



VIA EFILE

May 11, 2017

NELSON HYDRO 2017 RATE APPLICATION
EXHIBIT A-5

Mr. Alex Love
General Manager
Nelson Hydro
Suite 101, 310 Ward Street
Nelson, BC V1L 5S4

Dear Mr. Love:

Re: Nelson Hydro
Project No. 3698904 / G-27-17
2017 Rate Application

Further to British Columbia Utilities Commission Order G-47-17 establishing the regulatory timetable with respect to the above noted application, enclosed please find the Commission's Information Request No. 2. In accordance with the regulatory timetable, please file your responses with the Commission on or before Thursday, May 25, 2017.

Yours truly,

Original signed by Katie Berezan for:

Patrick Wruck

SW/dg
Enclosure

**Nelson Hydro
2017 Rate Application**

**14.0 Reference: UTILITY FINANCIAL INFORMATION
Exhibit B-3, Cover Letter, pp. 1–2
Utility cost analysis**

Nelson Hydro states on page 1 of the cover letter to the British Columbia Utilities Commission (BCUC) Information Request (IR) No. 1 responses: “For the information of the BCUC, Nelson has had utility cost analysis performed in the past, and has consistently seen that the rural zones are below 100% revenue: cost coverage, while urban zones are above 100%.”

Nelson Hydro further states that it “has been working to prepare a utility focused Cost of Service study, which includes the need to organize the Nelson Hydro accounts into a more traditional utility accounting format.”

14.1 Is Nelson Hydro preparing the Cost of Service study internally, or has the utility obtained assistance/support from an external consultant or third party?

14.1.1 If Nelson Hydro is not utilizing an external consultant or third party to assist with the preparation/analysis of the Cost of Service study, please explain why not.

14.2 When was the last time Nelson Hydro completed a utility cost analysis?

14.2.1 Please explain if Nelson Hydro utilized an external consultant/third party when performing this previous utility cost analysis.

14.2.2 Please discuss whether Nelson Hydro would be able to provide the results of this previous cost analysis at the time it files the upcoming Cost of Service study with the Commission.

**15.0 Reference: UTILITY FINANCIAL INFORMATION
Exhibit B-3: Cover Letter, pp. 1–2; BCUC IR 10.2
Exhibit B-2, Supplemental Information Filing, Question 7.1
City of Nelson 2015 Statement of Financial Information, Attachment 1
Utility rate base and depreciation**

The City of Nelson provides its audited 2015 Statement of Financial Information (SOFI) on its website. The 2015 SOFI is provided as Attachment 1 to the Commission’s IR No. 2 for ease of reference.

15.1 If available, please provide the 2016 audited SOFI.

In response to Question 7.1 of the Supplementary Information Filing, Nelson Hydro provided a breakdown of the electrical utility capital assets by category, which showed that for 2015, the net capital asset total was \$36,123,584.

15.2 Please provide the total net capital assets for 2016 (unaudited if the audited is not available) and the forecast/budgeted total net capital assets for 2017.

Nelson Hydro was asked in BCUC IR 10.2 to “please provide the 2017 depreciation expense amount.” Nelson Hydro does not appear to have responded to this IR.

In the City of Nelson’s 2015 SOFI, in Note 19 – Segmented Information, the amortization expense for Nelson Hydro for 2015 is shown to be \$939,197. Further, Note 1(h) states: “Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put in to service.”

15.3 Please confirm, or explain otherwise, that either Nelson Hydro or the City of Nelson tracks the amortization expense applicable to the Nelson Hydro capital assets.

15.3.1 If confirmed, please provide the 2014 through 2016 total amortization expense for Nelson Hydro’s capital assets and the forecast 2017 amortization expense.

16.0 **Reference: UTILITY FINANCIAL INFORMATION**
Exhibit B-3: Cover Letter, pp. 1–2; BCUC IR 13.1-13.3
BCUC Generic Cost of Capital (GCOC) Stage 1 Decision dated May 10, 2013
BCUC GCOC Stage 2 Decision dated March 25, 2014
Utility rate base and return on equity

In response to BCUC IRs 13.1 – 13.3, Nelson Hydro states that its Cost of Service analysis will include “generating regulatory standard calculations to report Return on Equity and shareholder payments.”

For Nelson Hydro’s reference, on May 10, 2013, the Commission issued the Generic Cost of Capital – Stage 1 Decision (GCOC Stage 1 Decision). In this decision, the Commission established the deemed capital structure and deemed return on equity (ROE) for the benchmark utility – FortisBC Energy Inc. (FEI). The Commission determined the appropriate deemed capital structure to be 38.5 percent equity, 61.5 percent debt and established an allowed ROE of 8.75 percent.¹

Subsequent to the BCUC GCOC Stage 1 Decision, the Commission initiated a separate proceeding referred to as the BCUC GCOC Stage 2 proceeding. The Commission issued the GCOC Stage 2 Decision on March 25, 2014. In this decision, the Commission made determinations on deemed capital structures and ROEs for all utilities as compared to the established benchmark utility FEI. The GCOC Stage 2 Decision categorized utilities into three groups:

1. The other FortisBC gas and electric utilities, including FortisBC Inc. (FBC);
2. The Pacific Northern Gas Ltd. (PNG) companies; and
3. Corix Utilities Inc., Central Heat Distribution Limited, River District Energy Limited Partnership, and FortisBC Alternative Energy Services Inc.

In the BCUC GCOC Stage 2 Decision, the Commission determined that an appropriate equity ratio for FBC is 40 percent and an appropriate equity risk premium is 40 basis points (bps).²

The result of the GCOC Stage 2 Decision is that FBC’s currently approved deemed capital structure is 40 percent equity and 60 percent debt, and FBC’s currently approved after-tax ROE is 9.15 percent.

¹ BCUC GCOC Stage 1 Decision, pp. 53, 80.

² BCUC GCOC Stage 2 Decision, p. 86.

On page 2 of the cover letter, Nelson Hydro states the following:

The response to question 7.1 provided March 16, 2016 showed that for capital assets alone, the Nelson investment in Hydro exceeds \$36 million at year-end 2015. The Nelson Financial statements for that year make clear that only \$6.5 million of this is funded by debt, with the remainder (approximately \$30 million) funded by the City's own equity. The asset base today is larger than 2015. Yet the 2017 forecasts only include a \$2.7 million pre-tax return in Nelson Hydro paid out as a dividend, which is only approximately 9%.

Nelson Hydro further references FBC's 9.15 percent after-tax ROE on page 2 of the cover letter and states that this would be "considerably higher before-tax, consistent with Nelson Hydro 9% approximation."

Based on the determinations in the GCOC Stage 2 Decision and FBC's most recently approved revenue requirements, Commission staff provides the following information on FBC's cost of capital:

Deemed Capital Structure – 60 percent debt / 40 percent equity
Allowed ROE – 9.15 percent
Debt rate – Based on average embedded cost of debt

Weighted Average cost of Equity – 3.66 percent
Weighted Average cost of Debt – 3.13 percent
Weighted Average Cost of Capital (WACC) – 6.79 percent

- 16.1 Please discuss whether FBC's WACC is a reasonable proxy for Nelson Hydro's deemed cost of capital, in consideration of the findings and determinations in the Commission's GCOC Stage 1 and Stage 2 Decisions.
- 16.2 Using the GCOC Stage 2 Decision as a reference, please discuss the risk factors which Nelson Hydro considers to be applicable to its operations and provide an assessment of Nelson Hydro's overall level of riskiness.
 - 16.2.1 Based on Nelson Hydro's assessment of its risk, please quantify the impact of this risk in terms of an appropriate risk premium.

Based on the capital asset information provided by Nelson Hydro in response to Question 7.1 of the Supplementary Information Filing and if FBC's currently approved WACC were used as a proxy, Commission staff estimates Nelson Hydro's allowed return to be approximately \$2.45 million [\$36,123,584*6.79%].

- 16.3 Please discuss the reasonableness of this calculation.

Nelson Hydro refers to the \$2.7 million dividend to be paid to the City of Nelson in 2017 as "pre-tax."

- 16.4 Please clarify if the City of Nelson is required to pay tax on the \$2.7 million dividend received from Nelson Hydro.
 - 16.4.1 If the City of Nelson is not required to pay tax on the dividend, please discuss the relevance of the dividend being classified as "pre-tax" for the purposes of comparing the dividend to FBC's allowed return.

