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Consolidated Financial Statements

2019



FOR THE YEAR ENDED DECEMBER 31, 2019

PREPARED BY THE CITY OF QUESNEL FINANCE DEPARTMENT
QUESNEL, BRITISH COLUMBIA, CANADA

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this Financial Report is the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards as outlined under "Significant Accounting Policies" on page 8. These statements include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded, and reported properly. Management also administers a program of proper business compliance.

KPMG LLP, the City's independent auditor, has audited the accompanying consolidated financial statements. The auditor's report is included as part of these statements.

Council carries out its responsibility for the consolidated financial statements principally through its Financial Sustainability & Audit Committee. The Financial Sustainability & Audit Committee meets annually with management and the City auditor, KPMG LLP, to review their activities and to discuss auditing, internal control, and financial reporting matters. KPMG LLP has unrestricted access to the City, the Financial Sustainability & Audit Committee and Council. The Financial Sustainability & Audit Committee reviews the consolidated financial statements with management prior to submission to Council for approval. It also reviews the recommendations of the independent auditor for improvements to controls as well as the actions of management to implement such recommendations.



Kari Bolton, CPA, CMA
Director of Corporate and Financial Services



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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Quesnel

Opinion

We have audited the consolidated financial statements of the City of Quesnel (the "City"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended.
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "consolidated statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2019 and its consolidated results of operations, change in net consolidated financial assets, its consolidated cash flows and its consolidated remeasurement gains 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 City 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 City'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 City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City'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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- 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 City'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 City 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

Prince George, Canada

April 21, 2020

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2019

The City of Quesnel (the “City”) is a municipality that was created on March 21, 1928 under the Community Charter, formerly the Village Municipalities Act, a statute of the Province of British Columbia. The City’s principal activities include the provision of local government services to residents of the incorporated area. These services include police, fire, public works, planning, parks and recreation, economic development, airport, transit, sewer, water and other general government operations.

a. Basis of Presentation

It is the policy of the City of Quesnel to follow Canadian public sector accounting standards and to apply such principles consistently. These consolidated financial statements include the operations of the General, Solid Waste, Water, Sewer, Transit, Airport, Capital and Reserve Funds. The Consolidated Financial Statements also reflect the combined results and activities of the reporting entity which comprises all organizations that are accountable for the administration and financial affairs and resources to the Council and are controlled or owned by the City. They have been prepared using guidelines issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The financial resources and operations of the City have been consolidated for financial statement purposes and include the accounts of all of the funds of the City of Quesnel.

The focus of Canadian public sector accounting standards is on the financial position of the City and the changes thereto. The Consolidated Statement of Financial Position reflects the combined results and activities of the City’s Operating, Capital and Reserve Funds. The purposes of these funds are:

i. Operating Funds

Operating Funds are used to record the costs associated with providing City services.

ii. Capital Funds

Capital Funds are used to account for the acquisition costs of the City’s Tangible Capital Assets, the accumulated amortization thereon, and the funding thereof including related long term debt.

iii. Reserve Funds

Under the Community Charter of British Columbia, the Mayor and Council of the City may, by bylaw, establish Reserve Funds for specific purposes. Money in a Reserve Fund and interest thereon must be used only for the purpose for which the fund was established. If the amount in a Reserve Fund is greater than required, the Mayor and Council may, by bylaw, transfer all or part of the balance to another Reserve Fund.

iv. Trust Funds

Trust funds and their related operations administered by the City are not included in these consolidated financial statements.

v. Accounting for Region and School Board Transactions

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the Region and the School Board are not reflected in these consolidated financial statements.

b. Assets and Liabilities

Financial assets are economic resources controlled by a government as a result of past transactions from which future economic benefits may be obtained. Liabilities are present obligations of a government to others arising from past transactions, the settlement of which is expected to result in the future sacrifice of economic benefits.

c. Accrual Accounting

The accrual method for reporting revenues and expenses has been used.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2019

d. Inventory of Supplies

Inventory consist of supplies, repairs parts and materials consumed in operations and capital projects. Inventory is recorded at cost which is determined on a weighted average basis.

e. Tangible Capital Assets

- i. Tangible capital assets purchased or constructed and construction-in-progress are reported at cost less accumulated amortization and are classified according to their functional use. Amortization is recorded on a straight-line basis over the estimated useful life of the asset. For the first and last year of the asset's life, half the amortization is applied. Donated tangible capital assets are reported at fair value at the time of donation. Estimated useful lives are as follows:

	Years		Years
Land Improvements	10 to 75	Roads	10 to 100
Buildings	5 to 65	Bridges	25 to 100
Fixtures, Furniture, Equipment & Vehicles	5 to 50	Water and Sewer Infrastructure	15 to 50
Technology	4 to 18		

ii. Interest Capitalization

The City does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

iii. Works of art and cultural and historical assets

Works of art and cultural and historical assets are not recorded as assets in these financial statements.

f. Revenue Recognition

Taxation and user fee revenues are recognized in accordance with the provisions of the Community Charter. The City is required to act as the agent for collection of certain taxes and fees imposed by other authorities. Collections for other authorities are excluded from the City's taxation revenues.

