Minutes – Executive Policy Committee – May 22, 2020

AUDIT COMMITTEE

Item No. 11 Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2019

EXECUTIVE POLICY COMMITTEE DECISION:

The Executive Policy Committee, in its capacity as the Audit Committee, concurred in the recommendation of the Winnipeg Public Service:

1. That Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2019 and direct the Chief Financial Officer to submit these to Council with the City's Annual Report for information.

2. That Audit Committee receives 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.

DECISION MAKING HISTORY:

Moved by Councillor Gillingham,

That the recommendation of the Winnipeg Public Service be concurred in.

Carried

ADMINISTRATIVE REPORT

Title: Annual Consolidated Financial Statements of The City of Winnipeg, for the year ended December 31, 2019

Critical Path: Audit Committee

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Ruby	P. Olafson	P. Olafson, Interim CFO	M. Ruta, Interim CAO

EXECUTIVE SUMMARY

This report presents the City's 2019 consolidated financial statements that demonstrate Council's fiscally prudent and responsible plans to deliver services daily to the residents of Winnipeg and invest in key infrastructure including roads. During the year, the City faced many financial challenges including a historic snow fall in the month of February and costs associated with the unprecedented October storm event.

Council approved spending on capital assets totaled $874 million in 2019. Construction resulted in $365 million in roads additions as well as $116 million in additions to bridges and other structures. Major capital projects available for service during the year include the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass as well as the Waverley Underpass. Additional capital investments include the Transit garage and ongoing sewage treatment plant expansions.

The financial statements attached report a deficit (expenses greater than revenue) of $21 million before capital-related revenues ("operating deficit"). However, the deficit is $15 million better than budgeted. The overall annual surplus after capital-related revenues attributable to government transfers and tangible capital asset and other capital contributions is $436 million. 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.

At the Standing Policy Committee on Finance meeting of February 7, 2020, it was reported the General Revenue Fund incurred a deficit of $1 million at December 31, 2019. The consolidated financial statements attached to 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.

It should also be noted that the recent COVID-19 pandemic occurred subsequent to this reporting period and has no accounting impact on these consolidated financial statements.

RECOMMENDATIONS

1. That Audit Committee approve the attached consolidated financial statements of The City of Winnipeg for the year ended December 31, 2019 and direct the Chief Financial Officer to submit these to Council with the City's Annual Report for information.

2. That Audit Committee receives 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, the City's external auditor, will be issuing an unqualified audit opinion on the consolidated financial statements.

The City's 2019 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 while presented with significant financial challenges associated with historic snowfall and the October storm event.

This past year, Council spending on investments in capital assets totaled $874 million. Construction resulted in $365 million in roads additions as well as $116 million in bridges and other structures. Major capital projects available for service during the year include the Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass as well as the

Waverley Underpass. Additional capital investments include the Transit garage and ongoing sewage treatment plant expansions.

The City's consolidated revenues (excluding other capital-related revenues) totaled $1.683 billion (increase of $50.4 million from 2018) while consolidated expenses totaled $1.704 billion (increase of $84.9million from 2018.) Overall, the financial statements report a deficit (expense greater than revenues) of $21 million before other capital-related revenues.

At the Standing Policy Committee on Finance meeting of February 7, 2020, it was reported the General Revenue Fund incurred a deficit of $1 million at December 31, 2019. The consolidated financial statements attached to 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.

It should also be noted that the recent COVID-19 pandemic occurred subsequent to this reporting period and has no accounting impact on these consolidated financial statements.

Revenues

Taxation revenues increased primarily due to assessment roll growth and a 2.33% property tax increase (which comprises 1% tax increase for Regional Street Renewal Program, 1% for Local Street Renewal Program, and .33% for Bus Rapid Transit).

Land sales and other revenue increased $14 million mainly due to higher land sales in 2019 compared to 2018.

Government transfers (capital) have increased $193 million over 2018. The increase is primarily a result of funding received from both Province of Manitoba and Government of Canada to support the construction of the Southwest Rapid Transit (Stage 2) and the Pembina Highway Underpass project.

Expenses

Public Works expenses have increased by $34 million over 2018. The increase is primarily the result of costs associated with the historic snowfall in February 2019 and the unprecedented October storm event.

Utility operating and protection and community services increases totaling $36 million is primarily due to increased salary and benefit costs associated with collective agreement and merit increases, along with other expense increases.

The overall annual surplus of $436 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 2020 budget is the 2019 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 2019, the consolidated operating deficit was $15 million less compared to the 2019 consolidated budget.

Government transfer capital-related revenues were $82 million higher than budget. This is attributable primarily to provincial funding support for the Southwest Rapid Transit (Stage 2) and Pembina Highway Underpass capital project and the additional federal tax gas revenue received.

The City's net financial liabilities have increased from $679 million to $842 million, which is mainly attributable to capital acquisitions, in part funded by issuance of additional debt. 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 November 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:** May 1, 2020

Project Name:

Annual Consolidated Financial Statements of the City of Winnipeg, for the year ended December 31, 2019.

COMMENTS:

This report is for information purposes.

"Original signed by:
Carlos Matias, CPA, CGA
Acting 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

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Carlos Matias
Date: May 1, 2020
File No: 2019 Year End

Attachments: