



Consolidated Financial Statements 2018



FOR THE YEAR ENDED DECEMBER 31, 2018

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 9. 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 Audit Committee. The 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 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

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KPMG LLP
177 Victoria Street, Suite 400
Prince George BC V2L 5R8 Canada
Telephone (250) 563-7151
Fax (250) 563-5693

INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Quesnel

Opinion

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

- the consolidated statement of financial position as at December 31, 2018
- 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
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018 and its consolidated results of operations, change in net consolidated financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

We are independent of the 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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.



- 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' with a horizontal line underneath.

Chartered Professional Accountants

Prince George, Canada

April 30, 2019

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018

d. Inventories of Supplies

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

e. 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:

	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		

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.

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 relate to the determination of collectability of accounts receivable, provisions for contingencies, landfill liabilities, sick leave accrual and prior year's 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 they arise.

SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED DECEMBER 31, 2018

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 equivalents

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

l. Long-term debt

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

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 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018, WITH COMPARATIVE INFORMATION FOR 2017

	2018	2017
Financial Assets		
Cash and cash equivalents (note 2)	\$ 23,391,715	\$ 24,391,130
Taxes and accounts receivable (note 3)	2,856,361	4,449,835
Property acquired for taxes	8,304	91,574
MFA debt reserve (note 4)	196,383	192,201
	26,452,763	29,124,740
Liabilities		
Accounts payable and accrued liabilities (note 5)	3,510,809	3,331,194
Landfill closure (note 6)	2,963,757	2,025,193
Deferred revenue (note 7)	1,634,308	1,840,584
MFA debt reserve	196,383	192,201
Municipal debt, net of sinking fund assets (note 8)	4,791,667	5,427,434
	13,096,924	12,816,606
Net Financial Assets	13,355,839	16,308,134
Non-Financial Assets		
Prepaid expenses	97,176	242,956
Inventory of supplies	302,785	323,139
Tangible capital assets (note 9)	96,238,425	90,167,220
	96,638,386	90,733,315
Accumulated Surplus	\$ 109,994,225	\$ 107,041,449
Represented By:		
Operating Fund	\$ 4,394,486	\$ 5,598,976
Statutory Reserves (Schedule 2)	14,152,980	16,702,687
Equity in tangible capital assets (note 10)	91,446,759	84,739,786
	\$ 109,994,225	\$ 107,041,449

Commitments and contingencies (note 16)

See accompanying notes.



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

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018, WITH COMPARATIVE INFORMATION FOR 2017

		2018 BUDGET		2018 ACTUAL		2017 ACTUAL
Revenues						
Net taxation and grants in lieu (note 11)	\$	17,154,834	\$	17,240,607	\$	16,849,869
Sale of services (note 12)		2,096,444		2,389,757		2,396,833
Government grants (note 13)		4,454,680		4,328,962		4,831,905
Donations		-		29,609		24,401
Services provided to other governments		1,004,793		1,457,011		1,330,198
Investment		225,000		466,426		229,232
Utility user fees (note 12)		2,477,896		2,388,865		2,277,492
MFA actuarial adjustment		-		259,728		234,787
Other		366,230		345,506		732,138
Total Revenues		27,779,877		28,906,471		28,906,855
Expenses						
General government services		2,400,662		2,236,032		2,148,553
Protective services		5,589,637		5,333,069		5,448,408
Transportation services		3,667,715		4,185,182		3,777,217
Solid waste management and recycling		1,498,557		2,555,706		1,692,245
Development services and planning		993,275		1,429,294		1,040,078
Recreation and cultural services		1,304,817		1,649,168		1,291,430
Operations		3,492,446		3,765,651		3,832,053
Other		-		41,766		-
Interest		227,973		228,061		227,138
Amortization		4,000,000		4,132,022		3,941,211
Total Expenses		23,175,082		25,555,951		23,398,333
Subtotal		4,604,795		3,350,520		5,508,522
Loss on sale of tangible capital assets		-		(397,743)		(101,385)
Annual Surplus		4,604,795		2,952,777		5,407,137
Accumulated surplus at beginning of year		107,041,449		107,041,449		101,634,312
Accumulated surplus at end of year	\$	111,646,244	\$	109,994,225	\$	107,041,449