16.5 Please indicate where/how the Nelson Hydro dividend is recorded for the purpose of the City of Nelson's Statement of Financial Information. Please use the 2015 audited SOFI as a reference.

17.0 **Reference: GENERAL**
City of Nelson 2015 Statement of Financial Information, Attachment 1
Exhibit B-2, Supplementary Information Filing, Question 6.1
Organizational structure

In response to Question 6.1 of the Supplementary Information Filing, Nelson Hydro clarified that the Corporation of the City of Nelson (i.e. the City of Nelson) owns the electrical utility assets.

In Note 19 of the City of Nelson's 2015 audited SOFI, it states: "The City is a diversified municipal government institution that provides a wide range of services to its citizens. City services are provided by departments and their activities are reported in these Service Areas."

Nelson Hydro is described in Note 19 as follows: "This segment includes all the operating activities related to the generation, distribution and supply of the City's electricity."

17.1 Please confirm, or explain otherwise, that Nelson Hydro is not a separate entity from the City of Nelson and is instead an operational division of the City.

18.0 **Reference: EXPENSES**
Exhibit B-3, Attachment 1, BCUC IR 2.1; City of Nelson 2015 SOFI, Attachment 1
Debt service expenses

Attachment 1 of Nelson Hydro's response to BCUC IR 2.1 shows an annual debt service expense of \$499,363 for years 2014 through 2016.

18.1 Please explain what this debt service expense is related to and how it is calculated.

In the City of Nelson's 2015 audited SOFI, under the Segmented Information provided in Note 19, Nelson Hydro is shown to have "Interest and other debt charges" for 2015 of \$247,500.

18.2 Please explain the difference in the debt service amount collected by Nelson Hydro in rates and the "interest and other debt charges" amount shown in the City of Nelson's 2015 SOFI.

19.0 **Reference: EXPENSES**
Exhibit B-3, BCUC IR 6.1; Attachment 1: BCUC IR 2.1, 6.1; Exhibit B-2, Question 9.1
Electrical supply

The 2017 budgeted amount for Electrical Supply, as provided in response to Question 9.1 of the Supplementary Information Filing, is \$454,080.

In Attachment 1 to BCUC IR 2.1, Nelson Hydro provides various descriptions for variances in the 2014 and 2015 Electrical Supply expense, including water license costs being lower than estimated, deferred prep work for a G5 capital upgrade, and the Power House Crane refurbishment.

19.1 Please provide a detailed breakdown and explanation of the costs recorded in the "Electrical Supply" expense category for years 2014 through 2016 and forecast 2017.

19.2 Please provide a more detailed explanation for the water license costs, including the purpose of the water license, who the water license costs are paid to, and how the costs are determined annually.

In response to BCUC IR 6.1, Nelson Hydro provides the 1989 Water Rights Agreement between the City of Nelson and BC Hydro.

19.3 Please clarify if the water license costs included in the Electrical Supply expense and the Water License reserve payment included in the Transfers to City General expense are both related to the Water Rights Agreement.

20.0 **Reference: EXPENSES**
Exhibit B-3: BCUC IR 2.4, 2.5; Attachment 1, BCUC IR 2.1
Power purchase expense

Based on the budget versus actual information provided for power purchase expenses in Attachment 1, it appears that Nelson Hydro has over-budgeted power purchase expenses by 5.6 percent, 10.5 percent and 13.8 percent in years 2014, 2015 and 2016, respectively.

Nelson Hydro states the following in response to BCUC IR 2.4:

...weather greatly affects the amount of heating load in the utility which then impacts the energy and capacity purchases from FortisBC. Secondly, spring freshet conditions are highly variable and impact Nelson's own generation (it can and has happened that there is no freshet generation at all). The higher Nelson's own generation, the lower are the energy purchases from FortisBC. Freshets do not impact capacity purchases to the same degree since wires charges and associated ratchets are generally set in the winter peaking months when freshet is not occurring.

Nelson Hydro further states in response to BCUC IR 2.5:

There is a higher degree of uncertainty in forecasting capacity than there is in forecasting energy. This is because capacity is largely determined by the winter peak – typically the single coldest day of the year. Energy on the other hand has much greater opportunity for averaging... Since the year 2000, on average, our energy forecasts are within 1% of actual. Individual outline years varied 15% under forecast to 8% over.

20.1 Please clarify the difference from a cost perspective of capacity purchases from FBC versus energy purchases from FBC.

20.1.1 As part of this response, please confirm, or explain otherwise, that both capacity and energy purchases from FBC are made in accordance with FBC's Rate Schedule 41.

20.2 Please confirm, or explain otherwise, that both capacity and energy purchases from FBC are included within the "power purchase expense" line item of Nelson Hydro's expenses.

20.3 Based on the past three years' results, please discuss whether it may be appropriate to decrease Nelson Hydro's forecast for power purchase expenses in the future.

21.0 **Reference: EXPENSES**
Exhibit B-3, BCUC IR 3.1
Operation expenses – advertising

21.1 Please explain what types of advertising activities are undertaken by Nelson Hydro.

21.2 Please provide the 2014 through 2016 actual and 2017 forecast for advertising costs.

22.0 **Reference: EXPENSES**
Exhibit B-3, BCUC IR 4.1
Share of General Administration expense

- 22.1 Please provide a more detailed explanation as to how the 10 percent allocation factor of City administration expenses was determined and why this percentage was determined to be reasonable.
- 22.2 What percentage of City administration expenses are allocated to the other divisions of the City (e.g. Water, Sewer, Transit, etc...)? If the percentages are different from the ten percent allocation to Nelson Hydro, please explain why.

23.0 **Reference: TRANSFERS TO CITY GENERAL**
Exhibit B-3: BCUC IR 7.1, 7.2; Intervener IR 10
Contribution to the Community Complex

Nelson Hydro states the following in response to BCUC IR 7.1 and 7.2:

The \$90,000 payment to the Regional District of Central Kootenay (RDCK) is in effect part of the dividend that the City of Nelson receives for its return on assets/equity. Through an agreement with the RDCK and as part of the RDCK bylaw for the NDCC service this payment is identified as part of the funding for this service. This amount is collected and remitted as part of the RDCK bylaw. It should also be noted that the rural rate payers are part of the RDCK.

Nelson Hydro states in response to intervener IR 10: "Currently, there is a City of Nelson resolution...that needs to be resolved. Staff's current understanding is that once the issue in the resolution is resolved that the outstanding and future payments would carry on as they normally have."

- 23.1 Please clarify what the "Nelson and District Community Complex" (i.e. "NDCC") service is.
- 23.2 If the \$90,000 is remitted by the City of Nelson to the RDCK for the funding of the NDCC service, why are these funds collected from Nelson Hydro as opposed to being collected from another division of the City?
- 23.3 Are all the rural ratepayers part of the RDCK? If not, please indicate what percentage of the rural ratepayers are not part of the RDCK.
- 23.4 Please confirm, or explain otherwise, that for 2016, Nelson Hydro transferred \$90,000 to the City of Nelson but the \$90,000 has not been remitted by the City to the RDCK.
- 23.4.1 Please clarify if the same situation has occurred in any of the years prior to 2016.

24.0 **Reference: REVENUES**
Exhibit B-3: BCUC IR 9.1, 9.2; Attachment 1, BCUC IR 2.1
Revenue – Other

Nelson Hydro states in response to BCUC IR 9.1 that "Revenue – Other" includes "Energy Sales to FortisBC" and "Energy Sales to BC Hydro."

- 24.1 Please provide the revenue amounts related to Nelson Hydro's sales to BC Hydro and FortisBC for years 2014 through 2016 and forecast 2017.
- 24.2 Please provide the details of the energy sales to BC Hydro and FortisBC.

- 24.2.1 As part of this response, please explain why, if Nelson Hydro is required to purchase a significant portion of its power from FortisBC, it is also selling power to BC Hydro and FortisBC.

Based on the information provided in Attachment 1 in response to BCUC IR 2.1, it appears that Nelson Hydro has under-forecast Other Revenue in years 2014, 2015 and 2016 by 52 percent, 9.3 percent and 31 percent, respectively.

- 24.3 Based on the past three years' results, please discuss whether it may be appropriate to increase Nelson Hydro's forecast for Revenue – Other in the future.

25.0 **Reference: TRANSFERS TO CAPITAL RESERVE**
Exhibit B-3: BCUC IR 2.6; Attachment 1, BCUC IR 2.1
Transfers to capital reserve

Nelson Hydro states in response to BCUC IR 2.6:

Power Purchase is one of many, but the largest single, expense item for Nelson Hydro. The difference between our revenues and expense items is the contribution funding for our Capital Reserve... In the case where total expenses are lower than the budget and hence the contribution to Capital is higher than the budget, this results in reduced rate pressure in future years. The converse is also true.

