgrades.
- o A decreases of \$84M for projects completed and capitalized in 2020 that includes \$34.0 for SEKID Separation, \$13.9M for South End Water Upgrades, \$4.8 for Landfill Liner Design and Construction, \$3.9M for Westpoint Transmission (Phase 2), \$3.7M for KLO (Phase 2), \$2.8M for Airport Long Term and Convair Way Parking Lot Upgrades, \$2.5M for Ethel 5 DCC and \$2.5M for Gyro Forcemain DCC.

Accumulated Surplus

The City's Net Financial Assets of \$342.7M plus the Non-Financial Assets balance of \$1.86B totals \$2.20B which represents the cumulative amount that revenues have exceeded expenses. This excess has been utilized to fund tangible capital asset acquisitions over time. Further details on the City's annual surplus follow in the discussion on the Statement of Operations and Accumulated Surplus.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus details the City's revenues, expenses and annual surplus and accumulated surplus for the years ended December 31, 2020 and December 31, 2019. This statement presents the results of the City's operations excluding capital expenditures. As required by legislation, the annual standard budget for each revenue and expense component is also presented. These are the standard budget amounts approved by Council in May of 2020, excluding any subsequent budget transfers and amendments that were approved through the balance of the year. The revenue section of this statement includes both capital and operating funding sources thereby reflecting all of the revenue sources used to cover the cost of services provided.

Capital expenditures are not included in the expenses section of this statement as the cost for capital expenditures consumed is measured by the annual amortization amount for tangible capital assets. The amortization of tangible capital assets is included in each function's expenses. Capital expenditures are reviewed under the Statement of Changes in Net Financial Assets discussion.

Revenue

A. Fees and Charges

The City collects a variety of fees and charges for specific services whose costs are not covered by taxation.

These fees decreased by \$32.4M or 21.5% to \$118.1M in 2020 and is mainly attributable to the COVID-19 public health order restrictions and travel advisories resulting in decreases for air travel, public transit and use of recreational facilities.

B. Government transfers

These contributions include funding for both operating and capital undertakings. There was a decrease in 2020 of \$18.4M to \$34.6M primarily due to a \$24.0M decrease in Water Fund capital projects and was partially offset by the Provincial COVID Safe Restart Grant for Local Governments of \$7.9M.

C. Gain on Disposal of Tangible Capital Assets

For 2020, gains on disposals were primarily due to Land sales (\$2.8M).

Expenses

In the Statement of Operations, expenses are categorized and reported by the various functions or programs undertaken by the City. In Schedule 2 - Segmented Information expenses are categorized and reported by groupings of expense types. In 2020 total expenses decreased by \$10.0M.

A. General Government

This category of expenditures includes legislative costs, general administration and other general government areas such as community service grants and rental property operating costs within the municipality. There was an increase of \$1.9M in spending to \$33.7M in 2020 over 2019. The increase is attributed to \$2M in MRDT grant expense included in Other Services in 2019, \$0.8M in amortization and was offset by a \$1.5M reduction in Contract Services primarily related to less expenses for Freshet/Flood recovery in 2020 over 2019.

B. Water

This category of expenditures includes the planning, designing, building, operating and maintaining the City's water utility. There was an increase of \$1.2M in spending to \$14.6M in 2020 over 2019. The increase is attributed to \$0.6M increase in amortization, \$0.4M anticipated increase in salaries and benefits, \$0.2M for increased vehicle usage which was due to public health orders restricting the number of occupants in a vehicle, \$0.2M increase in utilities for water pump stations and was offset by a \$0.3M reduction in contract services for water management.

C. Loss on disposal of tangible capital assets

The loss on disposal of TCA results from the sale of capital assets for less than their carrying value. The loss of \$0.8M relates primarily to the disposal of vehicles, including the remaining solid waste management vehicles.

Annual Surplus

The Annual Surplus decreased by \$35.7M to \$62.7M in 2020 as revenues decreased by 11.6% which was only marginally recovered by a 3.4% decrease in expenses over 2019.

The annual surplus is a result of operations from all funds and reserves excluding capital expenditures.

Accumulated Surplus

As a result of this year's Annual Surplus of \$62.7M, the Accumulated Surplus increased from \$2.14B to \$2.20B. This represents the cumulative results of all surpluses the City has incurred and is available to provide future services and agrees to the balance on the Consolidated Statement of Financial Position.

Consolidated Statement of Changes in Net Financial Assets

The Statement of Changes in Net Financial Assets provides a detailed analysis of the change in the City's net financial assets from the beginning to the end of the year. The City's net financial assets increased \$42.4M from \$300.2M at December 31, 2019 to \$342.6M at December 31, 2020.

The Statement of Changes in Net Financial Assets reconciles to the Statement of Financial Position's balance of Net Financial Assets and is a key indicator of the City's financial position and a statement of cash flow for capital. It begins with the current year's annual surplus of \$62.7M and adds or subtracts the following:

- Add back the non-cash amortization of \$68.2M which represents the value of tangible capital assets used in the year to provide services;
- Add the proceeds for the disposal of Tangible Capital Assets of \$5.2M which is comprised of proceeds from land sales and equipment disposals;
- Subtract the gain on sale of capital assets which represents the net gain over net book value from land sales and equipment sales \$2.1M;
- Add the write down for impaired assets of \$0.1M
- Subtract the acquisition and contribution of Tangible Capitals Assets in the current year of \$90.3M;
- Subtract the decrease of inventory and prepaid expenses of \$1.4M.

