

## 2005 Municipal Financial Statements and Annual Report

May 19, 2006

### To Mayor Kinsley and Members of Council:

I hereby submit the Municipal Financial Report for the City of Prince George for the fiscal year ended December 31, 2005, pursuant to section 167 of the British Columbia Community Charter. The annual report includes the Consolidated Financial Statements, the Auditor's Report and supplementary schedules. In accordance with the PSAB standards, the City's consolidated statements include the Prince George Public Library and Initiatives Prince George Development Corporation (Other Controlled Entities). Finance staff has strived to provide the readers and users of our financial statements with summarized information that clearly presents the City's financial position and results for 2005 in comparison to 2004.

The City's 2005 Financial Statements and Annual Report has two sections, which are as follows:

### *1) Financial Information*

This section contains the Auditors' Report, and the City's Consolidated Financial Statements with supporting notes. The consolidated statements reflect the City's overall financial position as at December 31, 2005, and the results of its operations and changes in its financial position for the year, with comparative amounts for 2004. Non-consolidated results are shown by fund in the accompanying schedules. The Notes to the Consolidated Financial Statements provide further detail as to specific accounting policies and the composition of certain financial numbers, and should be read in conjunction with the statements. The budgetary figures reported are those that were approved by Council in the annual 2005 budget bylaw, and not subsequent budget amendments approved by Council.

### *2) Supplementary Financial Information*

This section contains the Auditors' Report and schedules of information that are supplementary to the consolidated financial statements. Non-consolidated results are shown by fund for financial position and financial activities. Details of balances in reserve funds, capital asset equity, and trust funds are provided as well as additional detailed information on consolidated revenues, expenditures and long-term debt.

## 2005 Highlights

### Exhibition Grounds Facilities

In 2005 as part of a multi-year project, improvements were made to the facilities at Exhibition Park. These improvements included replacement of the ice plants in KinCentre's 1, 2, & 3, improvements to the community user spaces and the completion of the atrium to the CN Centre.

### Recreation Place User Relocation

Also a multi-year project, the relocation of user groups from the Recreational Place property to other sites continued in 2005. Senior men's baseball and the Horseshoe club relocated to Carrie Jane Gray Park, while mixed slo-pitch moved to the new Nechako Park where two championship caliber fields were constructed.

### Terasen Gas Inc

2005 was the first operational year for the Terasen Gas Lease In – Lease Out agreement. The City of Prince George entered into a 35-year capital lease agreement with Terasen Gas Inc for the natural gas distribution system within the municipality. Through an operating lease agreement, Terasen Gas Inc continues to operate the gas distribution system. The capital lease is financed through debenture debt, which will be paid by the operating lease proceeds over the term of the agreement. In 2005 the operating lease provided revenue in excess of debt payments of 2.4 million; the City allocated \$550,000 toward additional road rehabilitation projects. The balance of funds are maintained in the Terasen Legacy Reserve.

### Automated Garbage Collection

In 2005 the City completed the implementation of the Automated Garbage Collection Service for the remaining 16,000 residential customers. Program benefits include less litter, fewer hours lost due to lifting injuries, more collections per vehicle unit and an improved user pay fee structure.

### Accumulated Operating Fund Surpluses

The City attempts to maintain General Operating Fund surplus between: a) an amount sufficient to fund outstanding taxes and utility charges, as well as inventory on hand; and b) 25% of General Operating Fund expenditures. At the end of 2005, the minimum point of the City's accumulated surplus guideline was 6.1

# Prince George Celebrating 90 Years



## *2005 Highlights, continued*

million. The accumulated surplus level for 2005, excluding Other Controlled Entities, in the General Operating Fund was approximately \$7.4 million. In 2004 the minimum point was \$6.4 million and the accumulated surplus level was \$7.0 million. The improving economy in the City and an emphasis on cost control has allowed management to improve the City's financial position over the past year while continuing to provide quality service.

The City also attempts to maintain and/or reach Sewer and Water Operating Fund surplus levels at approximately 25% of operating expenditures over or within a five-year period. The actual accumulated surplus for the Water Operating Funds was \$1.6 million at the end of 2005 compared to our target of 1.1 million. The actual accumulated surplus for the Sewer Operating Fund was \$1.5 million at the end of 2005 compared to our target of \$1.1 million.

