



# Staff Report to Council

Financial Services

FILE: 05-1680-01/24

**REPORT DATE:** April 29, 2024

**MEETING DATE:**

May 07, 2024

**TO:** Mayor and Council

**FROM:** Laura Barroetavena, Director of Financial Services

**SUBJECT:** 2023 Financial Statements and Audit Results

**CHIEF ADMINISTRATIVE OFFICER REVIEW/APPROVAL:**

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**RECOMMENDATION(S):**

THAT Council:

- A. Accept the City’s 2023 financial statements and direct the Mayor and Director of Financial Services to sign the Consolidated Statement of Financial Position and forward the completed financial statements to the province as required by May 15, 2024; AND
  - B. Direct staff to present the City’s 2023 financial statements along with the 2023 annual report at the June 25, 2024 Council meeting; OR
  - C. Other.
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**PURPOSE**

To present the City’s 2023 financial statements to Council.

Information Report

Decision Report

Direction Report

**DISCUSSION**

**Background:**

The preparation of the financial statements and related information is the responsibility of City Council and the management of the City of Pitt Meadows. It is intended to provide reliable and accurate financial information on the state and health of the City’s finances.

The City’s auditors, KPMG LLP (KPMG) have conducted the audit and issued an unmodified audit report on the 2023 Consolidated Financial Statements.

**Relevant Policy, Bylaw or Legislation:**

The Community Charter Section 167 stipulates the municipal financial statements for a fiscal year must be presented to Council for its acceptance and by May 15 the audited statements must be submitted to the Inspector of Municipalities.

**Analysis:**

During the months of December 2023 to March 2024 Financial Services and Payroll staff performed a variety of yearend process duties that culminated into the preparation of the draft 2023 financial statement package. The draft statements were provided to the City’s auditors who conducted their final audit in April 2024.

The objective of the audit is to obtain reasonable assurance the financial statements are free from material misstatement. Therefore, an audit requires testing transactions and balances, review of internal control systems, as well as discussions with staff at various levels throughout the organization. Resulting from the audit, KPMG have issued an unmodified audit report for the fiscal year ended December 31, 2023.

The Chief Financial Officer Letter of Transmittal (Attachment A) and the 2023 Audited Financial Statements (Attachment B) are attached to this report. Below are excerpts from the letter of transmittal that will provide an overview of the key elements of the consolidated financial statements.

**Statement of Financial Position**

(\$ millions)

	2023 Actual (\$)	2022 Actual (\$)	Year Over Year Change (\$)
<b>Net Financial Assets</b>	\$34.2	\$26.6	\$7.6
<b>Non-Financial Assets</b>	212.0	208.6	3.4
<b>Accumulated Surplus</b>	\$246.2	\$235.2	\$11.0

The City’s financial position continued to be healthy throughout 2023 with an annual surplus of \$11.0 million (2022 \$6.1 million), bringing Accumulated Surplus to \$246.2 million. The accumulated surplus on the Consolidated Statement of Financial Position is a key measure of the City of Pitt Meadows’ financial strength and long-term sustainability.

## Statement of Operations

(\$ millions)

	2023 Budget (\$)	2023 Actual (\$)	2022 Actual (\$)	Budget Variance (\$)	Year Over Year Change (\$)
<b>Revenues</b>	\$55.9	\$57.7	\$47.9	(\$1.8)	\$9.8
<b>Expenses</b>	45.2	46.7	41.8	(1.5)	4.9
<b>Annual Surplus</b>	\$10.7	\$11.0	\$6.1	(\$0.3)	\$4.9

The Annual Surplus of \$11.0 million, which is the excess of revenues less expenditures, is higher than the \$10.7 million budgeted surplus.

Consolidated revenue of \$57.7 million is higher than the \$55.9 million budgeted revenue which is attributed to Investment income, capital funding from government transfers and development cost charges of capital projects carried forward to 2024.