Revenue unearned in the current period is reported on the consolidated statement of financial position as deferred revenue or deposits.

Revenues which are restricted by the legislation of senior governments or by agreement with external parties are deferred and reported as restricted revenues. When related expenses are incurred they are brought into revenue at amounts equal to the expenses.

g. Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Significant areas requiring the use of management estimates related to determination of collectability of accounts receivable, and provisions for contingencies, landfill liabilities accrued liabilities and useful lives of tangible capital assets. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period they arise.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2019

h. Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. A liability for remediation of contaminated sites is recognized when all the following criteria are met:

- i. an environmental standard exists;
- ii. contamination exceeds the environmental standard;
- iii. the City of Quesnel is directly responsible; or accepts responsibility and
- iv. future economic benefits will be given up, and
- v. a reasonable estimate of the amount can be made.

i. Landfill liability

The liability for closure of operational sites and post-closure costs has been recognized based on estimated future expenses, estimated inflation and the usage of the site's capacity during the year.

j. Investment income

Investment income is revenue in the period earned. When required by the funding agency or related Act, investment income earned on deferred revenue is added to the investment and forms part of the deferred revenue balance.

k. Cash and investments

Cash and investments include, cash, short term bonds, intermediate funds, and money market funds.

l. Long-term debt

Long-term debt is recorded net of related sinking fund balances and actuarial earnings.

m. Related Party Transactions

Any Related Party transactions, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount.

n. Government Transfers

Government transfers, which include legislative grants, are recognized as revenue in the consolidated financial statement when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfer revenue is recognized in the statements of operations as the stipulations for liabilities are settled.

o. Financial instruments are classified into two categories: fair value or cost.

- i. Fair value category: portfolio investments quoted in an active market are reflected at fair value as at the reporting date. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are recorded as an expense. Unrealized gains and losses on financial assets are recognized in the Statement of Remeasurement Gains and Losses until such time that the financial asset is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the Statements of Operations and Accumulated Surplus and related balances reversed from the Statement of Remeasurement Gains and Losses.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2019

- ii. Cost category: portfolio investment not quoted in an active market, financial assets and liabilities are recorded at cost or amortized cost. Gains and losses are recognized in the Statements of Operations and Accumulated Surplus when the financial asset is derecognized due to disposal or impairment. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of financial assets are included in the cost of the related instrument.

Financial assets are assessed for impairment on an annual basis. If there is an indicator of impairment, the City determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the City expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
Financial Assets		
Cash and investments - note 2	\$ 24,382,364	\$ 23,391,715
Taxes and accounts receivable - note 3	2,906,175	2,856,361
Property acquired for taxes	9,507	8,304
MFA debt reserve - note 4	182,904	196,383
	27,480,950	26,452,763
Financial Liabilities		
Accounts payable and accrued liabilities - note 5	3,516,729	3,510,809
Landfill closure and post closure costs - note 6	4,269,117	2,963,757
Deferred revenue - note 7	2,127,204	1,634,308
MFA debt reserve	182,904	196,383
Municipal debt, net of sinking fund assets - note 8	5,274,113	4,791,667
	15,370,067	13,096,924
Net Financial Assets	12,110,883	13,355,839
Non-Financial Assets		
Prepaid expenses	305,656	97,176
Inventory of supplies	405,726	302,785
Tangible capital assets - note 9	98,426,641	96,238,425
	99,138,023	96,638,386
Accumulated Surplus	\$ 111,248,906	\$ 109,994,225
Represented By:		
Operating Fund	\$ 2,391,959	\$ 4,609,519
Accumulated remeasurement losses	(199,758)	(215,033)
Statutory Reserves - Schedule 2	15,904,175	14,152,980
Equity in tangible capital assets - note 10	93,152,530	91,446,759
	\$ 111,248,906	\$ 109,994,225

Commitments and contingencies (note 16)

See accompanying notes.



