

May 9th, 2013

MADAM MAYOR WALTERS AND MEMBERS OF COUNCIL:

I am pleased to present the Consolidated Financial Statements of the City of Pitt Meadows for the year ended December 31, 2012.

Preparation of Financial Statements

The annual consolidated financial statements and accompanying notes and schedules are prepared by City staff in accordance with principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are presented to Council as required under Section 167 of the Community Charter. The statements are the responsibility of City Council and management, and are intended to provide accurate and informative financial information for taxpayers, residents and other readers. The notes and schedules accompanying the statements provide additional financial information and describe the City's significant accounting policies.

BDO Canada LLP, the Council appointed auditing firm has audited the consolidated statements and has provided an unqualified opinion that the statements present fairly the City's financial position and results of operations.

The City has a system of internal controls in place to provide reasonable assurance that assets are safeguarded and financial information is accurate. City Council plays an important role in this system by overseeing and approving the budget and reviewing operational and capital results periodically during the year.

Results Overview

Although the statements comply with the reporting requirements, which result in better comparability of information between municipalities, key stakeholders sometimes find the statements difficult to understand, particularly if they are looking for a singular piece of information. This is the experience of many local governments and additional supplemental information is required to ensure comprehension and understanding of operating results.

Financial Position

The Consolidated Statement of Financial Position reflects the City's assets, liabilities, and accumulated surplus as at December 31st, 2012. Highlights and changes from the prior year financial position include:

- At December 31st the cost of the investments held by the City was \$21.8 million with a market value of just under \$22 million. The balance of Cash and Investments represents the City's reserves, DCC's held and working capital. The balance of the investments is higher than that for 2011 (\$17.9 million) largely due to the residual proceeds from the South Bonson land sale proceeds being held in City reserves.
- Property Tax and Utilities Receivable are down compared to 2011 as there were several commercial properties with significant outstanding taxation balances in 2011 which were paid off in 2012.
- Development Installments receivable are up significantly over the prior year due to the increased construction activity at the Cedar Downs and Golden Ears Business Park developments.
- Accounts Payable and Accrued Liabilities as well as Contractor Holdbacks are down again compared to the prior year due to reduced capital project activity at year end as the significant capital projects ongoing over the past few years including the Arena and the South Bonson Community Centre were completed.
- Outstanding Debt was paid down significantly during the year through the application of a portion of the proceeds from the South Bonson Land Sale to outstanding short term borrowing for the arena renovation and drainage projects. Subsequent to year end the City locked in its borrowing for the development of the South Bonson Community Centre, approximately \$3.1 million, through the Green Municipal Fund. The blended interest rate on the long term borrowing is currently 3.01%.
- The net increase in Tangible Capital Assets over 2011 is \$1.6 million and is due primarily to investments in leasehold improvements in the new library and Road, Water and Drainage infrastructure.

Tangible Capital Assets, which are reported on the financial statements at **historical cost net of amortization**, total \$170.9 million for 2012, comprising of the City's land, infrastructure, buildings, vehicles and equipment. These assets form part of the Accumulated Surplus reported on the Consolidated Statement of Financial Position, however, they represent the City's asset holdings and are not available for funding use or distribution to reserves. The estimated replacement cost for assets and infrastructure is \$319.5 million to \$341.9 million.

Accumulated Surplus also includes City reserves, which totaled \$15.3 million (2011 - \$11.6 million) for both operating and capital reserves. The higher overall balance is generally due to the residual South Bonson land sale proceeds currently held in reserves.

Operating Results

On the Consolidated Statement of Operations, for 2012 the City is reporting an annual surplus of \$13.63 million on total revenues of \$41.62 million as compared to a \$4.33 million surplus on \$29.47 million in revenues in 2011.

Items of note on the Consolidated Statement of Operations compared to 2011 include:

Revenues

- Increased revenue for Municipal Property taxes and Water, Sewer, Solid Waste and Drainage Levies are due to approved rate increases and increased assessment and unit growth.
- Return on investments for 2012 was down compared to the previous year due to the reduced overall yield on both short term holdings and new long term instruments purchased. The overall average rate of return for accounting purposes for 2012 was 2.6%. From a market perspective the rate of return for 2012 was 2.41%. As the City's older investments with a historically higher yield come due they are replaced with lower yield instruments due to the interest rate reductions in the past few years.
- Grant revenues generally fluctuate with capital projects and for 2012 they are significantly lower than 2011 as the grants for significant capital projects such as the Arena and South Bonson Community Centre had been either received or accrued in prior years.
- Similar to grants, Contributions by Developers fluctuates with the volume and type of capital projects. The amount reported for 2012 is down from that for the previous year as 2011 included significant contributions for infrastructure from the developers for Cedar Downs and Golden Ears Business Park.
- Gain on Disposal of TCA which is reported at over \$12.2 million for 2012 is almost entirely due to the South Bonson land sale. The land had been held on the books of the City for a long period of time and a relatively low historical cost.