In Attachment 1 to Nelson Hydro's response to BCUC IR 2.1, the 2016 actual (preliminary) amount to be transferred to the capital reserve is \$1.082 million greater than budgeted.

- 25.1 Please explain how the increased transfer to the capital reserve in 2016 results in reduced rate pressure for 2017 (or further into the future).
- 25.1.1 As part of this response, please specifically reference components of Nelson Hydro's 2017 budgeted expenses which have been positively impacted (i.e. reduced) as a result of the increased contribution to the capital reserve in 2016.
- 25.1.2 Which categories of annual expenses would potentially be impacted (positively or negatively) by a higher or lower contribution to the capital reserve?
- 25.2 Are funds from the capital reserve typically used to fund capital projects or are these funds also used for repairs and maintenance expenditures (i.e. non-capitalized expenditures)?
- 25.3 Please provide a detailed breakdown of the cash inflows and outflows recorded in the Nelson Hydro capital reserve for years 2012 through 2016 in a format similar to a continuity schedule (i.e. each year should include the opening balance, inputs and outputs, and a closing balance).
- 25.3.1 Please identify and explain any inflows to the capital reserve which are not the annual "transfer to capital reserve" item included in Nelson Hydro's annual revenue requirement.
- 25.3.2 Please identify and explain each of the following outflows from the capital reserve (if applicable):
- Outflows related to capital expenditures;
 - Outflows related to non-capital expenditures (i.e. operating and maintenance expenditures); and
 - Outflows to fund non- Nelson Hydro expenditures/activities.

25.4 In situations where a project's required capital spending is greater than the funds available through the capital reserve, please explain generally how (and through what sources) Nelson Hydro obtains funding for the capital project.

25.4.1 If there is a specific example of this occurring, please provide a discussion of this occurrence for illustrative purposes.

Nelson Hydro states the following in response to BCUC IR 2.6:

In 2016 for the first time in recent history, we implemented a new mechanism. The Operating expenses were about \$320,000 under budget. Two things were done. Firstly the \$320,000 was split with \$160,000 going to increase the dividend to the shareholder, the City of Nelson, and the other \$160,000 going to the capital reserve to reduce future rate pressure.

25.5 Please explain why the decision was made to increase the dividend to the shareholder and how the amount of the increase was determined.

25.6 Please explain the approval process for increasing the dividend payment to the City of Nelson, particularly given that the change occurred at the end of the fiscal year and thus subsequent to the 2016 budget being reviewed and approved.



The Corporation of the City of Nelson
2015 STATEMENT OF FINANCIAL INFORMATION

Statement of Financial Information (SOFI)
THE CORPORATION OF THE CITY OF NELSON
Fiscal Year Ended December 31, 2015

TABLE OF CONTENTS

Documents are arranged in the following order:

1. Statement of Financial Information Approval
2. Management Report
3. Audited Financial Statements
4. Schedule of Debt
5. Schedule of Guarantee and Indemnity Agreements
6. Statement of Severance Agreements
7. Explanation of differences to Audited Financial Statements
8. Schedule of Remuneration and Expenses
9. Schedule of Payments for the Provision of Goods and Services

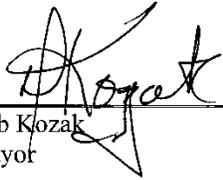
Statement of Financial Information (SOFI)

THE CORPORATION OF THE CITY OF NELSON

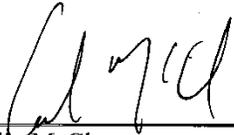
Fiscal Year Ended December 31, 2015

STATEMENT OF FINANCIAL INFORMATION APPROVAL

We, the undersigned, approve the attached statements and schedules included in this Statement of Financial Information, produced under the Financial Information Act.



Deb Kozak
Mayor



Colin McClure
Chief Financial Officer

Statement of Financial Information (SOFI)

THE CORPORATION OF THE CITY OF NELSON

Fiscal Year Ended December 31, 2015

MANAGEMENT REPORT

The Financial Statements contained in this Statement of Financial Information under the *Financial Information Act* have been prepared by management in accordance with generally accepted accounting principles and the integrity and objectivity of these statements are management's responsibility.

Management is also responsible for all other schedules of financial information and for ensuring this information is consistent, where appropriate, with the information contained in the financial statements and for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Mayor and Council are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and for approving the financial information included in the Statement of Financial Information.

The external auditors, Berg Lehmann, Chartered Professional Accountants, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination does not relate to the other schedules of financial information required by the *Financial Information Act*. Their examination includes a review and evaluation of the City's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly.

On behalf of The Corporation of the City of Nelson



Colin McClure
Chief Financial Officer
June 9, 2016

THE CORPORATION OF THE CITY OF NELSON
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

THE CORPORATION OF THE CITY OF NELSON
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

Management Report

Independent Auditors' Report

Financial Statements

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Financial Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Schedule A - Consolidated Statement of Tangible Capital Assets

THE CORPORATION OF THE CITY OF NELSON
MANAGEMENT REPORT

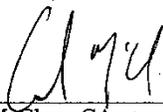
For the Year Ended December 31, 2015

RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the accompanying consolidated financial statements. The financial statements have been prepared in accordance with the accounting principles disclosed in Note 1 to the consolidated financial statements and include amounts that are based on estimates and judgments. Management believes that the financial statements fairly present The Corporation of the City of Nelson's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by fiscal year-end, is the responsibility of management. The financial statements have been approved by Council.

Management has established and maintained appropriate systems of internal control including policies and procedures, which are designed to provide reasonable assurance that The Corporation of the City of Nelson's assets are safeguarded and that reliable financial records are maintained to form a proper basis for preparation of the financial statements.

The independent external auditors, Berg Lehmann, Chartered Professional Accountants, have been appointed by Council to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, The Corporation of the City of Nelson's financial position, results of operations, and changes in financial position in conformity with the accounting principles disclosed in Note 1 to the consolidated financial statements. The report of Berg Lehmann, Chartered Professional Accountants, follows and outlines the scope of their examination and their opinion on the consolidated financial statements.



Colin McClure, CA
Chief Financial Officer

Berg
Lehmann

Chartered
Professional Accountants
& Business Advisors

513 Victoria Street
Nelson BC
V1L 4K7

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Council
The Corporation of the City of Nelson

We have audited the accompanying consolidated financial statements of the Corporation of the City of Nelson, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of operations, consolidated statement of changes in financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

...12

Berg
Lehmann

Chartered
Professional Accountants
& Business Advisors

513 Victoria Street
Nelson BC
V1L 4K7

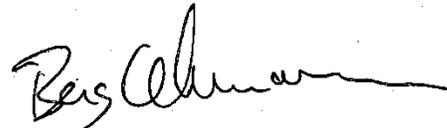
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INDEPENDENT AUDITORS' REPORT (continued)

To the Mayor and Council
The Corporation of the City of Nelson

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Nelson as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants

April 4, 2016

Nelson, B.C.

THE CORPORATION OF THE CITY OF NELSON
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2015

	<u>2015</u>	<u>2014</u>
Financial Assets		
Cash and cash equivalents (Note 2)	\$ 20,754,467	\$ 23,867,683
Investments (Note 3)	2,825,133	2,754,339
Accounts receivable (Note 4)	5,414,993	5,481,273
Long-term accounts receivable (Note 5)	4,079,305	4,392,178
MFA deposits (Note 6)	<u>299,541</u>	<u>292,063</u>
	<u>33,373,439</u>	<u>36,787,536</u>
Financial Liabilities		
Accounts payable and accrued liabilities (Note 7)	5,018,245	5,431,290
Deferred revenue (Note 8)	3,784,249	3,327,025
Accrued future payroll benefits (Note 9)	2,024,540	2,117,150
Capital lease obligation (Note 10)	361,382	366,289
Debt (Note 11)	<u>17,706,718</u>	<u>18,831,123</u>
	<u>28,895,134</u>	<u>30,072,877</u>
Net Financial Assets	4,478,305	6,714,659
Non -Financial Assets		
Tangible capital assets (Note 12)	152,013,916	146,748,393
Inventory (Note 13)	1,299,278	1,287,955
Prepaid expenses	<u>275,854</u>	<u>298,991</u>
	<u>153,589,048</u>	<u>148,335,339</u>
Accumulated Surplus (Note 14)	<u>\$158,067,353</u>	<u>\$155,049,998</u>

