

A close-up photograph of a hummingbird hovering over a large, pink, spherical flower. The bird is in sharp focus, with its wings spread and its beak pointed towards the flower. The background is a soft, out-of-focus green and pink, suggesting a garden setting. The overall tone is natural and serene.

CITY OF
QUESNEL

***Consolidated Financial Statements
for the year ended
December 31, 2013***

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 5. 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 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 Audit Committee. The 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 Audit Committee and Council. The 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



KPMG LLP
Chartered Accountants
400 - 177 Victoria Street
Prince George BC V2L 5R8

Telephone (250) 563-7151
Telefax (250) 563-5693
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council

Report on Financial Statements

We have audited the accompanying consolidated financial statements of the City of Quesnel (the "City"), which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matters

The consolidated financial statements of the City of Quesnel as at and for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 23, 2013.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of the City taken as a whole. The supplementary information included in the statement of financial position, statement of operations, statement of changes in net financial assets and the statement of cash flow for the Quesnel Community and Economic Development (2002) Corporation is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

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 long, horizontal, slightly wavy line that extends to the right.

Chartered Accountants

April 14, 2014

Prince George, Canada

CITY OF QUESNEL

SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED DECEMBER 31, 2013

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 incorporate 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, 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. Controlled entities include the Quesnel Community and Economic Development (2002) Corporation. They have been prepared using guidelines issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. 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.

CITY OF QUESNEL
SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

b. Accrual Accounting

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

c. Inventories of Supplies

Inventories are valued at the lower of cost and replacement cost with cost determined using a moving average basis.

d. Tangible Capital Assets

- i. Tangible capital assets purchased or constructed and work 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:

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

Tangible capital assets are tested annually for impairment in value based on continued usefulness of the assets and related carrying values. Any impairment in carrying value would be recorded in the period that the impairment occurs.

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.

CITY OF QUESNEL
SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2013

e. 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.

f. 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 relate to the determination of collectability of accounts receivable, provisions for contingencies, landfill liabilities, sick leave accrual and prior years tangible capital asset historical costs and related amortization. Actual results could differ from those estimates. Adjustments, if any, will be reflected in operations in the period of settlement.

g. 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.

h. 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.

i. Cash equivalents

Cash equivalents include short-term, highly liquid investments which are redeemable within 90 days or less.

j. Long-term debt:

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

CITY OF QUESNEL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
Financial Assets		
Cash and cash equivalents - note 2	\$ 24,790,884	\$ 20,869,744
Taxes and accounts receivable - note 3	2,452,675	4,171,824
Property acquired for taxes	30,284	34,507
MFA debt reserve - note 4	173,783	165,706
	27,447,626	25,241,781
Liabilities		
Accounts payable and accrued liabilities - note 5	7,012,697	6,665,144
Landfill closure - note 6	763,374	715,871
Deferred revenue - note 7	2,849,017	2,159,202
MFA debt reserve	173,783	165,706
Municipal debt, net of sinking fund assets - note 8	7,712,644	8,223,231
	18,511,515	17,929,154
Net Financial Assets	8,936,111	7,312,627
Non-Financial Assets		
Prepaid expenses	88,421	222,331
Inventory of supplies	297,241	352,796
Tangible capital assets - note 9	81,168,490	80,731,500
	81,554,152	81,306,627
Accumulated Surplus	\$ 90,490,263	\$ 88,619,254
Represented By:		
Operating Fund	\$ 8,636,041	\$ 7,588,408
Allocated Surplus	969,387	1,326,820
Statutory Reserves - Schedule 2	7,428,988	7,195,759
Equity in tangible capital assets - note 10	73,455,847	72,508,267
	\$ 90,490,263	\$ 88,619,254



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

See accompanying notes.