Kari Bolton, CPA, CMA
Director of Corporate and Financial Services

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019 BUDGET	2019 ACTUAL	2018 ACTUAL
Revenues			
Net taxation and grants in lieu - note 11	\$ 17,947,817	\$ 18,112,731	\$ 17,240,607
Sale of services - note 12	2,342,221	2,404,217	2,389,757
Government grants - note 13	7,265,899	3,974,069	4,328,962
Donations	-	133,098	29,609
Services provided to other governments	1,078,077	1,142,147	1,457,011
Investment	225,000	542,631	455,703
Utility user fees - note 12	2,566,588	2,520,849	2,388,865
MFA actuarial adjustment	-	237,704	259,728
Other	404,479	541,118	345,506
Total Revenues	31,830,080	29,608,564	28,895,748
Expenses			
General government services	2,467,631	2,422,350	2,236,032
Protective services	5,849,853	6,012,585	5,333,069
Transportation services	4,293,522	4,259,926	4,185,182
Solid waste management and recycling	1,846,816	3,175,990	2,555,706
Development services and planning	1,253,198	1,475,006	1,429,294
Forestry Initiatives	1,227,304	835,492	-
Recreation and cultural services	1,450,691	1,616,850	1,649,168
Operations	3,947,305	4,131,161	3,765,651
Other	-	-	41,766
Interest	222,530	213,285	228,061
Amortization	4,300,000	4,297,529	4,132,022
Total Expenses	26,858,851	28,440,174	25,555,951
Subtotal	4,971,229	1,168,390	3,339,797
Gain (loss) on sale of tangible capital assets	-	71,016	(397,743)
Annual Surplus	4,971,229	1,239,406	2,942,054
Accumulated surplus at beginning of year	110,209,259	110,209,259	107,267,205
Accumulated surplus at end of year	\$ 115,180,488	\$ 111,448,664	\$ 110,209,259

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019 BUDGET	2019 ACTUAL	2018 ACTUAL
Annual Surplus	\$ 4,971,229	\$ 1,239,406	\$ 2,942,054
Tangible capital assets purchased	(22,540,990)	(6,788,557)	(10,650,422)
Amortization of tangible capital assets	4,300,000	4,297,529	4,132,022
(Gain) loss on sale of tangible capital assets	-	(71,016)	397,743
Proceeds on sale of tangible capital assets	-	373,826	49,451
	<u>(13,269,761)</u>	<u>(948,813)</u>	<u>(3,129,152)</u>
Use (acquisition) of supply inventory	-	(102,940)	20,354
Use (acquisition) of prepaid expense	-	(208,479)	145,780
Net remeasurement	-	15,275	10,723
		<u>(296,144)</u>	<u>176,857</u>
Decrease in net financial assets	(13,269,761)	(1,244,956)	(2,952,295)
Net financial assets at beginning of year	13,355,839	13,355,839	16,308,134
Net financial assets at end of year	<u>\$ 86,078</u>	<u>\$ 12,110,883</u>	<u>\$ 13,355,839</u>

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
Operating transactions		
Annual surplus	\$ 1,239,406	\$ 2,942,053
Non-cash items:		
Amortization	4,297,529	4,132,022
Prepaid expenses	(208,479)	145,780
Supply inventory	(102,940)	20,354
(Gain) loss on the sale of tangible capital assets	(71,016)	397,743
Actuarial adjustments	(237,704)	(259,728)
Net remeasurement	15,275	10,723
Changes to financial assets/liabilities:		
Taxes and accounts receivable	(49,814)	1,593,473
MFA cash deposits	13,479	(4,182)
Property acquired for taxes	(1,203)	83,270
Accounts payable and accrued liabilities	5,920	179,615
Landfill closure	1,305,360	938,564
Deferred revenue	492,896	(206,276)
MFA debt reserve	(13,479)	4,182
Cash provided by operating transactions	6,685,229	9,977,595
Capital transactions		
Acquisition of tangible capital assets	(6,788,557)	(10,650,422)
Proceeds from the sale of tangible capital assets	373,826	49,451
Cash applied to capital transactions	(6,414,731)	(10,600,971)
Financing transactions:		
Proceeds from debt issues	1,016,325	-
Debt repayment	(296,174)	(376,039)
Cash applied to financing transactions	720,151	(376,039)
Change in cash and cash equivalents	990,649	(999,415)
Cash and cash equivalents at beginning of year	23,391,715	24,391,130
Cash and cash equivalents at end of year	\$ 24,382,364	\$ 23,391,715

See accompanying notes.

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
Accumulated remeasurement losses, beginning of year	\$ (215,033)	\$ (225,756)
Change in unrealized gain (loss) on portfolio investment	15,275	(72,338)
Remeasurement realized and reclassified to the Statement of Operations and Accumulated Surplus	-	83,061
Accumulated remeasurement losses, end of year	\$ (199,758)	\$ (215,033)

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

1. Trust Funds

The City operates the Quesnel municipal cemetery and maintains a cemetery perpetual care fund in accordance with the Cremation, Interment and Funeral Services Act. At December 31, 2019, the balance of the funds was \$229,002 (2018-\$223,942).