Commitments and Contingencies (Note 18)



Colin McClure, CA
Chief Financial Officer

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

THE CORPORATION OF THE CITY OF NELSON
CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2015

	2015 Budget (Note 20)	2015	2014
Revenue			
Taxes	\$ 9,151,641	\$ 9,137,584	\$ 8,957,572
Sale of services	2,943,662	3,076,330	3,150,758
Other revenue from own sources	4,117,894	3,653,093	3,143,834
Investment income	421,900	749,260	909,379
Grants - unconditional	800,000	806,527	604,325
Grants - conditional	2,532,846	2,056,221	2,916,556
Water user fees	3,276,500	3,293,748	3,164,608
Sewer user fees	2,856,745	2,868,551	2,782,927
Transit user fees	226,448	236,954	247,446
Nelson Hydro sales	<u>16,578,954</u>	<u>15,965,059</u>	<u>16,104,798</u>
	<u>42,906,590</u>	<u>41,843,327</u>	<u>41,982,203</u>
Expenses			
General government	3,532,521	3,471,650	3,174,515
Protective services	5,706,419	5,368,200	5,389,035
Transportation services	3,475,692	3,441,517	3,127,582
Environmental health services	264,984	226,585	205,284
Public health and welfare services	183,904	182,217	179,969
Parks, recreation and cultural services	2,070,339	2,508,718	2,495,809
Interest and other debt charges	936,600	805,035	841,027
Water utility operations	1,172,516	1,395,561	1,107,688
Sewer utility operations	1,654,969	1,624,645	1,750,992
Nelson Hydro operations	11,122,873	11,988,700	11,212,010
Transit operations	1,492,069	1,485,463	1,410,724
Library	864,000	875,111	850,104
Amortization	5,145,396	5,082,904	5,031,166
Loss on disposal of tangible capital assets	-	369,666	366,558
	<u>37,622,282</u>	<u>38,825,972</u>	<u>37,142,463</u>
Annual surplus	5,284,308	3,017,355	4,839,740
Accumulated surplus, beginning of the year	<u>155,049,998</u>	<u>155,049,998</u>	<u>150,210,258</u>
Accumulated surplus, end of the year	<u>\$160,334,306</u>	<u>\$158,067,353</u>	<u>\$155,049,998</u>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

THE CORPORATION OF THE CITY OF NELSON
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
For the Year Ended December 31, 2015

	<u>2015 Budget</u>	<u>2015</u>	<u>2014</u>
Annual surplus	\$ 5,284,308	\$ 3,017,355	\$ 4,839,740
Acquisition of tangible capital assets	(14,988,570)	(10,757,223)	(8,596,488)
Amortization of capital assets	5,145,396	5,082,904	5,031,166
Proceeds on sale of tangible capital assets	-	39,130	102,000
Loss on disposal of tangible capital assets	-	369,666	366,558
	<u>(4,558,866)</u>	<u>(2,248,168)</u>	<u>1,742,976</u>
Consumption (acquisition) of prepaid expenses	-	23,137	20,103
Consumption (acquisition) of supply inventory	-	(11,323)	(112,892)
	<u>-</u>	<u>11,814</u>	<u>(92,789)</u>
Increase (decrease) in net financial assets	(4,558,866)	(2,236,354)	1,650,187
Net financial assets, beginning of year	<u>6,714,659</u>	<u>6,714,659</u>	<u>5,064,472</u>
Net financial assets, end of the year	<u>\$ 2,155,793</u>	<u>\$ 4,478,305</u>	<u>\$ 6,714,659</u>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

THE CORPORATION OF THE CITY OF NELSON
CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
Cash Provided by (Used In)		
Operating Activities		
Annual surplus	\$ 3,017,355	\$ 4,839,740
Items not involving cash:		
Amortization of tangible capital assets	5,082,904	5,031,166
Actuarial adjustments	(233,364)	(188,940)
Loss on disposal of tangible capital assets	<u>369,666</u>	<u>366,558</u>
	8,236,561	10,048,524
Increase (decrease) in non-cash operating items:		
Accounts receivable	66,280	140,736
Long-term accounts receivable	312,873	(201,507)
MFA deposits	(7,478)	(8,226)
Accounts payable and accrued liabilities	(413,045)	(580,065)
Deferred revenue	457,224	(818,941)
Accrued future payroll benefits	(92,610)	(17,112)
Inventory	(11,323)	(112,892)
Prepaid expenses	<u>23,137</u>	<u>20,103</u>
	<u>8,571,619</u>	<u>8,470,620</u>
Financing Activities		
Debt repayment	(891,041)	(891,041)
Repayment of capital lease obligations	<u>(4,907)</u>	<u>(4,510)</u>
	<u>(895,948)</u>	<u>(895,551)</u>
Capital Activities		
Proceeds from disposal of tangible capital assets	39,130	102,000
Acquisition of tangible capital assets	<u>(10,757,223)</u>	<u>(8,596,488)</u>
	<u>(10,718,093)</u>	<u>(8,494,488)</u>
Investing Activities		
Net purchase of investments	<u>(70,794)</u>	<u>(75,099)</u>
Net decrease in Cash	(3,113,216)	(994,518)
Cash and cash equivalents, beginning of year	<u>23,867,683</u>	<u>24,862,201</u>
Cash and cash equivalents, end of year	<u>\$ 20,754,467</u>	<u>\$ 23,867,683</u>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

1. Significant Accounting Policies

The Corporation of the City of Nelson (the City) is a local government in the Province of British Columbia. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards.

The following is a summary of the City's significant accounting policies:

- (a) **Principles of Consolidation**
These consolidated financial statements include the accounts of all the funds of the City. Inter-fund transactions and balances have been eliminated in the consolidated statements.
- (b) **Revenue Recognition**
Sources of revenue are recorded on the accrual basis and include revenue in the period in which the transactions or events occurred that give rise to the revenues. Taxation revenues are recognized at the time of issuing the property tax notices for the fiscal year. Sale of services and user fee revenues are recognized when the service or product is rendered by the City.
Grant revenues are recognized when the funding becomes receivable. Revenue unearned in the current period is recorded as deferred revenue.
- (c) **Deferred Revenue**
Deferred revenue represents funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes as well as licenses, permits, other fees and grants which have been collected, but for which the related services have not been performed and or projects have not been constructed. These amount will be recognized as revenues in the fiscal year in which it is used for the specified purpose, the services are performed and or the projects are constructed.
- (d) **Government Transfers**
Government transfers are recognized in the consolidated financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates can be made.
- (e) **Financial Instruments**
The City's financial instruments consist of cash and short term investments, accounts receivable, due from other governments, trades accounts payable and accrued liabilities, employee benefit plans and long term debt. 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.
- (f) **Accrued Future Payroll Benefits**
The City records the cost of future payroll benefits over the employee's term of employment. Upon retirement a portion of accumulated sick leave credits are paid to the employee based on years of service.
- (g) **Interest and Actuarial Gains on Long Term Debt**
The City records interest expense on long-term debt on an accrual basis and actuarial gains when realized as a reduction of the principal balance.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

1. **Significant Accounting Policies (continued)**

(h) **Tangible Capital Assets**

Tangible capital assets, comprised of capital assets and capital assets under construction, are recorded at cost and are classified according to their functional use. Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put in to service. Donated tangible capital assets are reported at fair value at the time of donation. Estimated useful lives are as follows:

Land Improvements	15 to 20 years
Buildings	10 to 75 years
Fixtures, Furniture, Equipment & Vehicles	4 to 20 years
Technology	4 to 10 years
Roads and Paving	10 to 100 years
Bridges and other Transportation Structures	10 to 100 years
Water Infrastructure	10 to 100 years
Sewer Infrastructure	10 to 100 years
Nelson Hydro Infrastructure	10 to 100 years
Storm Drain Infrastructure	10 to 100 years

(i) **Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(j) **Inventory of supplies**

Inventory of supplies held for consumption are recorded at the lower of weighted average cost and replacement cost.

(k) **Statutory Reserves**

Statutory reserves are funds that have been restricted by council. Formal establishing bylaws have been adopted pursuant to the Community Charter, which define how these reserves are to be used.

(l) **Reserves Set Aside by Council**

Reserves set aside by Council are non-statutory reserves which represent an appropriation of surplus for specific purposes. These internally restricted funds are not available for unrestricted purposes without the approval of Council.