CITY OF QUESNEL
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	2013 <u>BUDGET</u>	2013 <u>ACTUAL</u>	2012 <u>ACTUAL</u>
Revenues			
Net taxation and grants in lieu - note 11	\$ 15,413,133	\$ 15,395,494	\$ 14,930,495
Sale of services - note 12	1,747,920	2,531,226	2,033,601
Government grants - note 13	1,952,943	1,610,403	4,219,546
Donations	-	1,000	176,000
Services provided to other governments	953,264	1,076,381	1,014,971
Investment income	225,000	237,114	262,167
Utility user fees - note 12	2,035,100	1,926,997	1,852,687
MFA actuarial adjustment	-	151,244	152,841
Other	599,865	375,124	384,477
	<u>22,927,225</u>	<u>23,304,983</u>	<u>25,026,785</u>
Expenses			
General government services	2,661,563	2,271,094	2,241,534
Protective services	5,148,929	4,906,819	4,842,645
Transportation services	3,265,916	3,170,152	2,776,855
Solid waste management and recycling	1,368,039	1,482,380	1,143,692
Development services and planning	830,165	970,518	827,110
Recreation and cultural services	1,202,040	1,217,314	1,179,060
Operations	3,451,223	3,472,848	3,043,638
Interest expense	473,359	475,147	483,242
Amortization	3,300,000	3,376,570	3,208,806
	<u>21,701,234</u>	<u>21,342,842</u>	<u>19,746,583</u>
Subtotal	1,225,991	1,962,141	5,280,203
Loss on sale of tangible capital assets	-	(91,132)	(127,353)
Annual Surplus	1,225,991	1,871,009	5,152,850
Accumulated surplus at beginning of year	<u>88,619,254</u>	<u>88,619,254</u>	<u>83,466,404</u>
Accumulated surplus at end of year	<u>\$ 89,845,244</u>	<u>\$ 90,490,263</u>	<u>\$ 88,619,254</u>

See accompanying notes.

CITY OF QUESNEL
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	2013 <u>BUDGET</u>	<u>2013</u>	<u>2012</u>
Annual Surplus	\$ 1,225,991	\$ 1,871,009	\$ 5,152,850
Tangible capital assets purchased	(5,939,965)	(4,137,980)	(7,246,237)
Amortization of tangible capital assets	3,300,000	3,376,570	3,208,806
Loss on sale of tangible capital assets	-	91,132	127,353
Proceeds on sale of tangible capital assets	185,000	233,288	3,000
	<u>(1,228,974)</u>	<u>1,434,019</u>	<u>1,245,772</u>
Acquisition of supply inventory	-	55,555	46,694
Use (acquisition) of prepaid expense	-	133,910	(28,508)
	<u>-</u>	<u>189,465</u>	<u>18,186</u>
Increase (decrease) in net financial assets	(1,228,974)	1,623,484	1,263,958
Net financial assets at beginning of year	<u>7,312,627</u>	<u>7,312,627</u>	<u>6,048,669</u>
Net financial assets at end of year	<u>\$ 6,083,653</u>	<u>\$ 8,936,111</u>	<u>\$ 7,312,627</u>

See accompanying notes.

CITY OF QUESNEL
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
Operating transactions		
Annual surplus	\$ 1,871,009	\$ 5,152,850
Non-cash items:		
Amortization	3,376,570	3,208,806
(Increase) decrease in prepaid expenses	133,910	(28,508)
Decrease in supply inventory	55,555	46,694
Loss on the sale of tangible capital assets	91,132	127,353
Actuarial adjustments	(151,243)	(152,841)
Changes to financial assets/liabilities:		
(Increase) decrease in taxes and accounts receivable	1,719,149	(1,562,113)
(Increase) decrease in MFA cash deposits	(8,078)	3,642
(Increase) decrease in property acquired for taxes	4,223	(28,613)
Increase in accounts payable and accrued liabilities	347,553	3,824,036
Increase (decrease) in landfill closure	47,502	(114,048)
Increase in deferred revenue	689,815	26,472
Increase (decrease) in MFA debt reserve	8,078	(3,642)
Cash provided by operating transactions	<u>8,185,175</u>	<u>10,525,576</u>
Capital transactions		
Acquisition of tangible capital assets	(4,137,980)	(7,246,237)
Proceeds from the sale of tangible capital assets	233,288	3,000
Cash applied to capital transactions	<u>(3,904,692)</u>	<u>(7,115,884)</u>
Financing transactions:		
Debt repayment	(359,344)	(463,185)
Cash applied to financing transactions	<u>(359,344)</u>	<u>(616,026)</u>
Increase in cash and cash equivalents	3,921,139	2,793,666
Cash and cash equivalents at beginning of year	<u>20,869,744</u>	<u>18,076,078</u>
Cash and cash equivalents at end of year	<u>\$ 24,790,883</u>	<u>\$ 20,869,744</u>

See accompanying notes.