2. Cash and Investments

	2019	2018
Restricted cash and investments		
Statutory reserves	\$ 15,904,175	\$ 14,152,980
Deferred revenues	2,127,204	1,634,308
	18,031,379	15,787,288
Unrestricted cash and investments	6,350,985	7,604,427
Total cash and investments	\$ 24,382,364	\$ 23,391,715

Included in cash and cash equivalents above are portfolio investments comprised of investments held with the Municipal Finance Authority ("MFA") in money market and intermediate pooled investment funds along with term deposits of varying maturity held with federal and provincial credit unions.

	Maturity	Interest Rate	2019	2018
Term Deposit - Integris Credit Union	06-Dec-23	2.25%	\$ 3,189,785	\$ 3,154,209
Term Deposit - Integris Credit Union	06-Dec-18	2.10%	-	2,049,251
MFA Short Term Bond			3,440,112	3,335,221
MFA Intermediate Fund			4,212,545	4,118,085
MFA Money Market Fund			2,555,457	2,508,767
			\$ 13,397,899	\$ 15,165,533

MFA Short Term Bond Fund and Intermediate Fund investments are quoted in an active market and therefore recorded at fair market value. Term deposits are recorded at cost.

3. Taxes and Accounts Receivable

	2019	2018
Property taxes	\$ 808,760	\$ 757,429
Federal government	265,461	386,004
Provincial government	209,110	438,492
Regional government	-	330,885
General	1,622,844	943,551
Total taxes and accounts receivable	\$ 2,906,175	\$ 2,856,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

4. Deposit and Reserve - Municipal Finance Authority

The Municipal Finance Authority of British Columbia (the Authority) provides capital financing for regional districts and their member municipalities. The Authority is required to establish a Debt Reserve Fund. The Authority must then use this fund if at any time there are insufficient funds to meet payments on its obligations. If this occurs the regional districts may be called upon to restore the fund.

Each regional district, through its member municipalities who share in the proceeds of a debt issue, is required to pay into the Debt Reserve Fund certain amounts set out in the financing agreements. The interest earned on the Debt Reserve Fund, less administrative expenses, becomes an obligation of the Authority to the regional districts.

Upon the maturity of the debt issue, the unused portion of the Debt Reserve Fund established for that issue will be discharged to the City. The proceeds from these discharges will be credited to income in the year they are received. As of December 31, the total of the Debt reserve fund was comprised of:

	2019	2018
Cash deposits *	\$ 182,904	\$ 196,383
Demand notes	345,819	345,819
	<u>\$ 528,723</u>	<u>\$ 542,202</u>

*Only the cash portion of MFA deposits is included as a financial asset.

5. Accounts Payable and Accrued Liabilities

	2019	2018
Provincial government	\$ 217	\$ 5,374
General	3,331,845	3,370,684
Accrued interest	30,074	30,916
Deposits	154,593	103,835
Total accounts payable and accrued liabilities	<u>\$ 3,516,729</u>	<u>\$ 3,510,809</u>

6. Landfill closure and post closure costs

	2019	2018
Landfill closure liability	<u>\$ 4,269,117</u>	<u>\$ 2,963,757</u>

The City of Quesnel currently operates a sanitary landfill site at Carson Pit road. The operation of this site is governed by the BC Ministry of Environment, Lands and Parks (MoELP) - Operational Certificate No. MR3132. The future closure and post-closure care of the site are also under the direction of the MoELP.

The City of Quesnel has a Memorandum of Understanding with the Cariboo Regional District for the operation of this landfill. As per the MOU the Cariboo Regional District is responsible for 34% of the post closure costs and the City is responsible for the remaining 66%. The estimated future closure and post closure costs have been updated as at December 31, 2019 based on a third party engineer's cost estimate dated October 7, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

Operating Landfill	2019	2018
Estimated Future Closure and Post Closure Costs	\$ 11,253,528	\$ 8,562,750
Discount Rate	2.40%	3.20%
Present Value of Estimated Closure and Post Closure Costs	\$ 9,483,428	\$ 6,620,087
Expected year capacity will be reached	2048	2040
Capacity (tonnes)		
Used to Date	1,725,500	1,700,500
Remaining	804,300	806,427
Total	2,529,800	2,506,927
Percent Utilized	68.2%	67.8%
Liability Based on Percentage	\$ 6,468,359	\$ 4,490,541
City's Portion of Liability	66% \$ 4,269,117	\$ 2,963,757

7. Deferred Revenue

	2019	2018
Development Cost Charges	\$ 881,157	\$ 835,958
Other	1,246,047	798,350
	\$ 2,127,204	\$ 1,634,308

a. Development Cost Charges

Development Cost charges are restricted revenue liabilities representing funds received from developers and deposited into a separate reserve fund for capital expenses. In accordance with Canadian public sector accounting standards, the City records these funds as restricted revenue which is then recognized as revenue when the related costs are incurred.