(m) **Use of Estimates**

The preparation of consolidated 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 at the date of the financial statements, and the reported revenues and expenses during the reporting period. Significant areas requiring estimates include the useful lives of tangible capital assets for amortization, future employee benefits, allowance for doubtful accounts and provision for contingencies. Actual results could differ from management's best estimates as additional information becomes available in the future.

(n) **Budget**

Budget data presented in these consolidated financial statements is based on the City's 5 Year Financial Plan for the years 2015-2019, adopted by Council on April 20, 2015.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

2. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are comprised of:

	<u>2015</u>	<u>2014</u>
Cash	\$ 2,826,749	\$ 2,963,640
MFA bond and money market funds	<u>17,927,718</u>	<u>20,904,043</u>
	<u>\$ 20,754,467</u>	<u>\$ 23,867,683</u>

Municipal Finance Authority (MFA) pooled investment funds are considered equivalent to cash because of their liquidity.

3. Investments

Investments are carried according to the cost method, where cost is adjusted to reflect accrued interest less any permanent decline in market value below cost. Investments are composed of Government and Bank issued accrual notes and debentures as follows:

<u>Maturity</u>	2015 Carrying Value	2015 Market Value	2014 Carrying Value	2014 Market Value
2014	\$ -	\$ -	\$ 106,649	\$ 107,120
2015	774,790	807,999	946,095	976,321
2016	1,067,690	1,082,243	1,033,437	1,067,267
2017	424,204	449,574	407,160	437,772
2019	260,449	264,478	112,998	118,472
2020	148,000	147,556	148,000	153,047
2021	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,825,133</u>	<u>\$ 2,901,850</u>	<u>\$ 2,754,339</u>	<u>\$ 2,859,999</u>

4. Accounts Receivable

	<u>2015</u>	<u>2014</u>
Property taxes	\$ 558,813	\$ 545,930
Utility billings	3,460,173	3,404,910
Other governments	317,729	321,883
Trade & other receivables	<u>1,078,278</u>	<u>1,208,550</u>
	<u>\$ 5,414,993</u>	<u>\$ 5,481,273</u>

5. Long Term Accounts Receivable

The City entered into an agreement with Selkirk College in April 2000, to undertake certain improvements to the Tenth Street Campus. Selkirk College is paying for the improvements over a 25 year term in equal monthly installments at the Municipal Finance Authority lending rate plus 1%.

On-bill financing refers to the financial loan service that the City of Nelson has made available for energy retrofits. The customer repays the on-bill financing loan on their regular Nelson Hydro utility bill through automatic withdrawal. The loan is available to those who reside within the City of Nelson and approval is based on payment history and property ownership verification. The maximum allowable loan is \$16,000 with the choice of a 5 or 10 year repayment term, the current fixed interest rate is 3.5% The interest rate is subject to change for any new loans on January first of each year.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

5. **Long Term Accounts Receivable (continued)**

The City has also entered into agreements with various organizations for goods and services or to repay long term financing agreements over an extended period of time.

	<u>2015</u>	<u>2014</u>
Selkirk College	\$ 3,264,080	\$ 3,520,526
Ecosave energy retrofits on-bill financing loans	272,540	227,727
Various other agreements	<u>542,685</u>	<u>643,925</u>
	<u>\$ 4,079,305</u>	<u>\$ 4,392,178</u>

6. **Municipal Finance Authority Debt Reserve Fund**

The Municipal Finance Authority of British Columbia (MFA) provides capital financing for regional districts and their member municipalities. The MFA is required to establish a Debt Reserve Fund. The MFA 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 MFA to the regional districts.

Upon maturity of a debt issue, the unused portion of the Debt Reserve Fund established for that issue will be discharged to the Municipality. The proceeds from these discharges will be credited to income in the year they are received. As at December 31, 2015, the total of the Debt Reserve Fund was comprised of:

	<u>2015</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>
	Cash Deposit	Demand Note	Total	Total
General fund	\$ 184,596	\$ 470,990	\$ 655,586	\$ 650,978
Sewer utility	15,579	40,843	56,422	56,033
Water utility	13,765	36,091	49,856	49,512
Nelson Hydro	<u>85,601</u>	<u>174,898</u>	<u>260,499</u>	<u>258,362</u>
	<u>\$ 299,541</u>	<u>\$ 722,822</u>	<u>\$ 1,022,363</u>	<u>\$ 1,014,885</u>

7. **Accounts Payable and Accrued Liabilities**

	<u>2015</u>	<u>2014</u>
Trades payable	\$ 4,093,238	\$ 4,453,235
Accrued wages and benefits	367,734	413,924
Accrued interest	127,797	127,797
Other	<u>429,476</u>	<u>436,334</u>
	<u>\$ 5,018,245</u>	<u>\$ 5,431,290</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

8. Deferred Revenue

	<u>2015</u>	<u>2014</u>
Taxes and utility rates	\$ 2,744,148	\$ 2,723,668
Hydro	714,386	381,187
Other	<u>325,715</u>	<u>222,170</u>
	<u>\$ 3,784,249</u>	<u>\$ 3,327,025</u>

9. Accrued Future Payroll Benefits

	<u>2015</u>	<u>2014</u>
Holiday Pay	\$ 751,830	\$ 721,762
Sick Leave	1,098,664	1,199,702
Banked Overtime	<u>174,046</u>	<u>195,686</u>
	<u>\$ 2,024,540</u>	<u>\$ 2,117,150</u>

The City accrues holiday pay, sick leave, and banked overtime as they are earned by the employee, however, it is expected that these substantially funded liabilities will be met on a continuous basis over the long-term. Payment of these amounts will be funded from revenues of the period in which they are settled.

10. Capital Lease Obligations

FortisBC Energy Lease

The City has entered into a 35 year capital lease with FortisBC Energy Inc (formerly Terasen Gas Inc.), commencing October 31, 2003 for the natural gas distribution system within the municipality's boundary for \$8,000,000. The City has prepaid \$7,600,000 of the capital lease obligation and has financed the prepayment through debenture debt. The remaining obligation of \$400,000 is being paid through annual lease payments of \$36,354 including interest at 8.614%.

The City has also entered into a seventeen year operating lease with FortisBC expiring October 31, 2020 whereby the City leases back to FortisBC the operations of the gas distribution system. Under the operating lease FortisBC is required to make annual lease payments to the City calculated by a formula specified in the agreement which is based on the total annual revenue generated by the transaction. At the end of the seventeen year term FortisBC has the option of making a termination payment to the City equal to the unamortized portion of the City's \$7,600,000 prepayment under the capital lease which is estimated to be \$3,900,000, or negotiate a new eighteen year operating lease with a continuation of the annual lease payments which existed under the previous seventeen year operating lease.

The minimum lease payments required under the terms of the FortisBC Energy leases for the next five years and thereafter are as follows:

2016	\$ 36,354
2017	36,354
2018	36,354
2019	36,354
2020	36,354
Thereafter	654,372
Less interest	<u>(474,760)</u>
	<u>\$ 361,382</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

11. **Debt**

Debt Bylaw #	Purpose of Bylaw	Interest rate %	Year of Maturity	Original Issue	2015 Balance	2014 Balance
General Purposes:						
3107	Catacombs	3.85%	2033	\$ 275,000	\$ 256,161	\$ 265,765
3107	Baker Street bridge	3.85%	2033	900,000	838,344	869,776
3034	Street construction	4.82%	2022	50,341	27,176	30,484
2871	Tenth Street campus	3.15%	2025	6,080,000	3,293,075	3,549,522
3036	Highway 3A	4.00%	2021	300,000	141,445	161,949
2978	Fortis Gas	4.50%	2020	4,200,000	2,305,251	2,714,494
	Fortis Gas	CDOR+ .5%	2021	<u>7,386,404</u>	<u>2,753,604</u>	<u>2,753,604</u>
				<u>19,191,745</u>	<u>9,615,056</u>	<u>10,345,594</u>
Water Purposes:						
3038	Fairview reservoir	4.82%	2022	240,000	129,560	145,332
3106	Water improvements	4.90%	2029	<u>1,000,000</u>	<u>777,253</u>	<u>818,110</u>
				<u>1,240,000</u>	<u>906,813</u>	<u>963,442</u>
Sewer Purposes:						
3037	Sewage treatment plant	4.00%	2021	550,000	259,316	296,907
3109	Sewer improvements	4.90%	2029	<u>500,000</u>	<u>388,626</u>	<u>409,055</u>
				<u>1,050,000</u>	<u>647,942</u>	<u>705,962</u>
Hydro Purposes:						
3110	Hydro improvements	4.90%	2029	1,500,000	1,165,880	1,227,166
3223	Hydro improvements	3.05%	2032	<u>6,000,000</u>	<u>5,371,027</u>	<u>5,588,959</u>
				<u>7,900,000</u>	<u>6,536,907</u>	<u>6,816,125</u>
Total Debt					<u>\$ 17,706,718</u>	<u>\$ 18,831,123</u>