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013, the balance of the funds was \$204,449 (2012-\$198,700).

2 CASH AND CASH EQUIVALENTS	<u>2013</u>	<u>2012</u>
Restricted cash and investments		
Statutory reserves	\$ 7,428,988	\$ 7,195,759
Deferred revenues	<u>2,849,017</u>	<u>2,159,202</u>
	10,278,004	9,354,961
Unrestricted cash and investments	14,512,880	11,514,783
Total cash and investments	<u>\$ 24,790,884</u>	<u>\$ 20,869,744</u>

3 TAXES AND ACCOUNTS RECEIVABLE	<u>2013</u>	<u>2012</u>
Property taxes	\$ 637,387	\$ 670,102
Federal government	246,249	1,401,667
Provincial government	282,847	1,070,705
Regional government	582,409	467,173
General	703,784	562,177
Total taxes and accounts receivable	<u>\$ 2,452,675</u>	<u>\$ 4,171,824</u>

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:

	<u>2013</u>	<u>2012</u>
Cash deposits *	\$ 173,783	\$ 165,706
Demand notes	345,819	406,557
	<u>\$ 519,602</u>	<u>\$ 572,263</u>

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

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

5 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2013</u>	<u>2012</u>
Federal government	\$ 2,406	\$ 1,263
Provincial government	79,121	78,368
Recreation Grant/Donations to Cariboo Regional District	4,253,866	4,065,771
General	2,456,586	2,289,130
Accrued interest	77,970	77,970
Deposits	142,748	152,642
Total accounts payable and accrued liabilities	\$ 7,012,697	\$ 6,665,144

6 SANITARY LANDFILL

	<u>2013</u>	<u>2012</u>
Landfill closure liability	\$ 763,374	\$ 715,871

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%.

Operating Landfill	<u>2013</u>	<u>2012</u>
Estimated Future Closure and Post Closure Costs over the next 50 years	\$ 3,514,978	\$ 3,514,978
Discount Rate	4.05%	4.05%
Present Value of Estimated Closure and Post Closure Costs	\$ 1,720,145	\$ 1,653,191
Expected year capacity will be reached	2031	2031
Capacity (tonnes)		
Used to Date	1,497,100	1,460,800
Remaining	729,400	765,700
Total	2,226,500	2,226,500
Percent Utilized	67%	66%
Liability Based on Percentage	\$ 1,156,627	\$ 1,084,654
City's Portion of Liability	66% \$ 763,374	\$ 715,871

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

7 DEFERRED REVENUE	<u>2013</u>	<u>2012</u>
Federal Gas Tax	\$ 1,820,308	\$ 1,444,070
Development Cost Charges	736,504	708,659
Other	292,205	6,473
	<u>\$ 2,849,017</u>	<u>\$ 2,159,202</u>

a) FEDERAL GAS TAX

Gas Tax Agreement funding is provided by the Government of Canada. The use of the funding is established by a funding agreement between the local government and the Union of British Columbia Municipalities. Gas Tax Agreement funding may be used towards designated public transit, community energy, water, wastewater, solid waste and capacity building projects, as specified in the funding agreements.