	Opening Balance	Receipts	Interest	Transfers Out	Closing Balance
Sanitary	\$ 98,937	\$ 1,100	\$ 2,316	\$ 7,920	\$ 94,433
Water	404,608	25,753	10,026	7,920	432,467
Storm	186,576	6,366	4,601	-	197,543
Roads	145,791	3,432	3,497	6,586	146,134
Parks	46	10,406	127	-	10,579
Total	\$ 835,958	\$ 47,057	\$ 20,568	\$ 22,426	\$ 881,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

8. Municipal Debt Net of Sinking Fund Assets

Long-term debt is in the form of debentures issued through the Municipal Finance Authority of British Columbia ("MFA") pursuant to security issuing bylaws under authority of Section 179 of the Community Charter to finance certain capital expenditures. Sinking fund balances, managed by MFA, are used to reduce municipal debt.

Also includes Short Term Debt issued by the Municipal Finance Authority under Section 175 of the Community Charter for the purpose of buying equipment. Interest Rate in December 2019 was 2.48%.

	Opening Balance	Additions	Principal Payments	Actuarial Adjustment*	Closing Balance
General Capital					
MFA					
85 Fire Truck	\$ 648,297	\$ -	\$ 23,048	\$ 22,585	\$ 602,664
95 New City Hall	3,582,830	-	160,765	84,601	3,337,464
Equipment	-	1,016,325	-	-	1,016,325
	4,231,127	1,016,325	183,813	107,186	4,956,453
Water Capital					
73 Southhills Water	439,044	-	99,448	115,243	224,353
77 Southhills Water	121,496	-	12,913	15,275	93,307
	560,540	-	112,361	130,518	317,660
Total	\$ 4,791,667	\$ 1,016,325	\$ 296,174	\$ 237,704	\$ 5,274,113

	Gross Debt	Reduction Due To Sinking Fund Assets	Closing Balance
General Capital			
MFA			
85 Fire Truck	\$ 1,100,000	\$ 497,336	\$ 602,664
95 New City Hall	6,000,000	2,662,536	3,337,464
Equipment	1,016,325	-	1,016,325
	8,116,325	3,159,872	4,956,453
Water Capital			
73 Southhills Water	3,000,000	2,775,647	224,353
77 Southhills Water	427,000	333,693	93,307
	3,427,000	3,109,340	317,660
Total	\$ 11,543,325	\$ 6,269,213	\$ 5,274,113

The following principal amounts are payable over the next five years:

	2020	2021	2022	2023	2024
General	\$ 183,813	\$ 183,813	\$ 183,813	\$ 183,813	\$ 183,813
Water Funds	112,361	12,914	12,914	-	-
Equipment	193,367	198,234	203,153	208,195	213,376
Total	\$ 489,541	\$ 394,961	\$ 399,880	\$ 392,008	\$ 397,189

* Actuarial Adjustments represent interest earned on sinking funds held by the Municipal Finance Authority. Such interest is used to reduce the principal amount of the outstanding debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

9. Tangible Capital Assets

	2019	2018
Land	\$ 11,975,374	\$ 11,977,396
Land Improvements	16,524,407	16,203,538
Buildings	11,040,947	11,019,008
Roads	21,584,609	21,578,290
Machinery & Equipment	4,558,057	3,833,626
Water Systems	16,151,607	16,656,365
Sewer Systems	2,608,097	2,767,916
Drainage Systems	9,427,492	9,813,214
Furniture, Equipment & Technology	866,468	886,233
Motor Vehicles	1,792,727	1,218,842
Construction-in-Progress	1,896,856	283,997
Total Tangible Capital Assets	\$ 98,426,641	\$ 96,238,425

Construction in progress having a value of \$1,896,856 (2018 - \$283,997) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Works of Art/Historical Treasures

The City owns a number of works of art/historical treasures which include all historical items in the museum, the Gold Pan, the Caboose at West Fraser Timber Park and the various artifacts on the River Walk including the steam shovel, waterwheel and the bulldozer. These items are not recorded as an asset in these consolidated financial statements.