Principal payments and expected actuarial additions for the next 5 years and thereafter are as follows:

	General	Water	Sewer	Hydro	Total
2016	\$ 761,042	\$ 58,895	\$ 60,341	\$ 290,387	\$ 1,170,665
2017	792,824	61,251	62,754	302,002	1,218,831
2018	825,937	63,701	65,265	314,082	1,268,985
2019	860,438	66,249	67,875	326,646	1,321,208
2020	896,384	68,899	70,590	339,712	1,375,585
Thereafter	<u>5,478,431</u>	<u>587,818</u>	<u>321,117</u>	<u>4,964,078</u>	<u>11,351,444</u>
	<u>\$ 9,615,056</u>	<u>\$ 906,813</u>	<u>\$ 647,942</u>	<u>\$ 6,536,907</u>	<u>\$ 17,706,718</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

12. Tangible Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2015 Net Book Value</u>	<u>2014 Net Book Value</u>
Land	\$ 9,011,828	\$ -	\$ 9,011,828	\$ 9,013,980
Buildings	35,430,145	24,820,516	10,609,629	11,324,695
Vehicles	8,370,867	4,521,111	3,849,756	4,109,637
IT, equipment & furniture	2,854,044	1,339,118	1,514,926	1,565,196
Library	341,109	242,895	98,214	130,599
Natural gas system capital lease	8,186,404	3,040,663	5,145,741	5,379,638
Transportation infrastructure	24,570,315	8,977,661	15,592,654	12,440,843
Parks & cemetery	5,131,202	2,443,832	2,687,370	2,838,494
Water infrastructure	47,743,045	12,334,053	35,408,992	34,529,678
Sewer infrastructure	29,720,907	11,187,032	18,533,875	18,505,056
Storm sewer infrastructure	18,529,010	6,531,243	11,997,767	11,882,318
Hydro generators & substations	20,397,470	6,522,151	13,875,319	14,165,136
Hydro infrastructure	28,463,412	6,215,144	22,248,268	19,762,245
Assets under construction	<u>1,439,577</u>	<u>-</u>	<u>1,439,577</u>	<u>1,100,878</u>
	<u>\$240,189,335</u>	<u>\$ 88,175,419</u>	<u>\$152,013,916</u>	<u>\$146,748,393</u>

See schedule of consolidated tangible capital assets for more information.

13. INVENTORY

Inventories recognized in the statement of financial position are comprised of:

	<u>2015</u>	<u>2014</u>
General, Water, Sewer Transit and Garage supplies	\$ 346,409	\$ 326,413
Fuel	53,621	55,200
Hydro	<u>899,248</u>	<u>906,342</u>
	<u>\$ 1,299,278</u>	<u>\$ 1,287,955</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

14. **Accumulated Surplus**

	<u>2015</u>	<u>2014</u>
Reserves set aside by Council		
Capital projects	\$ 431,818	\$ 536,604
Community works fund	585,439	1,019,147
Equipment replacement	3,328,772	2,746,589
Future power purchase	1,032,930	1,002,481
Nelson municipal library	18,935	18,488
Nelson Hydro capital	1,953,195	3,992,380
Sewer utility capital	3,409,735	2,760,407
Waterfront development	29,021	28,336
Water licence	2,149,289	2,104,622
Water utility capital	<u>3,098,722</u>	<u>3,696,972</u>
	16,037,856	17,906,026
Statutory reserves		
Land sales	123,689	225,192
Off street parking	9,587	15,024
Parks acquisition	109,365	106,103
Tax sale	<u>22,094</u>	<u>21,573</u>
Total reserves	<u>16,302,591</u>	<u>18,273,918</u>
Surplus set aside by Council		
Airport	200,470	192,470
Art in public places	14,747	17,247
Bridge	360,000	320,000
Building reserve	327,000	347,000
Economic development	12,754	18,155
Downtown & waterfront	55,866	97,296
Fortis	517,170	1,747,530
Insurance	380,699	389,092
Legal	20,000	20,000
Parking	17,578	17,578
Recycling reserve	115,840	122,860
911	64,089	66,305
10th street	<u>89,877</u>	<u>79,077</u>
	2,176,090	3,434,610
Unappropriated surplus	<u>2,378,778</u>	<u>2,269,962</u>
Total surplus	<u>4,554,868</u>	<u>5,704,572</u>
Invested in capital assets	<u>137,209,894</u>	<u>131,071,508</u>
Total Accumulated Surplus	<u>\$158,067,353</u>	<u>\$155,049,998</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

15. Trust Funds

The Cemetery Care, Cemetery Replacement, Justice McDonald, Better Gardens and Spurway Estate Trust Funds are not reported in these financial statements. The following is a summary of Trust Fund transactions for the year:

	<u>2015</u>	<u>2014</u>
Balances, beginning of year	\$ 928,371	\$ 920,226
Contributions received	10,820	12,027
Interest earned	<u>25,737</u>	<u>23,083</u>
	964,928	955,336
Expenses and transfers	<u>(13,900)</u>	<u>(26,965)</u>
Balances, end of year	<u>\$ 951,028</u>	<u>\$ 928,371</u>

16. Taxes Levied For Other Paid Authorities

In addition to taxes levied for municipal purposes, the City is legally obligated to collect and remit taxes levied for the following authorities. These collections and remittances are not recorded as revenue and expenses.

	<u>2015</u>	<u>2014</u>
Provincial Government - School taxes	\$ 8,375,914	\$ 8,413,193
Regional District of Central Kootenay	4,152,348	4,134,576
West Kootenay Boundary Hospital District	646,190	624,124
British Columbia Assessment Authority	163,413	168,841
Municipal Finance Authority	<u>429</u>	<u>429</u>
	<u>\$ 13,338,294</u>	<u>\$ 13,341,163</u>

17. Pension Plan

The City of Nelson 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 the assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2014, the plan has about 185,000 active members and approximately 80,000 retired members. Active members include approximately 37,000 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 valuation of the Municipal Pension Plans at December 31, 2012, indicated a \$1,370 million funding deficit for basic pension benefits on a going concern basis.

The next valuation will be as at December 31, 2015 with results available in 2016.

Employers participating in the Plan record their pension expense as the amount of 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 with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the Plan.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

17. **Pension Plan (continued)**

The City of Nelson paid \$1,319,525 (2014 - \$1,241,170) for employer contributions to the plan in fiscal 2015.

18. **Commitments and Contingencies**

Regional District Debt

Regional District debt is under the provisions of the Community Charter of BC a direct, joint and several liability of the District and each member municipality within the District including the City of Nelson.

Claims for Damages

In the normal course of a year the City is faced with lawsuits and claims for damages of a diverse nature. The outcome of these claims cannot be reasonably determined at this time.

Reciprocal Insurance Exchange Agreement

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 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 Municipality is assessed a premium and specific deductible based on population and claims experience. The obligation of the Municipality 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 are in every case several and 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 Subscriber may suffer.

19. **Segmented Information**

The City is a diversified municipal government institution that provides a wide range of services to its citizens. City Services are provided by departments and their activities are reported in these Service Areas. Departments disclosed in the segmented information, along with the services they provide, are as follows:

General Government Services

The Departments and Divisions within General Government Services are responsible for adopting bylaws; adopting administrative policy; levying and collecting taxes and utilities; acquiring, disposing and managing City assets; developing and maintaining information technology systems and applications; ensuring effective financial management and communication; administering City grants; developing an effective labour force; administering collective agreements and payroll; emergency planning; economic development; monitoring and reporting performance; and ensuring that high quality City service standards are met.

Police & Bylaw Services

The mandate of Police Services is to keep our community safe by enforcing the law, and by preventing and reducing crime. Bylaw is responsible for parking and other bylaw enforcement, as well as domestic animal control.