Gas Tax Agreement Funds	<u>2013</u>	<u>2012</u>
Opening Balance of unspent funds	\$ 1,444,070	\$ 1,409,220
Add: Amount received during the year	425,772	425,948
Interest earned	21,807	21,179
Less: Amount spent on projects	(71,341)	(412,277)
Closing Balance of unspent funds	<u>\$ 1,820,308</u>	<u>\$ 1,444,070</u>

b) 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	\$ 90,720	\$ 393	\$ 1,209	\$ -	\$ 92,322
Water	336,847	9,834	4,545		351,226
Storm	155,304	3,735	2,090		161,129
Roads	122,070	2,573	1,640		126,283
Parks	3,718	1,765	61		5,544
	<u>\$ 708,659</u>	<u>\$ 18,300</u>	<u>\$ 9,545</u>	<u>\$ -</u>	<u>\$ 736,504</u>

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

8 MUNICIPAL DEBT

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.

	Opening Balance	Additions	Principal Payments	Actuarial Adjustment *	Closing Balance
General Capital					
MFA					
85 Fire Truck	\$ 879,915	\$ -	\$ 23,048	\$ 11,004	\$ 845,863
95 New City Hall	4,862,079		144,072	45,517	4,672,490
99 Johnston Bridge	670,273		79,863	21,189	569,221
	<u>6,412,267</u>	<u>-</u>	<u>246,983</u>	<u>77,710</u>	<u>6,087,574</u>
Water Capital					
73 Southills Water	1,546,390		99,447	65,412	1,381,531
77 Southills Water	264,574		12,914	8,121	243,539
	<u>1,810,964</u>	<u>-</u>	<u>112,361</u>	<u>73,533</u>	<u>1,625,070</u>
TOTAL	<u>\$ 8,223,231</u>	<u>\$ -</u>	<u>\$ 359,344</u>	<u>\$ 151,243</u>	<u>\$ 7,712,644</u>

	Gross Debt	Reduction Due To Sinking Fund Assets	Closing Balance
General Capital			
MFA			
85 Fire Truck	\$ 1,100,000	\$ 254,137	\$ 845,863
95 New City Hall	6,000,000	1,327,510	4,672,490
99 Johnston Bridge	1,200,000	630,779	569,221
	<u>8,300,000</u>	<u>2,212,426</u>	<u>6,087,574</u>
Water Capital			
73 Southills Water	3,000,000	1,618,469	1,381,531
77 Southills Water	427,000	183,461	243,539
	<u>3,427,000</u>	<u>1,801,930</u>	<u>1,625,070</u>
TOTAL	<u>\$ 11,727,000</u>	<u>\$ 4,014,355</u>	<u>\$ 7,712,644</u>

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

	2014	2015	2016	2017	2018
General	\$ 246,983	\$ 246,983	\$ 246,983	\$ 246,983	\$ 246,983
Water Funds	112,361	112,361	112,361	112,361	112,361
	<u>\$ 359,344</u>	<u>\$ 359,344</u>	<u>\$ 359,344</u>	<u>\$ 359,344</u>	<u>\$ 359,344</u>

* 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.

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

9 TANGIBLE CAPITAL ASSETS

	<u>2013</u>	<u>2012</u>
Land	\$ 11,402,421	\$ 11,143,469
Land Improvements	12,808,745	12,777,784
Buildings	11,861,085	12,196,340
Roads	16,699,626	15,793,765
Machinery & Equipment	3,381,801	3,170,210
Water Systems	14,080,968	13,653,162
Sewer Systems	3,287,441	3,393,818
Drainage Systems	5,504,821	5,681,227
Furniture & Eqpt & Technology	593,513	460,476
Motor Vehicles	1,171,350	1,313,870
Construction in Progress	376,719	1,147,379
	\$ 81,168,490	\$ 80,731,500

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.