For additional information, see the Consolidated Tangible Capital Assets (Schedule 1)

10. Equity in Tangible Capital Assets

Equity in tangible capital assets (TCA) represents the net book value (NBV) of total tangible capital assets less long term obligations to acquire those assets. The change in consolidated equity in tangible capital assets is as follows:

	2019	2018
Equity in TCA, beginning of year	\$ 91,446,759	\$ 84,739,786
Add: Capital Acquisitions	6,788,557	10,650,422
Debt principal payment	296,174	376,039
Actuarial Adjustment	237,704	259,728
Less: Dispositions at NBV	(302,810)	(447,194)
Additional Debt	(1,016,325)	-
Amortization	(4,297,529)	(4,132,022)
Equity in TCA, end of year	\$ 93,152,530	\$ 91,446,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

11. Net Taxation and Grants in Lieu

Taxes collected	2019	2018
Property Taxes	\$ 24,794,673	\$ 23,992,198
Special Assessments	186,000	185,000
1% Utility Tax	769,861	713,988
Grants in Lieu of Taxes	154,579	150,392
Penalties and Interest on taxes	173,911	173,177
Total Taxes Collected	\$ 26,079,025	\$ 25,214,755
Less transfers to other governments	2019	2018
School District	\$ 3,728,433	\$ 3,769,330
Regional District	2,971,964	2,975,717
Regional Hospital District	1,154,508	1,113,227
Other	111,388	115,874
	7,966,293	7,974,148
Net Taxes Available for Municipal Purposes	\$ 18,112,731	\$ 17,240,607

12. Sale of Services and Utility User Fees

	2019	2018
Transit user fees	\$ 154,028	\$ 137,669
Airport user fees	260,693	272,689
Airport fuel sales	298,962	397,246
Garbage Fees	954,206	893,528
Rentals, licenses and permits	529,918	486,304
Other	206,410	202,321
Total Sale of Services	\$ 2,404,217	\$ 2,389,757
Water user rates	\$ 1,471,450	\$ 1,372,038
Sewer user rates	1,049,399	1,016,827
Total Utility User Fees	\$ 2,520,849	\$ 2,388,865

13. Government Transfers

	2019	2018
Federal: Conditional transfers	\$ 159,435	\$ 1,629,202
Provincial: Conditional transfers	1,755,804	1,748,894
Unconditional transfers	496,162	482,215
Regional/Other: Conditional transfers	1,562,668	468,651
Total Government Transfers	\$ 3,974,069	\$ 4,328,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

14. Expenses by Object

	2019	2018
Goods and Services	\$ 4,624,512	\$ 3,847,242
Salary, Wages & Benefits	10,130,154	9,456,796
RCMP Contract	2,952,902	2,265,694
Contractors/Subcontractors	3,783,930	3,488,450
Utilities - Electricity/Natural Gas	837,733	847,987
Other	1,305,360	980,330
Amortization	4,297,529	4,132,022
Insurance	294,769	309,369
Interest and Finance Charges	213,285	228,061
Total Expenses	\$ 28,440,174	\$ 25,555,951

15. Financial Instruments and Risk Management

The City is potentially exposed to credit risk, market and interest rate risk, liquidity risk, and foreign exchange risk from the entity's financial instruments. Qualitative and quantitative analysis of the significant risks from the City's financial instruments is provided below by type of risk.

a. Credit Risk

Credit risk primarily arises from the City's cash and investments, and accounts receivable. The risk exposure is limited to their carrying amounts at the date of the statement of financial position.

Accounts receivable primarily consist of amounts receivable from government organizations, residents, landfill and airport users. To reduce the risk, the City regularly reviews the collectability of its accounts receivable and if needed, will establish an allowance based on its best estimate of potentially uncollectible amounts. As at December 31, 2019, the amount of allowance for doubtful debts was nil (2018 - nil). The City historically has not had difficulty collecting receivables.

b. Market and Interest Rate Risk

Market risk is the risk that changes in market prices and inputs, such as interest rates, will affect the City's income. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing the return on risk. The City manages market risk by holding cash balances with top rated Canadian Schedule I and 2 financial Institutions and local credit unions. The investments are managed following the investment policy which is approved by the City's Council. The City periodically reviews its investments and is satisfied that the investments are being managed in accordance with the investment policy. Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the fair value of investments have parallel changes in unrealized gains or losses until realized changes in the market interest rates. The City's investments are disclosed in Note 2. There has been no change to the market and interest rate risk exposure from 2018.

c. Liquidity Risk

Liquidity risk is the risk that the City will not be able to meet its financial obligations as they become due. The City manages liquidity risk by continually monitoring actual and forecasted cash flows from operations, anticipated investing, and financial activities to ensure that its financial obligations are met.

d. Foreign Exchange Risk

The City has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

16. Commitments and Contingencies

- a. The City is jointly and severally liable under the provisions of Sections 826 of the Local Government Act for any default on monies borrowed by the Cariboo Regional District.

b. Municipal Insurance Association

The City is a subscribed member of the Municipal Insurance Association of British Columbia (the "Exchange") as provided by section 3.02 of the Insurance Act of the Province of British Columbia. The main purpose of the Exchange is to pool the risks of liability so as to lessen the impact upon any subscriber. Under the Reciprocal Insurance Exchange Agreement, the City is assessed a premium and specific deductible for its claims based on population. The obligation of the City with respect to the Exchange and/or contracts and obligations entered into by the Exchange on behalf of its subscribers in connection with the Exchange is in every case several, not joint and several. The City irrevocably and unconditionally undertakes and agrees to indemnify and save harmless the other subscribers against liability losses and costs which the other subscribers may suffer.

c. Municipal Pension Plan

The City and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits are based on a formula. As at December 31, 2018, the plan has about 205,000 active members and approximately 101,000 retired members. Active members include approximately 40,000 contributors from local governments.

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 may be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation as at December 31, 2018 indicated a \$2,886 million funding surplus for basic pension benefits on a going concern basis.

The City of Quesnel paid \$888,612 (2018 -\$869,086) for employer contributions to the plan in fiscal 2019.

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 the 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.

- d. The City is obligated to collect and transmit property taxes levied on City of Quesnel property owners in respect of the following bodies:

Ministry of Finance, Province of British Columbia

Cariboo Regional District

Cariboo - Chilcotin Regional Hospital District

British Columbia Assessment Authority

Municipal Finance Authority The City is obligated to collect and transmit property taxes levied on City of Quesnel property owners in respect of the following bodies:

- e. The City entered into a contract with Landmark Sign for Wayfinding Signage Installation in 2019 for \$385,691. The remaining amount of the contract for 2020 is \$174,736.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

17. 2019 Budget

The budget amounts presented throughout these financial statements represent the five year financial plan approved by the Mayor and Council on May 14, 2019.

18. Contractual Rights

The City entered into a contract for various services with the Cariboo Regional District to provide services to the provision of joint municipal services within the City and the service area. The term of the contract commenced on January 2020 and terminates December 31, 2024. The total income associated with fiscal year 2020 is \$1,044,952.

19. Segmented Information

The City of Quesnel is a diversified local government providing a wide range of services to approximately 10,000 residents, including general government, water, sewer, transit and airport services. For each reported segment, revenues and expenses represent amounts that are directly attributable to the segment as well as amounts that are allocated on a reasonable basis.

Segmentation has been determined on a functional basis with consideration to service delivery and departmental accountabilities. The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements. Segmented information has been presented in Schedule 3. The segments include:

General Government which provides services for transportation, fire protection, policing, planning and development, solid waste management, recreation and cultural services, cemetery and general administration.

Solid Waste which provides services for residential and commercial garbage collection, landfill, recycling and zero waste education.

Water which provides water production and distribution services.

Sewer which provides waste water collection and maintains a contract with Cariboo Pulp and Paper for wastewater treatment.

Transit which administers all transit operations in Quesnel, including a fixed bus route service and a handiDart Service.

Airport which operates the City's airport, which currently has one major carrier operating flights to Vancouver.

Forestry Initiatives which administers all the forestry initiatives that City is engaged in, including various grant programs.

20. Subsequent Event

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact. At this time, these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

On October 23, 2018, Council adopted the "City of Quesnel New Public Works Facility Loan Authorization Bylaw No. 1854 of 2018" after elector assent was received October 20, 2018 that enables the City to borrow a sum not to exceed \$8,500,000 for the construction of a new public works facility. It is anticipated this loan will be entered into in late 2020.

CONSOLIDATED TANGIBLE CAPITAL ASSETS

AS AT DECEMBER 31, 2019 | SCHEDULE I

	Cost				Accumulated Amortization				Net Book Value 2019	Net Book Value 2018
	Opening Balance	Additions	Disposals	Ending Balance	Open Balance	Amortization	Disposals	Ending Balance		
Land	\$ 11,977,396	\$ -	\$ (2,021)	\$ 11,975,374	\$ -	\$ -	\$ -	\$ -	\$ 11,975,374	\$ 11,977,396
Land Improvements	26,850,719	956,555	(59,743)	27,747,531	10,647,181	610,493	(34,551)	11,223,124	16,524,407	16,203,538
Buildings	19,211,858	545,607		19,757,465	8,192,849	523,668	-	8,716,518	11,040,947	11,019,008
Roads	37,601,339	950,632	(163,233)	38,388,738	16,023,049	907,381	(126,301)	16,804,129	21,584,609	21,578,290
Machinery & Equipment	8,643,483	1,752,814	(1,299,670)	9,096,627	4,809,857	540,925	(812,212)	4,538,571	4,558,057	3,833,626
Water Systems	32,524,930	167,990	(2,014)	32,690,906	15,868,565	672,748	(2,014)	16,539,299	16,151,607	16,656,365
Sewer Systems	8,277,734	-	(13,819)	8,263,915	5,509,817	146,000	-	5,655,818	2,608,097	2,767,916
Drainage Systems	16,543,646	48,000	-	16,591,646	6,730,432	433,722	-	7,164,154	9,427,492	9,813,214
Furniture, Eqpt & Tech	1,762,931	163,135	(37,718)	1,888,349	876,698	178,699	(33,516)	1,021,880	866,468	886,233
Motor Vehicles	5,727,958	590,965	(177,179)	6,141,743	4,509,116	283,893	(443,993)	4,349,016	1,792,727	1,218,842
Construction in Progress	283,997	1,612,859	-	1,896,856	-	-	-	-	1,896,856	283,997
	\$ 169,405,990	\$ 6,788,557	\$ (1,755,397)	\$ 174,439,150	\$ 73,167,565	\$ 4,297,529	\$ (1,452,586)	\$ 76,012,509	\$ 98,426,641	\$ 96,238,425

