

DECISION/DIRECTION NOTE

Title: Approval of the December 31, 2018 Audited Financial Statements

Date: November 5th, 2019

Report To: Mayor and Council

Councillor and Role: ALL

Ward: N/A

Decision/Direction Required: Approval of the December 31st, 2018 Audited Financial Statements

Discussion – Background and Current Status:

Attached for the approval of Council are the December 31st, 2018 audited financial statements. The auditors have issued a clean audit report on the statements meaning they present fairly, in all material respects, the financial position of the City and the results of its operations, changes in net debt and cash flows for the year.

This year the process of finalizing the audit was delayed largely due to the loss of a key staff resource at St. John's Sports & Entertainment Limited (SJSEL). This combined with the inability to fill this position for an extended period meant the audit of SJSEL – which forms a part of these consolidated financial statements – could not be completed in a timely manner.

It is important to note that these statements are different from the City's budget. First, these statements are prepared on a consolidated basis meaning they represent the results for not only the City itself, but also the financial results of St. John's Sports & Entertainment Limited and the St. John's Transportation Commission. The City budget shows the contribution toward the net operating cost of these entities whereas these statements reflect the total revenues, expenses, assets and liabilities on a gross basis.

Secondly, these statements are prepared using the accrual basis of accounting whereas the City's budget is prepared on a cash basis. Under these two alternate approaches there are key differences in how significant items such as debt charges, amortization of tangible capital assets, post-retirement benefits, as well as capital contributions from developers and other levels of government are accounted for. The cash results will be presented to Council within the very near future of these statements being approved by Council.

Significant Financial Statement items

There were two significant financial statement issues this year in relation to capital assets and the liability at the landfill.

ST. JOHN'S

As disclosed in Notes 2 and 3 to the financial statements capital assets underwent substantial review in the current year. Staff are continuously reviewing estimates and processes to assess if they need to be revised and / or improved upon. This year the process revealed two items in terms of adjustments which needed to be made to capital assets. The first was an increase in the useful life of street surfacing from 15 to 25 years and the establishment of a useful life and amortization policy for the roadbed which had been previously classified as land and not amortized. The effect of this change was applied prospectively which resulted in an increase in amortization expense of \$18.8M over and above what would have normally been recorded.

The costs for the ultimate closure of the landfill are recognized and recorded as an expense in the financial statements on an annual basis. During this year's audit it was discovered the costs being accrued to date were insufficient and a higher liability would be required to be in line with Public Sector Accounting Standards. This resulted in a substantial jump in the liability of \$4.9M. As mentioned above regarding the difference between these accrual statements and the cash-based budget – this increased expense has no impact on the budget for Robin Hood Bay.

2018 Results

Results of Operations

The results for the year show a surplus of \$9.2M – up from \$4.4M in 2017. Revenue increased by a total of \$32.4M. Much of this increase is comprised of capital contributions as developed land is turned over to the city and capital contributions from both the federal and provincial governments in relation to capital works programs.

	2018	2017	Increase
Federal Capital Grant	11,876,248	2,971,145	8,905,103
Provincial Capital Grant	17,553,146	2,323,899	15,229,247
Capital from Developers	4,061,097	65,349	3,995,748
			\$ 28,130,098

Total expenditures increased by \$27.6M. Some of the more notable changes are as follows:

	2018	2017	Increase
General Government	49,247,091	52,873,380	(3,626,289)
Protective Services	38,409,460	37,033,335	1,376,125
Environmental Health Services	49,414,012	43,092,757	6,321,255
Amortization and allowances	64,961,235	43,537,850	21,423,385
			\$ 25,494,476

The above changes are largely attributable to:

1. **General Government** – decrease is due to one-time capital expenditures in relation to work done on the City Hall Annex.

2. **Protective Services** – increase is attributable to the increased cost of fire protection particularly overtime and protective clothing.
3. **Environmental Health Services** – this increase is attributable to the increased landfill liability as discussed above and acquisition of bins for automated garbage collection
4. **Amortization and Allowances** – result of change in estimates in relation to capital assets as discussed above.

It is important to remember the surplus of \$9.2M is not on a cash basis and therefore is not money available to be used for other purposes.

Financial Position

The statement of net debt highlights the City's net financial position. At the end of 2018 the City's net debt decreased by \$2.7M – a change of only 0.57% from the 2017 balance. This result is not surprising given a balanced cash budget and the fact there were no new debt borrowings throughout 2018.

Key Considerations/Implications:

1. Budget/Financial Implications

2. Partners or Other Stakeholders

3. Alignment with Strategic Directions/Adopted Plans

This is in line with being effective as well as progressive and responsive.

4. Legal or Policy Implications

5. Engagement and Communications Considerations

The financial statements will be posted on the City's website for public viewing

6. Other Implications

N/A

Recommendation: It is recommended the 2018 audited financial statements be approved.

Prepared & Approved by: Derek Coffey, Deputy City Manager – Finance & Administration