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

10 EQUITY IN TANGIBLE 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:

	<u>2013</u>	<u>2012</u>
Equity in TCA, beginning of year	\$ 72,508,267	\$ 67,985,163
Add: Capital Acquisitions	4,137,980	7,246,237
Debt principal payment	359,344	463,185
Actuarial Adjustment	151,243	152,841
Less: Dispositions at NBV	(324,417)	(130,353)
Amortization	(3,376,570)	(3,208,806)
Equity in TCA, end of year	\$ 73,455,847	\$ 72,508,267

11 NET TAXATION AND GRANTS IN LIEU

Taxes collected

	<u>2013</u>	<u>2012</u>
Property Taxes	\$ 22,073,683	\$ 21,772,804
Special Assessments	199,272	199,277
1% Utility Tax	660,636	615,539
Grants in Lieu of Taxes	156,340	155,739
Penalties and Interest on taxes	153,507	146,546
	\$ 23,243,438	\$ 22,889,905

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

11 NET TAXATION AND GRANTS IN LIEU (continued)

Less transfers to other governments

School District	\$ 4,109,884	\$ 4,083,254
Regional District	2,705,739	2,797,887
Regional Hospital District	892,951	939,983
Other	139,370	138,286

Net Taxes available for municipal purposes

7,847,944	7,959,410
\$ 15,395,494	\$ 14,930,495

12 SALE OF SERVICES, USER RATES, RENTALS

	<u>2013</u>	<u>2012</u>
Transit user fees	\$ 115,064	\$ 124,565
Airport user fees	240,459	243,877
Airport fuel sales	762,940	535,867
Garbage Fees	712,014	568,111
Rentals, licenses and permits	352,377	365,492
Other	348,372	195,689
Total Sale of Services	\$ 2,531,226	\$ 2,033,601
Water user rates	\$ 1,069,756	\$ 1,031,579
Sewer user rates	857,241	821,108
Total Utility User Fees	\$ 1,926,997	\$ 1,852,687

13 GOVERNMENT TRANSFERS

	<u>2013</u>	<u>2012</u>
Federal: Conditional transfers	\$ 270,009	\$ 1,202,584
Provincial: Conditional transfers	898,922	866,291
Unconditional transfers	304,481	1,695,749
Regional/Other Conditional transfers	136,991	454,922
	\$ 1,610,403	\$ 4,219,546

14 EXPENSES BY OBJECT

	<u>2013</u>	<u>2012</u>
Goods and Services	\$ 4,101,355	\$ 3,851,959
Salary, Wages & Benefits	8,409,371	7,404,624
RCMP Contract	2,178,111	2,258,085
Contractors/Subcontractors	1,734,425	1,501,846
Utilities - Electricity/Natural Gas	736,082	718,706
Amortization	3,376,570	3,208,806
Insurance	331,781	319,315
Interest and Finance Charges	475,147	483,242
	\$ 21,342,842	\$ 19,746,583

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The City's financial instruments consist of cash and investments, taxes and accounts receivable, accounts payable and accrued liabilities and municipal debt. Unless otherwise noted, it is management's opinion that the City is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The City is exposed to interest rate risk arising from fluctuations in interest rates on its cash and investments and does not hold any financial instruments that mitigate this risk.

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. Revitalization Tax Exemption Program:

The City is committed under Bylaw 1593, cited as City of Quesnel Revitalization Tax Exemption Program Bylaw and adopted under the provisions of Section 226 of the *Community Charter*, to provide municipal tax relief to West Fraser Mills Ltd. The Bylaw provides that the City may designate an area as a revitalization area and establish a tax revitalization program for that area.

The Bylaw provides tax relief for a period of 5 years, with a renewal period of a further 5 years. The City has agreed to give tax relief to a maximum of \$6,000,000, divided in equal amounts of \$600,000 over the 10 year term. The first fiscal year impacted by the tax relief program was 2007.

c. 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.

d. 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 overseeing the management of the pension plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits provided are based on a formula. The Plan has about 179,000 active members and approximately 71,000 retired members. Active members include approximately 124 contributors from the City of Quesnel.

The most recent actuarial valuation as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available later in 2016. 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 with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plan.

The City of Quesnel paid \$682,939 for employer contributions to the Plan in fiscal 2013 (\$655,870 - 2012).

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

16 COMMITMENTS AND CONTINGENCIES (continued)

e. Co-ownership Agreement for the Quesnel Library:

The City and the Cariboo Regional District (the "District") completed a co-ownership agreement for the Quesnel Library in 2009, which is now housed in City Hall.