Construction-in-progress represents capital projects at year-end that have not been completed and are not ready for their intended use or to be amortized.

CONSOLIDATED STATEMENT OF STATUTORY RESERVE FUND ACTIVITIES

YEAR ENDED DECEMBER 31, 2019 | SCHEDULE 2

	Opening Balance	Transfers In	Interest Earned	Transfers Out	Closing Balance
Capital Reinvestment	\$ 2,456,690	\$ 2,489,196	\$ 57,642	\$ (2,647,847)	\$ 2,355,681
Other Capital Reserves	936,450	497,863	28,659	(6,789)	1,456,183
General Capital	2,378,543	2,444,387	53,244	(2,810,668)	2,065,506
Water	2,863,362	-	77,182	639,769	3,580,313
Sewer	3,388,870	-	86,383	347,729	3,822,982
West Quesnel Land Stability	53,180	-	1,289	-	54,470
Gas Tax	987,959	968,255	29,222	(534,864)	1,450,572
Tax Stabilization	1,073,726	-	26,034	-	1,099,760
Land Sales	11,325	4,115	324	-	15,764
Park Reserve	2,875	-	70	-	2,944
	\$ 14,152,980	\$ 6,403,816	\$ 360,050	\$ (5,012,671)	\$ 15,904,175

SEGMENTED STATEMENT

YEAR ENDED DECEMBER 31, 2019 | SCHEDULE 3

	Actual 2019							
	General Government	Solid Waste	Water	Sewer	Transit	Airport	Forestry Initiatives	Total
Revenues								
Property taxes and grants in lieu	\$ 16,446,879	\$ -	\$ 742,523	\$ 216,330	\$ 451,265	\$ 255,734	\$ -	\$ 18,112,731
Sale of services	617,326	954,206	97,735	21,267	154,028	559,655	-	2,404,217
Government grants	3,107,981	-	147,460	-	-	29,921	688,707	3,974,069
Donations	117,258	-	7,920	7,920	-	-	-	133,098
Services provided to other governments	583,120	400,784	-	-	92,243	66,000	-	1,142,147
Investment income	401,599	-	64,827	67,608	8,596	-	-	542,631
Utility user fees	-	-	1,471,450	1,049,399	-	-	-	2,520,849
MFA actuarial adjustment	107,186	-	130,518	-	-	-	-	237,704
Other	351,979	-	-	-	-	82,562	106,577	541,118
Total Revenues	\$ 21,733,329	\$ 1,354,990	\$ 2,662,433	\$ 1,362,524	\$ 706,132	\$ 993,872	\$ 795,284	\$ 29,608,564
Expenses								
General government services	2,422,350	-	-	-	-	-	-	2,422,350
Protective services	6,012,585	-	-	-	-	-	-	6,012,585
Transportation services	4,259,926	-	-	-	-	-	-	4,259,926
Solid waste management and recycling	-	3,175,990	-	-	-	-	-	3,175,990
Development services and planning	1,475,006	-	-	-	-	-	-	1,475,006
Recreation and cultural services	1,616,850	-	-	-	-	-	-	1,616,850
Operations	160,811	-	1,419,075	892,268	623,926	1,035,081	-	4,131,161
Forestry	-	-	-	-	-	-	835,492	835,492
Interest expense	143,873	-	69,412	-	-	-	-	213,285
Amortization	3,215,519	-	685,748	159,040	-	237,222	-	4,297,529
Total Expenses	19,306,920	3,175,990	2,174,235	1,051,308	623,926	1,272,303	835,492	28,440,174
Subtotal	2,426,409	(1,821,000)	488,198	311,217	82,206	(278,431)	(40,208)	1,168,390
Loss on sale of tangible capital assets	71,016	-	-	-	-	-	-	71,016
Annual surplus (deficit)	\$ 2,497,425	\$ (1,821,000)	\$ 488,198	\$ 311,217	\$ 82,206	\$ (278,431)	\$ (40,208)	\$ 1,239,406