



# 2016 Consolidated Financial Statements



**Audit Committee  
June 19, 2017**



## PSAB - Liability for Contaminated Sites

- PS 3260 – Liability for Contaminated Sites recognized when:
  - an environmental standard exists
  - site is non-productive
  - contamination exceeds the standard
  - reasonable estimate of the liability can be made
- 1 property identified that met criteria
  - Initially identified as a potential site of contamination in excess of the standard
    - Extent of remediation determined
    - Costs and liability to remediate estimated at \$1.3 Million – Note 23
- 1 additional property was found during the audit that met the criteria
  - Liability was not recorded – amount is not material
  - Implementing new process to ensure future properties requiring remediation are flagged



## PSAB Changes Implemented to Date

- Since January 1, 2009 the City has reported under PS3150 Tangible Capital Assets and PS1200 Financial Statement Presentation.
- Adopted PS3410 Government Transfers and PS3510 Tax Revenue since January 1, 2013.
- Adopted PS3260 – Liability for Contaminated Sites effective January 1, 2015 but applied retroactive to 2014.



## Purpose of Financial Statements

Name	Purpose
Consolidated Statement of Financial Position	<ul style="list-style-type: none"> <li>• Provides a summary of the City's financial assets and liabilities, both present and future, at a point in time.</li> </ul>
Consolidated Statement of Operations	<ul style="list-style-type: none"> <li>• Summarizes revenues, expenses, surplus for the year and calculation of the City's accumulated surplus at year end.</li> <li>• Reflects the combined operating, capital, reserve and reserve funds for the City and it's consolidated entities.</li> </ul>
Consolidated Statement of Net Financial Assets	<ul style="list-style-type: none"> <li>• Shows the changes in net financial assets as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.</li> </ul>
Consolidated Statement of Cash Flows	<ul style="list-style-type: none"> <li>• Summarizes the City's cash position and changes during the year.</li> <li>• Shows all the sources and uses of cash.</li> </ul>



## Statement of Financial Position

- The City has improved its net financial asset position to \$235.1 million
  - An improvement of \$38.4 million from 2015.
  - Strengthens our future liquidity in paying our liabilities and future expenses because our financial assets are higher than our financial liabilities.
- Investment in government business enterprises and partnerships total \$173 million in 2016 (Note 6) comprised of the following:

London Hydro Inc.	\$150.8 M
Fair City Joint Venture Partnership	\$5.9 M
City-YMCA Joint Venture Partnership	\$16.4 M
Total	\$173.1 M

- Overall financial liabilities have increased \$45.1 million
  - Accounts Payable and accrued liabilities have increased approximately \$26 million
  - Deferred Revenue has increased \$51 million – increase in obligatory reserve funds
  - Offset by a decrease in Long Term Debt of \$21.5 million



## Statement of Financial Position Continued

### Non Financial Assets (Note 14):

- Land which is specifically held for resale is recorded as an inventoried item in our financial assets
  - Land for resale is classified as part of financial assets.
- Tangible capital assets are not liquid or readily available for sale
  - Places more emphasis on the net debt or net financial asset position of a municipality.
  - Net Book Value rose by \$127.7 million, due to the ongoing investment in the City's infrastructure.

### Accumulated surplus:

- the total of the City's financial assets, liabilities and non financial assets.
  - Increase over 2015 by annual surplus of \$166.9 million.
  - Surplus includes the balances of our reserves and reserve funds.
  - Indicates a governments ability to provide future services.



## Net Book Value of Assets – December 31, 2016 (in millions)

Tangible Capital Assets	Historical Cost 2016	Accumulated Amortization 2016	Net Book Value 2016
Land	\$ 416	\$ -	\$ 416
Landfill and Land Improvements	146	74	72
Buildings and Building Improvements	941	426	515
Leasehold Improvements	2	1	1
Machinery, Equipment and Furniture	379	217	162
Vehicles	123	72	51
Water Infrastructure	727	229	498
Wastewater Infrastructure	1,333	421	912
Roads Infrastructure	1,238	459	779
Computers	19	10	9
Assets under Construction	199	-	199
<b>Totals</b>	<b>\$ 5,523</b>	<b>\$ 1,909</b>	<b>\$ 3,614</b>



## What Do We Have in Capital Assets

	Replacement Cost (in Billions)	Historical Costs (in Billions)
Land, Landfills & Land Improvements	\$ 1.13	\$ 0.562
Building and Building Improvements	\$ 1.83	\$ 0.943
Fleet & Equipment & Furniture	\$ 0.67	\$ 0.502
Water Infrastructure	\$ 1.71	\$ 0.727
Wastewater Infrastructure	\$ 3.63	\$ 1.333
Roads Infrastructure	\$ 2.63	\$ 1.238
Computers	\$ 0.02	\$ 0.019
Assets Under Construction	\$ 0.21	\$ 0.199
<b>Total</b>	<b>\$ 11.83</b>	<b>\$ 5.523</b>

These estimates are based upon various inflation factors.