Under the agreement, the District purchased a 24% undivided fee simple interest in the building which enabled the occupation by the District of the first floor for use as a regional library. The price for this 24% interest was \$1,145,000. The City purchased the existing library site from the District for \$122,000.

If the City opts out of the library function within 10 years, it will repurchase the District's interest for \$1,145,000, together with tenant improvements incurred by the District. If the City opts out of the library function after 10 years, the repurchase price will be determined by an independent appraiser but will not exceed the original purchase price of \$1,145,000.

If the District opts to leave within 10 years, the City will repurchase the District's interest for \$1,145,000. If the District opts to leave after 10 years, the City will repurchase the interest for a price to be determined by an independent appraiser, but not in excess of \$1,145,000.

f. Recreation Infrastructure Project

In 2012, the City of Quesnel received a \$4.0 million grant from the Province of British Columbia for the construction of recreation infrastructure. This is a Cariboo Regional District project that will be funded through the North Cariboo Recreation Service Area. Once the project proceeds, these funds and interest will be forwarded to the Cariboo Regional District.

g. 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 Regional Hospital District
Cariboo - Chilcotin Regional Hospital District
British Columbia Assessment Authority
Municipal Finance Authority

17 2013 BUDGET

The budget amounts presented throughout these financial statements represent the five year financial plan approved by the Mayor and Council on May 6, 2013. The budget for QCEDC was approved by their Board on December 9, 2012 and forwarded to the City for Council's approval and incorporation into the five year financial plan approved May 6, 2013.

On October 7th, 2013, an amendment to the five year financial plan was adopted by Council to reflect two additional projects.

18 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.

CITY OF QUESNEL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

18 SEGMENTED INFORMATION (continued)

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.

Water which provides water services.

Sewer which provides sewer services.

Transit which administers all transit operations in Quesnel.

Airport which operates the City's airport.

Quesnel Community and Economic Development (2002) Corporation

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
Financial Assets		
Cash and cash equivalents	\$ 58,788	\$ 60,042
Accounts receivable	<u>64,356</u>	<u>45,092</u>
	<u>123,144</u>	<u>105,134</u>
Liabilities		
Accounts payable and accrued liabilities	<u>9,679</u>	<u>5,230</u>
	<u>9,679</u>	<u>5,230</u>
Net Financial Assets	<u>113,465</u>	<u>99,904</u>
Non-Financial Assets		
Prepaid expenses	-	420
Tangible capital assets	<u>4,839</u>	<u>3,375</u>
	<u>4,839</u>	<u>3,795</u>
Shareholder's Equity	<u>\$ 118,304</u>	<u>\$ 103,699</u>
Represented By:		
Share Capital	\$ 1	\$ 1
Retained Earnings	<u>113,464</u>	<u>100,323</u>
Equity in tangible capital assets	<u>4,839</u>	<u>3,375</u>
	<u>\$ 118,304</u>	<u>\$ 103,699</u>



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

Quesnel Community and Economic Development (2002) Corporation

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u> <u>BUDGET</u>	<u>2013</u> <u>ACTUAL</u>	<u>2012</u> <u>ACTUAL</u>
Revenues			
City of Quesnel	\$ 155,000	\$ 155,000	\$ 163,366
Cariboo Regional District	77,000	51,844	66,404
Grants	42,500	42,500	36,627
Rent	2,700	8,381	1,575
Project Administration	47,500	148,988	41,369
Other	-	8,750	2,927
	<u>324,700</u>	<u>415,463</u>	<u>312,268</u>
Expenses			
Board Expenses	2,650	2,501	1,454
General Administration	206,050	160,103	164,562
Project Administration	136,000	236,678	111,386
Amortization	-	1,567	990
	<u>344,700</u>	<u>400,849</u>	<u>278,392</u>
Subtotal	(20,000)	14,614	33,876
Loss on sale of tangible capital assets	-	(9)	-
Annual Surplus	(20,000)	14,605	33,876
Shareholder's Equity at beginning of year	103,699	103,699	69,823
Shareholder's Equity at end of year	\$ 83,699	\$ 118,304	\$ 103,699

