Agenda – Executive Policy Committee – May 7, 2019

AUDIT COMMITTEE

Item No. 1 Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2018

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2018 and direct the Chief Financial Officer to submit these to Council with the City's Annual Report for information, and

2. That Audit Committee receive as information the attached Audit Findings Report prepared by KPMG LLP.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2018

Critical Path: Audit Committee

AUTHORIZATION

Author	Department Head	CFO	CAO
P. Olafson	M. Ruta	M. Ruta	D. McNeil

EXECUTIVE SUMMARY

This report presents the City's 2018 consolidated financial statements that demonstrate Council's fiscally prudent and responsible plans to invest in key infrastructure including roads and services while presented with significant financial challenges associated with reduced Provincial funding.

Council-approved investments in capital assets totaled $614 million in 2018. Construction resulted in over $176 million of rehabilitated and newly constructed local and regional streets. The Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass, Transit garage and sewage treatment plant expansions, and Waverley Underpass projects are also well underway.

The financial statements attached report a small surplus (revenues greater than expenses) of $14 million before capital-related revenues.

At the Standing Policy Committee on Finance meeting of February 11, 2019, it was reported the General Revenue Fund incurred a surplus of $19 million at December 31, 2018. The consolidated financial statements included in this report include the General Revenue Fund but are also prepared in accordance with Canadian public sector accounting standards. As such, these consolidated financial statements include all activities under the control of the City of Winnipeg (eg./Water and Waste utilities, Capital, Transit, SOAs, etc.). Further, they are prepared on a full accrual basis meaning unfunded liabilities are accounted, as well as amortization of tangible capital assets.

While investment in City infrastructure continues to be a priority, the City has achieved a disciplined balance for capital spending with increased revenues and responsible long-term borrowing. The City's credit ratings affirm solid fiscal performance (Standard and Poor's as AA; Moody's Investors Services as Aa2), citing the City's disciplined fiscal planning and positive operating outcomes, achieved through effective use of multi-year planning.

RECOMMENDATIONS

1. That Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2018 and direct the Chief Financial Officer to submit these to Council with the City's Annual Report for information, and

2. That Audit Committee receive as information the attached Audit Findings Report prepared by KPMG LLP.

3. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Section 100(i) of *The City of Winnipeg Charter* requires the Chief Financial Officer to submit to Council, within six months of the fiscal year-end of the City, a report on the financial position of the City for the end of its fiscal year. Further, under section 100(j), the Chief Financial Officer will submit that report to the Province of Manitoba, also within six months of the fiscal year-end.

IMPLICATIONS OF THE RECOMMENDATIONS

The City will meet these requirements of *The City of Winnipeg Charter.*

HISTORY/DISCUSSION

The City of Winnipeg annually prepares consolidated financial statements, including notes and schedules thereto. These are prepared in accordance with Canadian public sector accounting standards recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. KPMG LLP will be issuing an unqualified audit opinion on the consolidated financial statements.

The City's 2018 consolidated financial statements reflect the financial position and the results of operations of The City of Winnipeg, which includes organizations controlled by the City. They report on Council's fiscally prudent and responsible plans to invest in key infrastructure including roads and services while presented with significant financial challenges associated with reduced Provincial funding.

This past year, Council-approved investments in capital assets totaled $614 million in 2018. Construction resulted in over $176 million of rehabilitated and newly constructed local and regional streets. The Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass, Transit garage and sewage treatment plant expansions, and Waverley Underpass projects are also well underway.

The City's consolidated revenues (excluding other capital-related revenues) totaled $1.633 billion (increase of $64 million from 2017) while consolidated expenses totaled $1.619 billion (increase of $36 million from 2017.) Overall, the financial statements report a small surplus (revenues greater than expenses) of $14 million before other capital-related revenues.