### Reserve Fund Levels

Total Reserve Fund levels were approximately \$40.1 million at the end of 2005, compared to \$43.2 million at the end of 2004. The decrease in the reserve fund levels is primarily due to investment in capital funding.

### Investment Earnings

The City of Prince George invests funds that are in excess of current financial obligations. The investment portfolio is largely held with the Municipal Finance Authority due to competitive rates and ease of administration. Investment earnings in 2005 were approximately 1.4 million compared to 2.1 million in 2004. This is a reflection of lower interest rates available in 2005.

### Capital Projects

Capital spending, including capital work in progress, in 2005 totaled approximately \$34.8 million. This consisted of \$22.7 million of General Capital and Land Capital, \$1.0 million of Sewer Capital, and \$11.1 million of Water Capital. Major projects of note were: Hart/Nechako Water Supply-\$8,322,000; Recreation Place Facilities relocation-\$4,147,000; Exhibition Grounds Facilities-\$2,487,000; Automated Solid Waste Collection-\$2,472,800; Nechako Reservoir-\$1,450,000; Pine Beetle Control-\$1,083,000; Computer Costs-\$1,082,500; Vehicle replacements-\$557,000; Elder Citizen Recreation Centre -\$551,000; Various Road Works-\$2,743,000.

## *2005 Highlights, continued*

### External Long-Term Debt

Principal long-term debt (including capital leases) outstanding was approximately \$117.8 million at the end of 2005 (\$94.7 million General Capital Fund, \$13.3 million Water Capital Fund, and \$9.8 million Sewer Capital Fund), compared to \$110.2 million at the end of 2004. The Terasen Gas Inc capital lease of \$61 million is included in 2005 long-term debt.

### Financial Management and Control

The City prepares multi-year operational and capital expenditure plans each year that represent the programs that Council wishes to see implemented. The City Manager is responsible to provide overall guidance with respect to Council's direction concerning service and the City's operational and capital expenditure plans. Departments are responsible for developing and managing the budgets.

The Financial Services Division within the Corporate Services Department is responsible for the preparation of the financial statements. While there is close consultation with the City's auditors, management is ultimately responsible for decisions relating to the form and content of these statements and for the treatment and reporting of transactions.

## *Significant Financial Management Policies*

### 1) Revolving Reserve Fund

The City operates the Endowment Reserve Fund as a "revolving fund". Appropriations from this Reserve are treated much like debt, and annual contributions or transfers are made from the General Operating Fund to repay the monies appropriated, with interest, over a period of 5 to 20 years, depending upon the size of the appropriation. The appropriations from the Reserve are referred to as "internal debt", and are reflected in the financial statements. Interest rates and repayment schedules are occasionally adjusted to moderate the impact that the creation of new "internal debt" may have on the annual budget.

Repayment of monies appropriated from this Reserve is not a legal requirement.

## *Significant Financial Management Policies, continued*

However, the policy of repayment of the appropriations has been followed, as this Reserve Fund provides an attractive alternative to borrowing money on the open market because repayment schedules are more easily tailored to current budget needs and because interest and principal repayments can be deferred in the event of economic need.

### 2) Financing of Utilities

The City's policy is to not use general taxation to fund the provision of water and sanitary sewer services, or the operation of the solid waste collection service. These services are financed by a combination of user charges and parcel taxes applicable only to those who benefit from the service(s), and government grants.

A management fee is included in the cost structure of these services so that the users of the services provide a contribution to the City's general overhead costs including the provision of facilities, office, and general corporate services such as human resources and accounting.

### 3) Land Development

A program of land acquisition, development and sales has been in place for many years. In general, the objective is to ensure that there is a reasonably balanced inventory of residential and commercial lots for future development. The land development program is completely self-funding, and as such, no contribution is made to the program from Operating Funds. Profits made from land development are used to finance specific capital projects such as recreation and cultural facilities, roads, and other infrastructure required to support the City's operations.

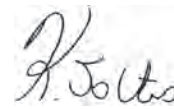
## *Summary*

Compiling financial statements and annual report information requires the input and assistance of numerous City staff members throughout the year and at year-end. We would like to thank all of the City staff members who contribute to this process on an on-going basis.

Respectfully submitted,



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Manager Financial Services



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Director Corporate Services