The variance between actual and budgeted capital asset additions is primarily due to timing and carryovers of projects to be completed next year. The balance of Work in Progress (WIP) at the end of the year was \$24.1M.

General Fund tangible capital acquisitions include Land of \$24.2M comprised of \$7.4M for UBC West Campus lands, \$5.3M for 2302 Abbot St, \$2.7M for 1345 St. Paul St, \$1.8M for 1055 and 1063 Ellis St and \$1.0M for 1230 Brookside Ave.

Infrastructure capital expenditures for 2020 were \$18.4M comprised of the following significant projects: Landfill Liner design and construction \$4.9M and Ethel 5 DCC ATC \$2.5.

Land Improvements were \$1.1M in 2020 with the most significant spending being on the Boyce-Gyro Beach Park \$0.4M and Sarson's Beach Park – Expansion \$0.2M.

Airport Fund acquisitions totaled \$2.3M made up of spending on the acquisition of 4130 Old Vernon Rd \$0.7M, an Airport dump truck \$0.3M and Pavement Rehabilitation \$0.3M.

The Wastewater Fund capital expenditures of \$4.1M in 2020 were primarily for Gyro Force Main DCC \$2.4M, Swordy DCC upgrades \$1.1M and repairs on the Waste Water Treatment Facility building \$0.2M.

The Water Fund capital expenditures of \$13.8M in 2020 were primarily for Westpoint Transmission (Phase 2) \$3.9M, KLO (Phase 2) \$3.7M and SEKID Water Meters \$1.6M.

The Net Financial Assets at the end of the year of \$342.6M agrees to the Consolidated Statement of Financial Position balance and represents the Net Financial Assets available to finance existing resources.

Consolidated Statement of Cash Flows

The Statement of Cash Flows outlines the cash generated and used by the City's operations, capital activities, investing activities and financing activities. Some of the balances on this statement were discussed previously when reviewing the Statement of Financial Position.

The Cash and cash equivalents balance at the end of 2020 of \$76.4M is an increase of \$57.6M. This balance is comprised of cash and investments that mature within 90 days and is held in banks, credit unions and other municipal, provincial or guaranteed investment instruments.

Operations provided net cash inflows of \$149.8M that were used in the acquisition of new tangible capital assets of \$88.0M (net of \$2.3M which were funded through developer contributions). Proceeds from the sale of land and vehicles generated \$5.2M while repayment of debt, net of new debt borrowings was \$10.9M. The balance flowed into Portfolio Investments which increased by \$1.4M in the year.

The Statement of Cash Flows includes cash flows from Operating, Capital, Investing and Financing that are reviewed as follows:

1. Operating:

There were cash flows from operations of \$149.8M in 2020 down from \$185.6M in the prior year. The amount is determined by taking the Annual Surplus and adding or subtracting adjustments for non-cash items such as amortization, and developer contributions of capital, and adding or subtracting the change in balance year over year for non-cash financial assets and liabilities such as accounts receivable or payable.

- o Amortization – \$68.2M
- o Write Down of Tangible Capital Assets – \$0.1M.
- o Developer Contributed Assets – Land: 1410 Cara Glen Ct \$1.1M, 5505 Chute Lake Rd \$0.8M, 5127 Chute Lake Rd (Lots 7 & 8) \$0.2M. Other contributed land totalling \$0.2M includes 1795 Fawn Run Dr, 5425 W Upper Mission Dr, 8877 Jim Bailey Rd, 5080 Twinflower Cr and 4975 Buckhaven Ct \$0.2M.
- o Inventory & prepaid expenses and Other assets – Balances increased over the prior year which is a reduction in cash received. Assets held for resale are included here.
- o Accounts Payable and Deferred Development Cost Charges - Balances increased over the prior year which drives an increase in cash received. As development increases, DCCs increase along with performance deposits and revenue from permits and fees tied to development.

2. Capital:

Acquisition of capital assets decreased by \$41.4M to \$88.0M in 2020 from \$129.4M in 2019. Expenditures occurred in the following funds:

	<u>2020</u>	<u>2019</u>
General Fund	\$56.7	\$61.4
Airport	5.4	14.8
Waste Water	5.2	5.8
Water	20.7	47.4

Proceeds on disposal of capital assets increased by \$3.7M to \$5.2M from \$1.5M in 2019. Proceeds in 2020 were \$4.8M from land sales and \$0.4M from vehicle disposals.

Proceeds in 2019 were \$1M from land sales, \$0.4M from vehicle disposals and \$0.1M from the sale of buildings.

Repayment of debt decreased \$2.5M over 2019.

This concludes the review of the Audited Consolidated Financial Statements for the year ended December 31, 2020.