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018, WITH COMPARATIVE INFORMATION FOR 2017

	2018 BUDGET	2018 ACTUAL	2017 ACTUAL
Annual Surplus	\$ 4,604,795	\$ 2,952,777	\$ 5,407,137
Tangible capital assets purchased	(15,065,305)	(10,650,422)	(7,876,867)
Amortization of tangible capital assets	4,000,000	4,132,022	3,941,211
Loss on sale of tangible capital assets	-	397,743	101,385
Proceeds on sale of tangible capital assets	-	49,451	70,691
	(6,460,510)	(3,118,429)	1,643,558
Use (acquisition) of supply inventory	-	20,354	16,540
Use (acquisition) of prepaid expense	-	145,780	(22,957)
	-	166,134	(6,417)
Increase (decrease) in net financial assets	(6,460,510)	(2,952,295)	1,637,141
Net financial assets at beginning of year	16,308,134	16,308,134	14,670,993
Net financial assets at end of year	\$ 9,847,624	\$ 13,355,839	\$ 16,308,134

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018, WITH COMPARATIVE INFORMATION FOR 2017

	2018	2017
Operating transactions		
Annual surplus	\$ 2,952,777	\$ 5,407,137
Non-cash items:		
Amortization	4,132,022	3,941,211
Prepaid expenses	145,780	(22,957)
Supply inventory	20,354	16,540
Loss on the sale of tangible capital assets	397,743	101,385
Actuarial adjustments	(259,728)	(234,787)
Changes to financial assets/liabilities:		
Taxes and accounts receivable	1,593,473	(340,453)
MFA cash deposits	(4,182)	(3,676)
Property acquired for taxes	83,270	(90,882)
Accounts payable and accrued liabilities	179,615	580,459
Landfill closure	938,564	181,419
Deferred revenue	(206,276)	281,194
MFA debt reserve	4,182	3,676
Cash provided by operating transactions	9,977,595	9,820,266
Capital transactions		
Acquisition of tangible capital assets	(10,650,422)	(7,876,867)
Proceeds from the sale of tangible capital assets	49,451	70,691
Cash applied to capital transactions	(10,600,971)	(7,806,176)
Financing transactions:		
Debt repayment	(376,039)	(376,038)
Cash applied to financing transactions	(376,039)	(376,038)
Decrease in cash and cash equivalents	(999,415)	1,638,051
Cash and cash equivalents at beginning of year	24,391,130	22,753,078
Cash and cash equivalents at end of year	\$ 23,391,715	\$ 24,391,130

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018, the balance of the funds was \$223,942 (2017-\$219,921).

2. Cash and Cash Equivalents

	2018	2017
Restricted cash and investments		
Statutory reserves	\$ 14,152,980	\$ 16,702,687
Deferred revenues	1,634,308	1,840,584
	15,787,288	18,543,271
Unrestricted cash and investments	7,604,427	5,847,859
Total cash and investments	\$ 23,391,715	\$ 24,391,130

3. Taxes and Accounts Receivable

	2018	2017
Property taxes	\$ 757,429	\$ 681,473
Federal government	386,004	1,235,177
Provincial government	438,492	364,707
Regional government	330,885	1,291,544
General	943,551	876,934
Total taxes and accounts receivable	\$ 2,856,361	\$ 4,449,835

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:

	2018	2017
Cash deposits *	\$ 196,383	\$ 192,201
Demand notes	345,819	345,819
	\$ 542,202	\$ 538,020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

5. Accounts Payable and Accrued Liabilities

	2018	2017
Federal government	\$ -	\$ -
Provincial government	5,374	35,799
General	3,370,684	3,090,021
Accrued interest	30,916	34,516
Deposits	103,835	170,858
Total accounts payable and accrued liabilities	\$ 3,510,809	\$ 3,331,194

6. Sanitary Landfill

	2018	2017
Landfill closure liability	\$ 2,963,757	\$ 2,025,193

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, 2018 based on a third party engineer's cost estimate dated February 14, 2019.