Quesnel Community and Economic Development (2002) Corporation

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u> <u>BUDGET</u>	<u>2013</u>	<u>2012</u>
Annual Surplus	\$ (20,000)	\$ 14,605	\$ 33,876
Tangible capital assets purchased	-	(3,040)	(1,577)
Amortization of tangible capital assets	-	1,567	990
Loss on sale of tangible capital assets	-	9	-
	(20,000)	13,141	33,289
Use of prepaid expense	-	420	(420)
Increase (decrease) in net financial assets	(20,000)	13,561	32,869
Net financial assets at beginning of year	99,904	99,904	67,035
Net financial assets at end of year	\$ 79,904	\$ 113,465	\$ 99,904

Quesnel Community and Economic Development (2002) Corporation

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31, 2013, WITH COMPARATIVE INFORMATION FOR 2012

	<u>2013</u>	<u>2012</u>
Operating transactions		
Annual surplus	\$ 14,605	\$ 33,876
Non-cash items:		
Amortization	1,567	990
Decrease in prepaid expenses	420	(420)
Loss on the sale of tangible capital assets	9	-
Changes to financial assets/liabilities:		
Decrease in accounts receivable	(19,264)	27,399
Increase (decrease) in accounts payable	4,449	2,972
Decrease in due to City of Quesnel	-	-
Cash provided by (used in) operating transactions	1,786	64,817
Capital transactions		
Acquisition of tangible capital assets	(3,040)	(1,577)
Cash applied to capital transactions	(3,040)	(1,577)
Financing transactions:		
Increase (decrease) in credit union advances	-	(3,198)
Cash applied to financing transactions	-	(3,198)
Increase (decrease) in cash and cash equivalents	(1,254)	60,042
Cash and cash equivalents at beginning of year	60,042	-
Cash and cash equivalents end of year	\$ 58,788	\$ 60,042

CITY OF QUESNEL
CONSOLIDATED TANGIBLE CAPITAL ASSETS
AS AT DECEMBER 31, 2013

Schedule 1

	Land	Land Improvements	Buildings	Roads	Machinery & Equipment	Engineering Structures		
						Water	Sewer	Drainage
Historical Cost:								
Opening Balance	\$ 11,143,469	\$ 20,956,521	\$ 17,699,565	\$ 28,587,150	\$ 5,992,719	\$ 26,587,379	\$ 8,088,343	\$ 10,660,403
Additions	258,952	602,370	82,500	1,603,766	879,339	990,320	69,434	103,477
Disposals		(68,902)	-	(215,040)	(450,885)	(3,570)	(85,254)	(17,757)
Closing Balance End of Year	11,402,421	21,489,989	17,782,065	29,975,876	6,421,173	27,574,129	8,072,523	10,746,123
Accumulated Amortization:								
Opening Balance	-	8,178,737	5,503,225	12,793,385	2,822,509	12,934,217	4,694,525	4,979,176
Amortization Expense		551,229	417,755	666,432	402,163	558,944	170,127	278,397
Effects of Disposals		(48,722)	-	(183,567)	(185,300)		(79,570)	(16,270)
Closing Balance End of Year	-	8,681,244	5,920,980	13,276,250	3,039,372	13,493,161	4,785,082	5,241,302
NET BOOK VALUE								
End of Year	\$ 11,402,421	\$ 12,808,745	\$ 11,861,085	\$ 16,699,626	\$ 3,381,801	\$ 14,080,968	\$ 3,287,441	\$ 5,504,821

	Furniture Eqpt & Technology	Motor Vehicles	Construction In Progress	2013		2012	
				Total	Total	Total	Total
Historical Cost:							
Opening Balance	\$ 1,091,711	\$ 5,472,359	\$ 1,147,379	\$ 137,426,998	\$ 130,663,738		
Additions	258,136	60,346	(770,660)	4,137,980	7,246,237		
Disposals	(62,120)	-		(903,528)	(482,977)		
Closing Balance End of Year	1,287,727	5,532,705	376,719	140,661,450	137,426,998		
Accumulated Amortization:							
Opening Balance	631,235	4,158,489	-	56,695,498	53,839,316		
Amortization Expense	128,658	202,866		3,376,571	3,208,806		
Effects of Disposals	(65,679)	-		(579,109)	(352,624)		
Closing Balance End of Year	694,214	4,361,355	-	59,492,960	56,695,498		
NET BOOK VALUE							
End of Year	\$ 593,513	\$ 1,171,350	\$ 376,719	\$ 81,168,490	\$ 80,731,500		