Consolidated expenses of \$46.7 million across all City functions and services was higher than the budget by \$1.5 million. This is primarily due to higher water consumption created by the extended summer/fall drought period, increased Parks, Recreation & Culture activities (offset by corresponding revenue increases), and the increase in asset amortization associated with the cost of new and replaced infrastructure.

### Operating Fund Surpluses/(Deficits)

Operating Fund	Surplus/Deficit (\$)
<b>General</b>	195,359
<b>Water</b>	(988,513)
<b>Sewer</b>	73,631
<b>Drainage</b>	40,259
<b>Solid Waste</b>	9,915

Key highlights of the operating results for each of the operating funds are:

1. General Fund - \$195,359 surplus is represented by:

#	Surplus/ (Deficit)	Description
1	(\$318,651)	Unmaterialized Growth Revenue estimated in 2023 related to phase 4 of the GEBP development
2	\$464,199	RCMP Surplus
3	256,877	Investment Revenue
4	(204,000)	Provision to Carry Forward Year End Position Vacancies
5	(3,066)	Net deficit from all other City services
	<b>\$195,359</b>	<b>Total</b>

2. Drainage Fund – The \$40,259 surplus is comprised of
  - (\$5,160) Drainage revenue as well as;
  - \$45,419 net culvert, ditch, drainage & pump station maintenance savings mainly attributed to unplanned staff vacancies.
3. Sewer Fund – The \$73,631 surplus is comprised of
  - \$25,808 surplus revenue as well as;
  - \$47,823 net of sewer collection and pump station servicing savings mainly attributed to unplanned staff vacancies.
4. Solid Waste – The \$9,915 surplus is comprised of
  - \$19,069 surplus growth as well as;
  - \$88,129 savings in green waste tipping fees offset by;
  - (\$91,101) deficit from increase in solid waste pick up of garbage and green waste;
  - (\$6,182) net deficit in solid waste & recycling collection fees & other costs.
5. Water Fund – The \$988,513 deficit is driven by a number of factors that contribute to the complexities of balancing the water fund:
  - Flat Rate User consumption exceeding budget and the inability for the City to amend utility rates that were set earlier in the year;
  - Metered User fee based on Metro Vancouver’s blended rate which differs from the seasonal rates that Metro Vancouver charges the City during the year. The City is highly impacted during the months of June to September when Metro Vancouver charges the peak rate which is significantly higher than the blended rate charged to customers;

- Metro Vancouver’s consumption estimates which have been the basis for the budget preparation and rate setting. Looking at historical trends, these estimates have been lower than the City’s actual consumption;
- Extreme weather as experienced during the extended drought period over the summer through early fall.

The 2023 deficit of \$988,513 is comprised of:

- \$25,200 Flat rate growth revenue higher than estimated;
- \$16,066 Metered growth revenue higher than estimated;
- \$9,575 Water Penalty revenue higher than estimated;
- (\$984,788) Metro Vancouver water purchase deficit as a result of higher consumption;
- (\$70,456) Meter Servicing and PRV Servicing deficit mainly from additional meter replacements;
- \$13,345 Hydrant servicing savings;
- \$2,545 Water distribution savings.

Although previously reported deficits in the years 2017 to 2020 were reasonable and manageable, the 2021 heat dome and the 2022 and 2023 extended drought have generated a trend of substantially increased deficits.

The 2023 water consumption budget was increased as per Metro Vancouver’s (Metro) consumption estimate provided. However, the estimate fell significantly short from the City’s actual consumption leading to a significant deficit between the budgeted water purchased versus the actual water consumed.

The 2024 water budget includes a further water consumption budget increase that is more aligned with historical actuals and increase in consumption trends. Additionally, the budget considers the impact of the blended rate charged to consumers compared to the seasonal rates charged by Metro, and also looks to distribute City facility water consumption costs based on user water consumption rather than user connections. Staff will continue to monitor the water fund so that appropriate adjustments can be incorporated to achieve a cost recovery model that negates future deficits.