Fire and Rescue Services

The mandate of the Fire and Rescue Services is to protect life, property and the environment through the provision of emergency response, inspections, code enforcement and public education, ensuring safety for the public.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

19. **Segmented Information (continued)**

Development Services

Development Services is responsible for preparing land use plans, bylaws and policies for sustainable development of the City, for reviewing and approving new development and building permits and inspections, management of City owned lands, heritage planning and development of the City's official community plan.

Engineering Services

Engineering Services is responsible for planning, building, operating and maintaining the City's physical infrastructure including roads and sidewalks, civic buildings and facilities. In addition, the divisions provide services for storm sewer services, solid waste and recycling, cemetery operations, and fleet services.

Parks, Culture and Recreation Services

Parks, Culture and Recreation is responsible for providing, facilitating the development of, and maintaining high quality parks, recreation facilities and programs, the youth centre and cultural services.

Transit

Transit is tasked with providing safe, timely and efficient public transit services within the City limits.

Library

As a controlled entity the City reports and is responsible for the successful operations of the Nelson Municipal Library.

Nelson Hydro

This segment includes all the operating activities related to the generation, distribution and supply of the City's electricity.

Utility Operations

The Water Utility operates and distributes over 8 million cubic meters of drinking water annually, and maintains water mains and pump stations. The Sewer and Drainage Utility is responsible for the collection, treatment and disposal of sanitary sewage and drainage, as well as the network of sewer mains and pump stations.

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

19. **Segmented Information** (continued)
Statement of Operations by Object and Function (excluding transfers between segments)

	General Government	Police & Bylaw	Fire Services	Development Services
Revenues				
Taxes	\$ 9,077,599	\$ -	\$ -	\$ -
Sales of Service	406,966	1,262,196	196,839	5,226
Other revenue from own services	1,505,295	214,696	-	277,432
Investment income	385,303	-	-	-
Grants - unconditional	440,978	134,116	-	-
Grants - conditional	621,065	73,632	3,900	-
Water user fees	-	-	-	-
Sewer user fees	-	-	-	-
Transit user fees	-	-	-	-
Nelson Hydro sales	-	-	-	-
	<u>12,437,206</u>	<u>1,684,640</u>	<u>200,739</u>	<u>282,658</u>
Expenditures				
Wages and benefits	1,716,050	3,325,863	1,390,234	491,166
Supplies and services	1,412,058	466,801	166,508	98,243
Interest and other debt charges	387,148	-	-	-
Amortization	1,369,804	46,980	98,544	-
Loss on disposal of assets	-	-	-	-
	<u>4,885,060</u>	<u>3,839,644</u>	<u>1,655,286</u>	<u>589,409</u>
Annual Surplus (Deficit)	<u>\$ 7,552,146</u>	<u>\$(2,155,004)</u>	<u>\$(1,454,547)</u>	<u>\$ (306,751)</u>

Engineering Services	Parks Culture & Recreation	Transit	Library	Nelson Hydro	Utilities	2015 Total
\$ 59,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,137,584
609,567	544,561	-	50,975	-	-	3,076,330
74,568	39,125	4,435	33,097	986,757	517,688	3,653,093
-	-	-	2,402	188,479	173,076	749,260
-	-	-	231,433	-	-	806,527
5,191	269,463	955,556	34,515	39,374	53,525	2,056,221
-	-	-	-	-	3,293,748	3,293,748
-	-	-	-	-	2,868,551	2,868,551
-	-	236,954	-	-	-	236,954
-	-	-	-	15,965,059	-	15,965,059
<u>749,311</u>	<u>853,149</u>	<u>1,196,945</u>	<u>352,422</u>	<u>17,179,669</u>	<u>6,906,588</u>	<u>41,843,327</u>
1,646,865	1,005,664	743,914	656,706	2,224,751	1,444,726	14,645,939
1,976,377	1,503,055	741,550	218,405	9,763,950	1,575,481	17,922,428
60,954	-	-	-	247,500	109,433	805,035
1,280,530	164,624	-	-	939,197	1,183,225	5,082,904
120,586	-	-	-	120,594	128,486	369,666
<u>5,085,312</u>	<u>2,673,343</u>	<u>1,485,464</u>	<u>875,111</u>	<u>13,295,992</u>	<u>4,441,351</u>	<u>38,825,972</u>
<u>\$(4,336,001)</u>	<u>\$(1,820,194)</u>	<u>\$(288,519)</u>	<u>\$(522,689)</u>	<u>\$ 3,883,677</u>	<u>\$ 2,465,237</u>	<u>\$ 3,017,355</u>

THE CORPORATION OF THE CITY OF NELSON
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

20. **Budget Data**

The reconciliation of the approved budget for the current year to the budget figures reported in these consolidated financial statement is as follows:

	<u>2015</u>
Budget surplus per Consolidated Statement of Operations	\$ 5,284,308
Less: Capital expenditures	14,988,570
Debt principal repayments	1,075,188
Budgeted transfers to reserves	2,419,623
Add: Budgeted transfers from surplus and reserves	8,053,677
Amortization	<u>5,145,396</u>
Net annual budget	<u>\$ -</u>

21. **Accounting Changes: PS 3260 Liability for Contaminated Sites**

On January 1, 2015, the City of Nelson adopted the new PS3260 Liability for Contaminated Sites standard. This section establishes standards on how to account for and report a liability associated with the remediation of 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 the maximum acceptable concentrations under an environmental standard.

The adoption of the new PS3260 has not resulted in any changes to the measurement and recognition of liabilities in the City of Nelson's 2015 financial statements.

Statement of Financial Information (SOFI)

THE CORPORATION OF THE CITY OF NELSON

Fiscal Year Ended December 31, 2015

SCHEDULE OF DEBT

Information on all long term debt is included in the Audited Financial Statements of The Corporation of the City of Nelson.

Prepared as required by *Financial Information Regulation*, Schedule 1, section 4

Statement of Financial Information (SOFI)

THE CORPORATION OF THE CITY OF NELSON

Fiscal Year Ended December 31, 2015

SCHEDULE OF GUARANTEE AND INDEMNITY AGREEMENTS

The Corporation of the City of Nelson has not given any guarantees or indemnities under the Guarantees and Indemnities Regulation.

Prepared under the Financial Information Regulation, Schedule 1, section 5

Statement of Financial Information (SOFI)

THE CORPORATION OF THE CITY OF NELSON

Fiscal Year Ended December 31, 2015

STATEMENT OF SEVERANCE AGREEMENTS

There was no severance agreements made between The Corporation of the City of Nelson and its non-unionized employees during the fiscal year ended December 31, 2015.

Prepared under the Financial Information Regulation, Schedule 1, subsection 6(8)

The Corporation of the City of Nelson
PAYMENT TO FINANCIAL STATEMENT RECONCILIATION
Fiscal Year Ended December 31, 2015

S.O.F.I. Report Scheduled Payments

Remuneration	\$ 10,660,180	
Employee Expenses	203,993	
Employer CPP/EI	<u>523,197</u>	\$ 11,387,370
Payments for Goods and Services		<u>31,393,701</u>
Total of Scheduled Payments		<u>\$42,781,071</u>
Total of Financial Statement Expenditures		<u>\$38,825,972</u>

The difference between the Total of Scheduled Payments and the Total Financial Statements Expenditures are due to:

- Adjustments to account for the difference between payments made on a cash basis, and the audited financial statements reporting expenditures on an accrual basis of accounting. This would include adjustments for opening and closing balances of inventories, prepaid expenses, and accrued liabilities.
- List of payments to suppliers include 100% GST while the expenditures in the financial statements are net of the applicable GST rebate.
- The remuneration schedule excludes the Nelson Police Department. In addition, the Nelson Municipal Library is required to complete their own SOFI report so their expenses have not been included; however, the Library is included in the consolidated financial statements numbers.
- Capital expenditures are shown as payments to the vendor in this report. However, the total financial statement expenditures do not reflect these payments as they report amortization of all the capital assets.
- The Schedule of Payments of Goods and Services includes payments made on behalf of third parties, which are recovered from these parties and the expense is excluded from the Financial Statements.
- Payments to some suppliers are reported directly to the Balance Sheet and therefore are not reported as expenditures