CITY OF QUESNEL
Consolidated Statement of Statutory Reserve Fund Activities
Year Ended December 31, 2013

Schedule 2

	Capital Reinvestment	Other Capital Reserves	General Capital	Land Sales	West Quesnel Land Stability	Tax Stabilization	Park Reserve	2013 Total	2012 Total
Opening Balance	\$ 1,661,185	\$ 716,003	\$ 3,049,162	\$ 769,841	\$ 371,397	\$ 527,589	\$ 100,582	\$ 7,195,759	\$ 7,882,933
Transfers In	986,938	50,000	1,819,635	341,984	35,000	179,661	-	3,413,218	2,848,078
Interest Earned	20,711	5,182	47,830	12,454	3,811	8,210	1,337	99,535	110,600
Transfers Out	(1,194,277)	(478,882)	(1,393,309)	(8,521)	(204,535)	-	-	(3,279,524)	(3,645,852)
Closing Balance	\$ 1,474,557	\$ 292,303	\$ 3,523,318	\$ 1,115,758	\$ 205,673	\$ 715,460	\$ 101,919	\$ 7,428,988	\$ 7,195,759

CITY OF QUESNEL
Segmented Statement
Year Ended December 31, 2013

Schedule 3

	GENERAL	QCEDC	WATER	SEWER	TRANSIT	AIRPORT	TOTAL
Revenues							
Property taxes and grants in lieu	\$ 13,832,918	\$ -	\$ 741,974	\$ 216,546	\$ 308,862	\$ 295,194	\$ 15,395,494
Sale of services	1,129,588	166,119	97,726	19,331	115,064	1,003,398	2,531,226
Government grants	1,557,903	42,500	10,000	-	-	-	1,610,403
Donations	1,000	-	-	-	-	-	1,000
Services provided to other governments	806,821	206,844	-	-	62,716	-	1,076,381
Investment income	167,466	-	43,896	19,334	3,703	2,715	237,114
Utility user fees	-	-	1,069,756	857,241	-	-	1,926,997
MFA actuarial adjustment	77,710	-	73,534	-	-	-	151,244
Other	349,248	-	1,226	-	2,792	21,858	375,124
	17,922,654	415,463	2,038,112	1,112,452	493,137	1,323,165	\$ 23,304,983
Expenses							
General government services	2,271,094	-	-	-	-	-	2,271,094
Protective services	4,906,819	-	-	-	-	-	4,906,819
Transportation services	3,170,152	-	-	-	-	-	3,170,152
Solid waste management and recycling	1,482,380	-	-	-	-	-	1,482,380
Development services and planning	571,234	399,284	-	-	-	-	970,518
Recreation and cultural services	1,217,314	-	-	-	-	-	1,217,314
Operations	144,238	-	1,030,770	609,047	455,167	1,233,626	3,472,848
Interest expense	367,623	-	107,524	-	-	-	475,147
Amortization	2,241,256	1,567	569,491	180,109	-	384,147	3,376,570
	16,372,110	400,851	1,707,785	789,156	455,167	1,617,773	21,342,842
Subtotal	1,550,544	14,612	330,327	323,296	37,970	(294,608)	1,962,141
Loss on sale of tangible capital assets	(85,439)	(9)	-	(5,684)	-	-	(91,132)
Annual Surplus	\$ 1,465,105	\$ 14,603	\$ 330,327	\$ 317,612	\$ 37,970	\$ (294,608)	\$ 1,871,009

Note: QCEDC stands for the Quesnel Community and Economic Development (2002) Corporation