Operating Landfill	2018	2017
Estimated Future Closure and Post Closure Costs	\$ 8,562,750	\$ 6,161,062
Discount Rate	3.20%	3.00%
Present Value of Estimated Closure and Post Closure Costs	\$ 6,620,087	\$ 4,073,188
Expected year capacity will be reached	2040	2031
Capacity (tonnes)		
Used to Date	1,700,500	1,677,300
Remaining	806,427	549,200
Total	2,506,927	2,226,500
Percent Utilized	68%	75%
Liability Based on Percentage	\$ 4,490,541	\$ 3,068,474
City's Portion of Liability	66% \$ 2,963,757	\$ 2,025,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

7. Deferred Revenue

	2018	2017
Development Cost Charges	\$ 835,958	\$ 821,104
Other	798,350	1,019,480
	\$ 1,634,308	\$ 1,840,584

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	\$ 97,179	-	\$ 1,758	-	\$ 98,937
Water	397,419	-	7,189	-	404,608
Storm	183,261	-	3,315	-	186,576
Roads	143,200	-	2,591	-	145,791
Parks	45	-	1	-	46
Total	\$ 821,104	-	\$ 14,854	-	\$ 835,958

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.

	Opening Balance	Additions	Principal Payments	Actuarial Adjustment*	Closing Balance
General Capital					
MFA					
85 Fire Truck	\$ 691,757	-	\$ 23,048	\$ 20,412	\$ 648,297
95 New City Hall	3,819,900	-	160,766	76,304	3,582,830
99 Johnston Bridge	122,945	-	79,863	43,082	0
	4,634,602	-	263,677	139,798	4,231,127
Water Capital					
73 Southills Water	644,489	-	99,448	105,997	439,044
77 Southills Water	148,343	-	12,914	13,933	121,496
	792,832	-	112,362	119,930	560,540
Total	\$ 5,427,434	-	\$ 376,039	\$ 259,728	\$ 4,791,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

		Gross Debt	Reduction Due To Sinking Fund Assets	Closing Balance
General Capital				
MFA				
85	Fire Truck	\$ 1,100,000	\$ 451,703	\$ 648,297
95	New City Hall	6,000,000	2,417,170	3,582,830
99	Johnston Bridge	1,200,000	1,200,000	-
		8,300,000	4,068,874	4,231,127
Water Capital				
73	Southills Water	3,000,000	2,560,956	439,044
77	Southills Water	427,000	305,504	121,496
		3,427,000	2,866,460	560,540
Total		\$ 11,727,000	\$ 6,935,335	\$ 4,791,667

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

	2019	2020	2021	2022	2023
General	\$ 183,813	\$ 183,813	\$ 183,813	\$ 183,813	\$ 183,813
Water Funds	112,361	112,361	12,914	12,914	-
Total	\$ 296,174	\$ 296,174	\$ 196,727	\$ 196,727	\$ 183,813

* 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.

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 2019.

9. Tangible Capital Assets

	2018	2017
Land	\$ 11,977,396	\$ 11,880,880
Land Improvements	16,203,538	13,933,387
Buildings	11,019,008	11,398,346
Roads	21,578,290	19,172,704
Machinery & Equipment	3,833,626	3,491,857
Water Systems	16,656,365	13,169,259
Sewer Systems	2,767,916	2,878,512
Drainage Systems	9,813,214	9,889,502
Furniture, Equipment & Technology	886,233	896,033
Motor Vehicles	1,218,842	1,387,333
Construction-in-progress	283,997	2,069,406
Total Tangible Capital Assets	\$ 96,238,425	\$ 90,167,220

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 financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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:

	2018	2017
Equity in TCA, beginning of year	\$ 84,739,786	\$ 80,365,382
Add: Capital Acquisitions	10,650,422	7,876,867
Debt principal payment	376,039	376,038
Actuarial Adjustment	259,728	234,787
Less: Dispositions at NBV	(447,194)	(172,076)
Amortization	(4,132,022)	(3,941,211)
Equity in TCA, end of year	\$ 91,446,759	\$ 84,739,786

11. Net Taxation and Grants in Lieu

Taxes collected	2018	2017
Property Taxes	\$ 23,992,198	\$ 23,643,813
Special Assessments	185,000	184,000
1% Utility Tax	713,988	737,457
Grants in Lieu of Taxes	150,392	143,849
Penalties and Interest on taxes	173,177	132,384
Total Taxes Collected	\$ 25,214,755	\$ 24,841,503