Expenses

Expenses for 2012 totaled \$27.98 million compared to \$25.14 million in 2011. The comparability of year to year expenses on the financial statements is challenging due to the fluctuation of some capital project expenditures that are not capitalized as Tangible Capital Assets but are expensed in the year, however each of the City operating departments as well as many of the partner service providers experienced increased costs due to contractual salary and benefit obligations which accounts for a portion of the year over year increase.

As well, each functional area shown on the consolidated statement of operations included not only expenditures, but also the calculated amortization on Tangible Capital Assets. Amortization contributes significantly to the year over year variances and is itemized below for information:

	Amortization		
	2012	2011	Variance
General Government Services	\$ 533,673	\$ 349,615	\$ 184,058
Protective Services	147,778	119,317	28,461
Transportation Services	1,485,203	1,316,835	168,368
Water Services	513,634	481,437	32,197
Sewer Services	198,110	204,649	(6,539)
Drainage Services	428,716	416,700	12,016
Recreation and Cultural Services	1,284,267	642,926	641,341
	<u>\$ 4,591,381</u>	<u>\$ 3,531,479</u>	<u>\$ 1,059,902</u>

The significant increase in the amortization for Recreation and Cultural Services relates to the full year of amortization on the arena upgrades and the South Bonson Community Centre.

Specific expenditure items that have contributed to operating variances from the prior year as reflected in the Consolidated Statement of Operations are as follows:

- In Protective Services, operating expense increases over the prior year are largely due to:
 - Increases in RCMP contract costs, including an accrual for estimated payout of existing service severance opted for by members, before the federal government eliminates service severance as a benefit
 - Significant maintenance to the detachment building included in the Police Housing and Support cost share with Maple Ridge
 - Water Damage repairs to the Fire Hall not capitalized
 - 2012 Freshet response costs
- For Water Services, expenses are up over the prior year largely due to water purchase costs which increased due to both unit costs from GVWD and usage.
- Costs for Solid Waste Services significantly increased compared to 2011 primarily due to the implementation of the curbside organics program in June of last year.
- Apart from increased amortization, expenses for Recreation and Cultural Services increased primarily due to the operating costs of the new library which went into service in February of 2012. This includes the levy paid to the Fraser Valley Regional Library and the costs related to leasing the space.
- Expenses for Planning Services are lower for 2012 due to reduced consulting costs.

Comparison with the Budget

As the City is required by the Community Charter to set a balanced budget, it is necessary to adjust the budget figures in the financial plan to comply with the reporting requirements on the financial statements.

The balanced budget in the financial plan bylaw is based on planned expenditures, including capital additions, with revenue requirements determined for the purposes of

setting rates for taxation and utility fees. The budgeted annual surplus as per the Consolidated Statement of Operations of \$13.3 million is reconciled to the balanced budget per the financial plan bylaw as follows:

Budget Surplus, as per Consolidated Statement of Operations	\$ 13,355,767
Add: Amortization Expense (unbudgeted)	4,591,381
Budgeted Proceeds from Borrowing	1,935,500
Budgeted Transfer from Own Reserves	8,159,606
	<u>14,686,487</u>
Less: Budgeted Capital Expenditures	
General Government Services	1,283,000
Protective Services	110,500
Transportation Services	2,337,340
Water Services	1,393,000
Sewer Services	885,000
Drainage Services	2,428,500
Recreation and Cultural Services	1,668,889
	<u>10,106,229</u>
Gain on Disposal of Tangible Capital Assets (unbudgeted)	12,220,961
Budgeted Reduction in Debt Principle	647,964
Budgeted Transfer to Own Reserves	5,067,100
	<u>28,042,254</u>
Surplus as per Financial Plan Bylaw No. 2531, 2012	<u>\$ -</u>

For comparability to the balanced budget, it is necessary to reconcile the annual surplus on the Consolidated Statement of Operations of \$13.6 million to an annual surplus calculated using the same principles as the balanced budget in the financial plan bylaw. This reconciliation is as follows:

Annual Surplus per the Consolidated Statement of Operations	\$ 13,634,530
Add: Amortization Expense	4,591,381
Debt proceeds used for Non-TCA Capital Projects	83,735
Transfers from Reserves for Non-Capital Funding	10,562,188
	<u>15,237,304</u>
Less: Transfers to Own Reserves	6,378,728
Gain on Disposal of Tangible Capital Assets	12,220,961
Third Party Funding for Tangible Capital Assets	667,630
Contributed Assets	29,174
Reduction of Short term Borrowing	9,189,000
Long Term Debt Principal Payments	179,576
	<u>28,665,069</u>
Current Fund Surplus (per Note 10) for Comparison to Balanced Budget	<u>\$ 206,765</u>

The annual surplus noted above of \$206,765 is the amount that is available for allocation to reserves or projects by Council based on the City's reserve policy.

In closing, I would like to thank Council and the Chief Administrative Officer for the direction and leadership provided on financial matters. I would also like to thank the other Directors and their departments for their cooperation during the year. Finally, I would like to express my sincere appreciation to the Finance group for all of their hard work during the year and especially at year end.

Sincerely,

A handwritten signature in blue ink, appearing to read 'D. Rear', with a stylized flourish at the end.

Dean Rear
Director of Finance