In addition, the 2024 capital plan incorporates the shifting of one year capital plan in order to compensate the water reserve fund for the 2022 and 2023 deficit. A review of the water projects was undertaken and the state of the infrastructure is able to accommodate this change.

Furthermore, the uncertainty of estimating water consumption impacted by climate change (heat domes, droughts, etc.) creates further complexities in developing flat rate user rates to compensate for increased water consumption; and also creates challenges for recovering appropriate revenues from the metered rate users as a result of the City charging blended rates to consumers versus the seasonal rates the City pays to Metro Vancouver.

The approach to developing water consumption estimates will continue to be refined and implemented to incorporate what appears to be the new normal higher volumes as well as consider the introduction of seasonal rates to align rates charged to consumers with the Metro Vancouver rates charged to the City. As a result, water fee increases, likely over multiple years, may be needed to address the increased consumption and to mitigate future water fund deficits.

A universal water metering program would also alleviate the water fund budget challenges and would create fairness/equity that doesn't exist currently between flat rate and metered users. However, there are significant challenges to overcome with our existing meter program, as well as significant procedural and financial considerations before a universal program is viable and justifiable.

Lastly, water conservation initiatives that also serve to mitigate the deficit have been introduced, including modifications to the City's Waterworks Bylaw to require residential water metering for new, replaced or significantly renovated homes, and a well structured communications campaign to bring awareness to this critical initiative.

**Other Information:**

KPMG have provided the draft auditors' report (Attachment B) which presents their opinion on the consolidated financial statements being a fair representation of the City's financial position.

For further details, KPMG have prepared their Audit Findings report (Attachment C). The report outlines the audit status, audit findings and current emerging issues, if any, in auditing and financial reporting. A notable item is the new Asset Retirement Obligation (ARO) accounting standard which was implemented this fiscal year. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations with the retirement of tangible capital assets. As at Dec 31, 2023, the City has recognized a liability for asset retirement obligations of \$1,103,784 (2022 \$1,060,412).

**COUNCIL STRATEGIC PLAN ALIGNMENT**

- Principled Governance       Balanced Economic Prosperity       Infrastructure
- Community Spirit & Wellbeing       Corporate Pride       Public Safety
- Not Applicable

The 2023 Consolidated Financial Statements present the City's financial position and demonstrate responsible financial management.

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**WORKPLAN IMPLICATIONS**

- Already accounted for in department workplan / no adjustments required
- Emergent issue / will require deferral of other priority(ies)
- Other

The preparation of the 2023 financial statements and audit process were accounted for in the City's workplan.

The water fund deficit mitigation efforts, including the 2023 capital project shift and adjustments to the 2024 water fund cost recovery budget model.

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**FINANCIAL IMPLICATIONS**

- None       Budget Previously Approved       Referral to Business Planning  
 Other

Necessary amendments to the 2023 Financial Plan Bylaw, as identified by staff in Council reports or during the yearend process, including those provided to Council during the 2023 8 month budget review, will be brought to Council in June with a covering report outlining the significant items. None of the amendments will affect taxation and will involve funding from reserves for 2023 only.

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**PUBLIC PARTICIPATION**

- Inform       Consult       Involve       Collaborate       Empower

Comment(s):

Upon receipt of Council direction the financial statements will be signed and submitted to the province by May 15, 2024, posted on the City website and incorporated into the 2023 Annual Report.

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**KATZIE FIRST NATION CONSIDERATIONS**

- Referral       Yes       No       Other
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**SIGN-OFFS**

**Written by:**

Laura Barroetavena,  
Director of Financial Services

Mark Roberts,  
Chief Administrative Officer

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**ATTACHMENT(S):**

- A. CFO City Letter of Transmittal
- B. KPMG LLP Draft Auditor Report with 2023 Draft Financial Statements
- C. KPMG LLP Audit Findings Report