Less transfers to other governments	2018	2017
School District	\$ 3,769,330	\$ 3,847,676
Regional District	2,975,717	2,925,827
Regional Hospital District	1,113,227	1,100,662
Other	115,874	117,469
Total Transfers	7,974,148	7,991,634

Net Taxes Available for Municipal Purposes	\$ 17,240,607	\$ 16,849,869
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12. Sale of Services and Utility User Rates

	2018	2017
Transit user fees	\$ 137,669	\$ 137,363
Airport user fees	272,689	378,271
Airport fuel sales	397,246	370,501
Garbage Fees	893,528	802,058
Rentals, licenses and permits	486,304	499,309
Other	202,321	209,331
Total Sale of Services	\$ 2,389,757	\$ 2,396,833

Water user rates	\$ 1,372,038	\$ 1,272,100
Sewer user rates	1,016,827	1,005,392
Total Utility User Fees	\$ 2,388,865	\$ 2,277,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

13. Government Transfers

		2018	2017
Federal:	Conditional transfers	\$ 1,629,202	\$ 1,390,967
	Unconditional transfers	-	-
Provincial:	Conditional transfers	1,748,894	1,365,061
	Unconditional transfers	482,215	460,137
Regional/Other:	Conditional transfers	468,651	1,615,740
	Unconditional transfers	-	-
Total Government Transfers		\$ 4,328,962	\$ 4,831,905

14. Expenses by Object

	2018	2017
Goods and Services	\$ 3,847,242	\$ 3,863,856
Salary, Wages & Benefits	9,456,796	8,939,870
RCMP Contract	2,265,694	2,579,845
Contractors/Subcontractors	3,488,450	2,471,906
Utilities - Electricity/Natural Gas	847,987	902,874
Other	980,330	181,419
Amortization	4,132,022	3,941,211
Insurance	309,369	290,214
Interest and Finance Charges	228,061	227,138
Total Expenses	\$ 25,555,951	\$ 23,398,333

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2017, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 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 is then adjusted to the extent there is amortization of any funding deficit.

The most recent actuarial valuation as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The City of Quesnel paid \$869,086 (2017 -\$834,298) for employer contributions to the plan in fiscal 2018.

The next valuation will be as at December 31, 2018, with results available in 2019.

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. 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.

e. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

17. 2018 Budget

The budget amounts presented throughout these financial statements represent the five year financial plan approved by the Mayor and Council on April 17, 2018.

On February 5, 2019, an amendment to the five year financial plan was adopted by Council to reflect additional funds used for capital projects.

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 2015 and terminates December 31, 2019. The total income associated with fiscal year 2019 is \$953,298.20.

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.

CONSOLIDATED TANGIBLE CAPITAL ASSETS

AS AT DECEMBER 31, 2018 | SCHEDULE I

	Cost				Accumulated Amortization				Net Book Value 2018	Net Book Value 2017
	Opening Balance	Additions	Disposals	Ending Balance	Open Balance	Amortization	Disposals	Ending Balance		
Land	\$ 11,880,880	\$ 96,516	-	\$11,977,396	-	-	-	-	\$ 11,977,396	\$ 11,880,880
Land Improvements	24,280,922	2,984,861	(415,064)	26,850,719	10,347,536	572,548	(272,902)	10,647,181	16,203,538	13,933,386
Buildings	19,086,393	125,465	-	19,211,858	7,688,047	504,802	-	8,192,849	11,019,008	11,398,346
Roads	34,680,243	3,495,381	(574,285)	37,601,339	15,507,538	860,395	(344,884)	16,023,049	21,578,290	19,172,705
Machinery & Equipment	7,876,729	915,265	(148,511)	8,643,483	4,384,872	516,178	(91,193)	4,809,857	3,833,626	3,491,858
Water	28,881,608	4,136,032	(492,710)	32,524,930	15,712,349	630,614	(474,398)	15,868,565	16,656,365	13,169,259
Sewer	8,243,009	34,725	-	8,277,734	5,364,497	145,320	-	5,509,817	2,767,916	2,878,512
Drainage	16,194,526	360,274	(11,154)	16,543,646	6,305,024	436,562	(11,154)	6,730,432	9,813,214	9,889,502
Furniture, Eqpt & Tech	1,682,686	164,385	(84,140)	1,762,931	786,653	174,185	(84,140)	876,698	886,233	896,033
Motor Vehicles	6,222,372	122,927	(617,341)	5,727,958	4,835,039	291,418	(617,341)	4,509,116	1,218,842	1,387,333
Construction in Progress	2,069,406	(1,785,409)	-	283,997	-	-	-	-	283,997	2,069,406
	\$ 161,098,775	\$ 10,650,422	\$ (2,343,205)	\$169,405,990	\$ 70,931,553	\$ 4,132,022	(\$1,896,012)	\$ 73,167,565	\$ 96,238,425	\$ 90,167,222