THE CORPORATION OF THE CITY OF NELSON
SCHEDULE OF REMUNERATION AND EXPENSE
YEAR ENDED DECEMBER 31, 2015

NAME	POSITION	REMUNERATION	EXPENSE
ELECTED OFFICIALS			
Adams, Robert	Councillor	\$ 17,360	\$ 4,159
Cherbo, Robin	Councillor	17,360	4,025
Dailly, Michael	Councillor	18,926	2,970
Kozak, Debra	Mayor	39,977	4,357
Morrison, Janice	Councillor	18,235	3,054
Purcell, Anna	Councillor	20,046	5,453
Warrington, Valerie	Councillor	20,176	5,496
TOTAL ELECTED OFFICIALS		<u>152,081</u>	<u>29,514</u>
DETAILED EMPLOYEES > \$75,000			
Centrone, Dean		\$ 80,953	\$ 828
Champlin, Brian		77,700	2,633
Colgan, Andrew		148,922	1,758
Cormack, Kevin		166,275	8,738
Daloise, Michael		106,746	409
Geissler, Daniel		110,521	3,811
Georgetti, Garth		139,742	2,449
Grill, Martin		81,102	1,046
Grypma, Leo		81,352	-
Grypma, Simon		85,462	135
Hamilton, Dana		149,609	-
Hebert, Jeffrey		96,732	353
Innes, Colin		125,006	380
Jeffery, Scott		87,734	-
Johnson, Kevin		88,077	465
Knight, Christopher		91,633	2,136
Koehle, Jody		95,088	1,791
Laybourne, Cal		151,150	1,156
Long, Frances		100,759	4,412
Love, Alex		165,672	10,950
Lynn, Logan		106,730	2,147
MacCharles, Len		123,046	5,022
MacDonald, Karen		89,263	4,616
Maida, Rick		100,472	1,349
Markin, Joanna		99,274	5,595
McCarvell, Jeanette		130,120	-
McClure, Colin		140,336	8,725
Mierau, Pam		106,717	2,930
Nystrom, Robin		104,660	1,885
Olsson, Carl		124,900	352
Ouellette, Martin		81,448	105
Patton, Robert		93,963	353
Pickard, Doug		112,905	-
Proctor, Greg		81,891	-
Rae, Gordon		97,570	-
Rich, Norm		89,076	3,461
Rorick, Suzanne		83,392	1,886
SinStadt, Peter		76,294	2,721
Squires, Megan		76,788	507
Taburiaux, Youri		158,634	121
Thibault, Marc		87,378	-
TOTAL DETAILED EMPLOYEES > \$75,000		<u>4,395,087</u>	<u>85,225</u>
TOTAL EMPLOYEES <= \$75,000		<u>6,113,012</u>	<u>89,254</u>
TOTAL		<u>\$ 10,660,180</u>	<u>\$ 203,993</u>
TOTAL EMPLOYER PREMIUM FOR CPP/EI			\$ 523,197

THE CORPORATION OF THE CITY OF NELSON
SCHEDULE OF PAYMENTS TO SUPPLIERS OF GOODS AND SERVICES
YEAR ENDED DECEMBER 31, 2015

DETAILED SUPPLIERS >\$25,000

<u>SUPPLIER NAME</u>	<u>EXPENSE</u>
A & A Painting Ltd	\$ 37,181
Advanced Utility Systems	33,937
Aerial Contractors Ltd.	641,545
Allteck Line Contractors Inc.	39,652
Andrew Sheret Limited	70,121
Anixter Canada Inc.	31,242
Anixter Power Solutions Canada Inc	205,163
Arcright Plumbing & Heating Ltd	62,600
Arctic Arrow Powerline Group Ltd	856,376
Asplundh Canada ULC	125,626
BC Transit	535,925
Berg Lehmann	49,350
Bill's Heavy Duty Enterprises (2004) Ltd	30,842
Black Press Group Ltd.	52,165
Blue Sparkle Cleaning	27,790
Boundary Electric (1985) Ltd.	25,685
Brandt Tractor Ltd	103,869
Bull, Housser & Tupper LLP	63,907
Capital Sewer Services Inc.	401,239
Capri Insurance	226,144
CGL Contracting Ltd.	41,533
Chevron Canada Limited	61,603
Columbia Wireless Inc	25,891
Commercial Truck Equipment Co.	41,612
Cooper Industries Electrical Inc.	57,330
Cornerstone General Contracting Ltd.	147,102
Cowan's Office Supplies Ltd	73,995
Cubex Limited	61,957
Dan Maglio Contracting Ltd	284,827
Davey Tree Services	102,031
DBS Energy Services Inc.	59,043
DDC Excavating Ltd	69,677
DHC Communications Inc	170,891
Direct Equipment West Ltd.	39,578
Domino Highvoltage Supply Inc	151,158
Doubletree Systems, Inc.	87,072
Drop Manufacturing Inc	106,385
Envirocare Environmental Services Ltd	28,502
Flight Fuels LP	31,598
Forms & Surfaces	49,752
FortisBC - Electricity	6,289,611
Fraser Burrard Diving Limited	392,033
Fred Surridge Ltd.	193,533
Galbraith, Fiona	53,470
Gilnockie Inspection Ltd	70,864
Green & Helme	47,659
Guillevin International Co.	95,385
Hayley Kerr	30,450
High Five Maintenance Services	217,546
ICBC	62,214
Impatient Cultural Consultants Ltd	39,077
Insight Canada Inc.	39,433
Jetson Consulting Engineers Ltd	48,195
Kal-Tire	34,749
Kilo Flagging	30,369
Kon Kast Products (2005) Ltd	58,243
Kootenay Industrial Supply Ltd	53,186
Lang Business Systems	100,433
Lordco Auto Parts	37,007
Maglio Installations Ltd.	4,352,887
Main Jet Motorsports Inc.	26,730
Manulife Financial	428,079
Martech Electrical Systems Ltd	1,113,894

McNally Excavating Inc.	32,296
MINISTER OF FINANCE - Accommodation and Real Estate	529,072
MINISTER OF FINANCE - Queens Printer	75,329
MINISTER OF FINANCE - Water Management	195,944
MMM Group Limited	391,501
Municipal Finance Authority	1,625,608
Municipal Insurance Association of BC	128,235
Municipal Pension Plan	1,040,132
Murdy & McAllister	42,075
Nelson Building Centre Limited	49,085
Nelson Chrysler	61,551
Nelson Farmers Supply Ltd.	25,495
Nelson Ford Sales (2003) Inc.	103,679
Nelson Ready-Mix	108,760
Neptune Technology Group (Canada) Ltd	103,863
Noramco	35,394
NSC Minerals Ltd.	29,221
Owen Bird Law Corporation	25,183
Partner Technologies Inc	28,726
PetroValue Products Canada Inc.	57,123
Plowe Power Systems Ltd.	120,015
Porcupine Wood Products Ltd	80,980
Proctor, Carmen	58,909
Ray Smith Services	30,030
Regional District of Central Kootenay	127,471
Right Way Acquisition Service Ltd.	38,836
Right-of-Way Operations Group Inc.	441,187
Safe Start Safety Ltd	35,066
Schweitzer Engineering Laboratories	40,930
Selkirk Paving	1,169,502
Selkirk Security Services Ltd.	40,878
SNT Engineering Ltd	70,560
Stantec Consulting Ltd	61,819
Stella-Jones Inc	154,551
Suncor Energy Products Partnership	336,225
Taylor-Wilton Nelson Ltd	58,186
TELUS Communications (B.C.) Inc.	90,868
Texcan	47,763
Tipi Mountain Eco-Cultural Services Ltd.	26,089
Trainor Mechanical Contractors Ltd	191,384
TRUE Consulting	79,237
Trydor Industries (Canada) Ltd	247,197
Urban Systems Ltd	34,399
Venture Mechanical Systems Ltd	62,563
Ward Engineering & Land Surveying Ltd	142,443
Waste Management of Canada Corporation	29,045
Waterhouse Environmental Services Corp.	54,466
Wesco Distribution Canada LP	28,407
Westek Controls Ltd.	55,407
Wishbone Industries Limited	33,768
Wismer & Rawlings Electric Ltd.	75,188
WorkSafe BC	233,646
TOTAL DETAILED SUPPLIERS >\$25,000	28,112,233
TOTAL SUPPLIERS <= \$25,000	2,563,393
TOTAL SUPPLIERS	30,675,626
GRANTS AND CONTRIBUTIONS >\$25,000	
Capitol Theatre	67,500
Community Futures Central Kootenay	109,375
Nelson & District Chamber of Commerce	79,000
Nelson Regional Sports Council	55,000
Regional District of Central Kootenay	184,200
Touchstones Nelson	223,000
TOTAL GRANTS AND CONTRIBUTIONS >\$25,000	718,075
TOTAL PAYMENTS, GRANTS AND CONTRIBUTIONS	\$ 31,393,701