

# Staff Report to Council

Financial Services

FILE: 01-1680-01/22

**REPORT DATE:** April 25, 2022

**MEETING DATE:**

May 03, 2022

**TO:** Mayor and Council

**FROM:** Cheryl Harding, Director of Financial Services

**SUBJECT:** 2021 Financial Statements and Audit Results

**CHIEF ADMINISTRATIVE OFFICER REVIEW/APPROVAL:**



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**RECOMMENDATION(S):**

THAT Council:

- A. Accept the City's 2021 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, 2022 ; AND
  - B. Direct staff to do a presentation of the City's 2021 financial statements along with the 2021 annual report at the June 21, 2022 Council meeting; OR
  - C. Other.
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**PURPOSE**

To present the City's 2021 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 2021 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 2021 to March 2022 Financial Services and Payroll staff performed a variety of yearend process duties that culminated into the preparation of the draft 2021 financial statement package. The draft statements were provided to the City's auditors who conducted their final audit in April 2022.

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 City. Resulting from the audit, KPMG have issued an unmodified audit report for the fiscal year ended December 31, 2021.

The Chief Financial Officer Letter of Transmittal (Attachment A) and the 2021 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)

	<b>2021 Actual (\$)</b>	<b>2020 Actual (\$)</b>	<b>Year over Year Change (\$)</b>
<b>Net Financial Assets</b>	35.4	31.2	4.2
<b>Non-Financial Assets</b>	194.6	185.8	8.8
<b>Accumulated Surplus</b>	230.0	217.0	13.0

The City's financial position continued to be healthy throughout 2021 with an annual surplus of \$13 million (2020 \$10.2 million), bringing Accumulated Surplus to \$230 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)

	2021 Budget (\$)	2021 Actual (\$)	2020 Actual (\$)	Budget Variance (\$)	Year Over Year Change
<b>Revenues</b>	52.1	52.1	46.8	-	5.3
<b>Expenses</b>	37.5	39.1	36.6	(1.6)	2.5
<b>Annual Surplus</b>	14.6	13.0	10.2	1.6	2.8

The Annual Surplus of \$13 million, which is the excess of revenues less expenditures, is less than the \$14.6 million budgeted surplus.

Consolidated revenue of \$52.1 million equals the budgeted revenue.

Consolidated expenses of \$39.1 million across all City functions and services was higher than the budget by \$1.6 million. This is primarily due to higher water consumption created by the record summer temperatures, retroactive costs related to the first RCMP collective agreement and the increase in asset amortization associated with the cost of new and replaced infrastructure.

## Operating Fund Surpluses/(Deficits)

(\$ thousands)

Operating Fund	Surplus/(Deficit)
<b>General</b>	316
<b>Water</b>	(397)
<b>Sewer</b>	54
<b>Drainage</b>	8
<b>Solid Waste</b>	(2)

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

1. General Fund – The \$315,659 surplus is represented by:

#	Surplus/(Deficit)	Description
1	\$ (130,000)	Unplanned CP Logistics Park Third Party Reviews
2	156,000	COVID Restart Grant funding Parks, Recreation, Culture impacted revenues
3	(74,000)	Reduced investment revenue
4	297,000	Recreation programming savings due to COVID-19 protocol adjustments
5	82,000	Pool closure savings due to COVID-19 protocol adjustments
6	(452,000)	RCMP estimated collective agreement retroactive adjustment

#	Surplus/(Deficit)	Description
7	109,000	RCMP Housing & Support increased revenues, reduced building maintenance and staff support costs
8	270,000	Surplus taxation growth allocated to Police building debt servicing
9	42,000	Position vacancy savings
10	99,000	Professional development savings due to travel restrictions
11	<u>(83,341)</u>	Net deficit from all other City services
	<b>\$ 315,659</b>	<b>Total</b>

2. Water Fund – The \$396,745 deficit is primarily driven by the Flat Rate User consumption exceeding budget and the inability for the City to amend utility rates that were set earlier in the year. This discrepancy was mitigated during the 2020 budget process by phasing in an adjustment to the flat rate users. Additionally, extreme weather as experienced during the summer contributed to this situation.

A universal water metering program would permanently alleviate this budget challenge and would create fairness/equity that doesn't exist currently between Flat Rate and Metered users however, it involves a high capital cost. Therefore, a number of gradual options are being considered to transition the City to a better model and to help encourage water conservation in the intervening time. These options will be presented to Council during 2023 business planning.

3. Sewer Fund – Maintenance costs in sewer collection and pump station servicing coming in lower than expected created the \$54,328 surplus which is held as savings in the Sewer Reserve for future asset replacement funding.
4. Drainage Fund – \$10,000 Savings in culvert maintenance and \$17,000 surplus growth revenue offset by \$19,000 deficits in drainage and ditch maintenance resulted in the net surplus of \$8,215.
5. Solid Waste – The \$1,788 deficit is attributed to the net increase in organics and solid waste volumes after accounting for additional revenue and advertising cost savings.

#### **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 accounting standard effective for fiscal years beginning on or after April 1, 2022. Staff have commenced work on this project which is expected to be completed by December 2023.

#### **COUNCIL STRATEGIC PLAN ALIGNMENT**

- ☐ Principled Governance    ☐ Balanced Economic Prosperity    ☒ Corporate Excellence  
☐ Community Spirit & Wellbeing    ☐ Transportation & Infrastructure Initiatives  
☐ Not Applicable

The 2022 Consolidated Financial Statements present the City's financial position and demonstrate responsible financial management.

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#### **FINANCIAL IMPLICATIONS**

- ☒ None    ☐ Budget Previously Approved    ☐ Referral to Business Planning  
☐ Other

Necessary amendments to the 2021 Financial Plan Bylaw, as identified by staff in Council reports or during the yearend process, including those provided to Council during the 2021 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 2021 only.

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#### **PUBLIC PARTICIPATION**

- ☒ Inform    ☐ Consult    ☐ Involve    ☐ Collaborate ☐ Empower

Comment(s):

The Council accepted financial statements will be signed and submitted to the province by May 15, 2022, posted on the City website and incorporated into the 2021 Annual Report.

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#### **KATZIE FIRST NATION CONSIDERATIONS**

- Referral    ☐ Yes    ☒ No

**SIGN-OFFS****Written by:**

Cheryl Harding,  
Director of Financial Services

**Reviewed by:**

Mark Roberts,  
Chief Administrative Officer

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**ATTACHMENT(S):**

- A. CFO City Letter of Transmittal
- B. KPMG LLP Draft Auditor Report with 2021 Draft Financial Statements
- C. KPMG LLP Audit Findings Report