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, 2018 | SCHEDULE 2

	Opening Balance	Transfers In	Interest Earned	Transfers Out	Closing Balance
Capital Reinvestment	\$ 4,512,891	\$ 2,720,624	\$ 62,477	\$ (4,839,302)	\$ 2,456,690
Other Capital Reserves	648,207	300,000	14,205	(25,962)	936,450
General Capital	2,364,104	1,388,553	42,514	(1,416,628)	2,378,543
Water	3,995,695	829,201	61,486	(2,023,020)	2,863,362
Sewer	2,850,632	482,306	55,932	-	3,388,870
West Quesnel Land Stability	72,399	-	1,126	(20,345)	53,180
Gas Tax	1,108,301	497,293	18,791	(636,426)	987,959
Tax Stabilization	1,136,510	88,117	19,813	(170,714)	1,073,726
Land Sales	11,124	-	201	-	11,325
Park Reserve	2,824	-	51	-	2,875
	\$ 16,702,687	\$ 6,306,094	\$ 276,596	\$ (9,132,397)	\$ 14,152,980

SEGMENTED STATEMENT

YEAR ENDED DECEMBER 31, 2018 | SCHEDULE 3

	Actual 2018						
	General	Solid Waste	Water	Sewer	Transit	Airport	Total
Revenues							
Property taxes and grants in lieu	\$ 15,670,939	\$ -	\$ 742,587	\$ 216,655	\$ 403,418	\$ 207,008	\$ 17,240,607
Sale of services	551,447	893,528	110,925	26,254	137,669	669,934	2,389,757
Government grants	2,645,816	-	1,376,550	-	-	306,596	4,328,962
Donations	29,609	-	-	-	-	-	29,609
Services provided to other governments	961,571	403,972	-	-	91,468	-	1,457,011
Investment income	363,841	-	51,498	41,223	5,409	4,455	466,426
Utility user fees	-	-	1,372,038	1,016,827	-	-	2,388,865
MFA actuarial adjustment	139,798	-	119,930	-	-	-	259,728
Other	328,606	-	-	-	-	16,900	345,506
Total Revenues	\$ 20,691,627	\$ 1,297,500	\$ 3,773,528	\$ 1,300,959	\$ 637,964	\$ 1,204,893	\$ 28,906,471
Expenses							
General government services	2,236,032	-	-	-	-	-	2,236,032
Protective services	5,333,069	-	-	-	-	-	5,333,069
Transportation services	4,185,182	-	-	-	-	-	4,185,182
Solid waste management and recycling	-	2,555,706	-	-	-	-	2,555,706
Development services and planning	1,429,294	-	-	-	-	-	1,429,294
Recreation and cultural services	1,649,168	-	-	-	-	-	1,649,168
Operations	181,996	-	1,261,092	695,507	610,487	1,016,569	3,765,651
Other	41,766	-	-	-	-	-	41,766
Interest expense	157,588	-	70,473	-	-	-	228,061
Amortization	3,082,110	-	643,734	158,359	-	247,819	4,132,022
Total Expenses	18,296,205	2,555,706	1,975,299	853,866	610,487	1,264,388	25,555,951
Subtotal	2,395,422	(1,258,206)	1,798,229	447,093	27,477	(59,495)	3,350,520
Loss on sale of tangible capital assets	(379,431)	-	(18,312)	-	-	-	(397,743)
Annual surplus (deficit)	\$ 2,015,991	\$ (1,258,206)	\$ 1,779,917	\$ 447,093	\$ 27,477	\$ (59,495)	\$ 2,952,777