## Statement of Operations - Revenues

- Overall, 2016 revenues increased \$32 million compared to 2015.
  - a 2.8% increase over 2015
- There were increases both in tax revenue and user charges for a total increase of \$35.2 million.
- Provincial Government transfers increased \$12.1 million
  - This is mainly due to additional funding for social assistance, homelessness and child care.
- Developer Contributions of Tangible Capital Assets totaled \$37.5 million, a decrease of \$3.7 million over 2015 – this is predominantly for assumed subdivisions – e.g. new roads funded by assessment growth (operating costs)



## Statement of Operations - Expenses

- Overall, expenses increased by \$10 million in 2016
  - a 1% increase over 2015
- Most functional areas have slight decreases over the prior year expenses.
- The largest expenditure increase over the prior year is in the area of Social & Family Services of \$8.1 million
- Planning and Development has increased by \$6.5M over the prior year
- **Key items different than budget:**
  - Amortization is recorded as an expense on the Statement of Operations
  - Debt principal repayments are not expensed
  - Contributions to reserve funds are also not expensed.



## Simple Example of PSAB Accounting vs. City Budget

Statement of Operations	City Budget	PSAB Accounting
Taxation	500,000	500,000
Developer Contributions	0	50,000
Total Revenue	500,000	550,000
Operating Expenses	350,000	350,000
Capital Expenditures	150,000	0
Amortization	0	75,000
Debt Principal Repayments	25,000	0
Transfer to Reserve & Reserve Funds	25,000	0
Total Expenses	500,000	425,000
<b>Annual Surplus</b>	<b>0</b>	<b>125,000</b>



## PSAB Accounting vs. City Budget (000's)

Statement of Operations - Revenues	City Budget 2016 (Unconsolidated)	PSAB Accounting 2016 Actuals
Net Municipal Taxation	551,826	558,957
Grants, User Fees and Other Revenue	446,686	474,780
Transfers from Capital and Reserve Funds	6,775	-
Capital Funding Earned	-	23,871
Developer Contributions	-	37,474
Reserve Fund Deferred Revenue Earned	-	27,117
Government Business Enterprise Adjustments	-	1,089
Boards and Commissions Surplus	-	7,516
<b>Total Revenues</b>	<b>1,005,287</b>	<b>1,130,804</b>



## PSAB Accounting vs. City Budget Cont'd (000's)

Statement of Operations - Expenses	City Budget 2016 (Unconsolidated)	PSAB Accounting 2016 Actuals
Operating Expenses	813,591	808,139
Debt Principal Repayments	39,634	-
Transfer to Reserve & Reserve Funds	80,884	-
Capital Expenditures (pay as you go financing)	71,178	-
Capital Expenses not capitalized	-	23,993
Amortization	-	129,030
Loss on Disposal of Capital Assets	-	4,075
Landfill, Contaminated Sites, and Employee future benefits Liability	-	(1,372)
<b>Total Expenses</b>	<b><u>1,005,287</u></b>	<b><u>963,864</u></b>
<b>Annual Surplus</b>	<b><u>0</u></b>	<b><u>166,939</u></b>

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## Comparing the Surplus to Budget (in millions)

<b>Consolidated Surplus per Financial Statements (PSAB Format)</b>	<b>166.9</b>
Less: Transfers to (from) Capital and Reserves & Reserve Funds	(193.8)
Less: Debt Principal Repayments	(37.9)
Less: Capital program funding earned in year	(23.9)
Plus: Capital expenses not capitalized (Non-TCA)	24.0
Plus: Amortization of Tangible Capital Assets (TCA)	129.0
Less: Developer contributions of assumed TCA	(37.5)
Plus: Loss on disposal of TCA	4.1
Less: Reserves and reserve fund net revenues earned in year	(20.9)
Less: Government Business Enterprises adjustments	(1.1)
Plus: Change in landfill liability, contaminated site liability and employee future benefit liability	(1.4)
Less: Boards and Commission's Surpluses	(7.5)
<b>Operating Fund Surplus per 2016 Approved Budget (Cash Format)</b>	<b>0.0</b>

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## Internal Controls

- KPMG has a number of findings that indicate our internal controls can be strengthened further.
- Enhanced processes to be developed and documented.
- New and improved training, specifically for year end preparation.
- Deloitte as internal auditors, can assist us in our review through their approved audit plan.

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## Upcoming Significant PSAB Changes

- PS 2200 - Related Party Disclosures
- PS 3420 - Inter-entity Transactions
  - as part of the implementation of these new standards, some sections will also be withdrawn and allow transition effective for fiscal periods beginning on or after April 1, 2018
- PS 3450 – Financial Instruments
  - must be implemented by December 31, 2020, this may change the amounts that are accounted for to ensure fair value is recorded on financial instruments
- PS 2601 – Foreign Currency Translation
  - must be implemented by December 31, 2020, gains or losses arising prior to settlement are recognized

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## Audit Findings Report

- KPMG will present their audit findings report
- Questions?