At the Standing Policy Committee on Finance meeting of February 11, 2019, it was reported the General Revenue Fund incurred a surplus of $19 million at December 31, 2018. The consolidated financial statements included in this report include the General Revenue Fund but are also prepared in accordance with Canadian public sector accounting standards. As such, these consolidated financial statements include all activities under the control of the City of Winnipeg (eg./Water and Waste utilities, SOAs, etc.). Further, they are prepared on a full accrual basis meaning unfunded liabilities are accounted, as well as amortization of tangible capital assets.

Revenues

Tax revenues increased $34 million from 2017, due in part to assessment growth and a 2.33% tax increase. With 2% of that increase devoted to equally fund the regional and local streets renewal programs, the remainder of the tax increase is dedicated to fund future payments for the Southwest Rapid Transitway (Stage 2) project. As well, additional tax revenue from supplementary tax bills issued during the year resulted in approximately $10 million.

Sales of services and regulatory fees are $46 million higher than 2017. This is due in part to higher sewer revenues attributable to both increased rates and consumption. Increased Transit revenues resulting from a 25 cent fare increase and a full year of impact fees also contributed to the increase.

Land sales and other revenue decreased $19 million mainly due to fewer land sales in 2018.

Government transfers (operating) are comparable to the previous year. This is expected with the Province freezing its municipal operating and public safety grants.

Government transfers (capital) have increased $25 million over 2017. This is the result of a $45 million increase in transfers from the Government of Canada under its Public Transit Infrastructure Fund program and funding of the Waverley Underpass project. Transfers from the Province of Manitoba have decreased $20 million.

In the City's 2018 Capital Budget, Council approved $50 million of the province's capital commitment to support roads projects. This approval was pursuant to the province's five year roads' commitment made to the City in 2014, with 2018 being the final year. The province has allocated $10 million of its 2018 capital commitment to roads and has indicated it will not be funding the remaining $40 million. These consolidated financial statements do not include the $40 million in government transfers (capital) revenue.

Expenses

Public Works expenses have increased by $17 million over 2017. This is attributable to increased tangible capital asset amortization, snow clearing and garbage collection expenses.

As well, Utility expenses increased $16 million. Higher salary and benefit costs, diesel fuel and other operating expenses contributed to this increase.

The overall annual surplus of $295 million is attributable to revenue from government transfers and tangible capital asset and other capital contributions. This revenue does not produce cash resources for the City's general operations. It represents amounts received and invested in the City's tangible capital assets.

Budget

Included in the Council approved 2019 budget is the 2018 consolidated budget, the source of budget information disclosed in these financial statements. This disclosure is required by the aforementioned Canadian public accounting standards and is another source of transparency and accountability for governments. For 2018, the consolidated annual surplus exceeded budget by $18 million.

Government transfer capital-related revenues were $41 million less than budget, offset by expense savings. This is attributable primarily to the reduced Provincial government transfer revenues resulting from the changed funding model.

The City's net financial liabilities have increased from $631 million to $679 million. Net financial liabilities are an indicator of how much a government will be relying on future revenues to fund current services and infrastructure. The City's credit ratings affirm solid fiscal performance (Standard and Poor's as AA; Moody's Investors Services as Aa2). In its credit rating reports issued in July 2018 and April 2019 affirming the City's AA credit rating, Moody's Investors Services cites the City benefits disciplined fiscal planning and positive operating outcomes, achieved through effective use of multi-year planning.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 23, 2019

Project Name:

Annual Consolidated Financial Statements of the City of Winnipeg, for the year ended December 31, 2018.

COMMENTS:

This report is for information purposes.

Approved by Kaleigh Wills CPA, CA

Manager of Financial Reporting and Accounting Services

CONSULTATION

This Report has been prepared in consultation with:

All City of Winnipeg Departments and Agencies (in preparing the consolidated financial statements)

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity Direction 1 Provide Efficient and Focused Civic Administration and Governance

This report supports demonstration of accountability by the City's public service through reporting

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Kaleigh Wills
Date: April 23, 2019
File No: 2018 Year End

Attachments: