

# *Chief Financial Officer Letter of Transmittal*

May 13, 2014  
Mayor and City Council  
City of Pitt Meadows

Members of Council:

I am pleased to present the Financial Statements of the City of Pitt Meadows for the year ended December 31, 2013.

## *Financial Statements*

The preparation of the Financial Statements and related information is the responsibility of City Council and the management of the City of Pitt Meadows; and is intended to provide reliable and accurate financial information on the state and health of the City's finances to residents, businesses, taxpayers and other statement readers. The reporting results include the City's service delivery partners: Ridge Meadows RCMP, Maple Ridge Pitt Meadows Joint Parks and Leisure Services, Fraser Valley Regional Library and Nustadia Recreation Inc.

The financial statements and related information are prepared in accordance with generally accepted accounting principles (GAAP) for Canadian local governments as established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada and the Provincial Ministry of Community, Sport and Cultural Development.

The City Council appointed auditors, the public accounting firm of BDO Canada LLP, have given the City an unqualified audit opinion on the City's financial statements. In their professional opinion the statements present fairly, in all material respects, the financial position of the City of Pitt Meadows as at December 31, 2013 and the results of its operations and changes in cash flows for the year then ended. The Notes to the Financial Statements provide additional financial information and describe and disclose any significant accounting policies the City follows.

In addition, the City maintains a system of internal accounting controls designed to provide reasonable assurance for safeguarding assets and the reliability of financial records and documents. City of Pitt Meadows management recognizes that all systems of internal accounting controls have inherent weaknesses, which management mitigates by periodic reviews and revisions. Council in Committee oversaw all City financial matters for 2013 including the budget process, review of auditor reports and recommendations, and review of operational and capital information.

The City of Pitt Meadows Financial Statements consists of the following four statements:

<i>Statement</i>	<i>Purpose</i>
<b>Statement of Financial Position</b>	This statement lists the City's financial and non-financial assets and financial liabilities, totaling to the accumulated surplus or deficit. The difference between the financial assets and the financial liabilities is termed net financial assets if a positive result occurs, or net financial debt if a negative result occurs.
<b>Statement of Operations</b>	This statement summarizes revenues raised in the year to fund operating and capital needs, lists expenses explaining the cost of goods and services consumed during the year (including amortization of assets), how the organization changed in net value for the period (surplus or deficit), and the new accumulated surplus at year end.
<b>Statement of Changes in Net Financial Assets (Net Debt)</b>	This statement shows all revenues against all operating expenses and tangible capital asset expenditures to calculate whether the City had an increase in net financial assets or decrease in net financial assets (net debt). This statement is important as it reports the extent to which annual expenditures (cost of goods and services) are met with the revenues recognized within the year.
<b>Statement of Cash Flows</b>	This statement reports the change to cash and cash equivalents (highly liquid investments readily convertible to cash) for the year. It shows how the City financed its operating, capital, investing, and financing activities and met its cash commitments. The ending balance represents a pool of cash or ready sources of cash that a government has available to meet its ongoing activities, obligations and emergencies.

### *Statement of Financial Position*

For 2013, the City's results show \$27.960M in financial assets and \$21.555M in financial liabilities resulting in a net positive outcome of \$6.405M in net financial assets, providing funds for future activities and placing no immediate financial burden on short term budgets.

The City's non-financial assets list all Tangible Capital Assets (TCAs) the City owns, as well as inventories and prepaid expenses, with the TCAs making up a significant portion of the total. A net increase in non-financial assets indicates that annual capital replacements exceeded the annual disposal of assets combined with the annual amortization, meaning that for 2013, assets are being replaced slightly faster than they are being used. For 2013, the City increased its total non-financial assets by \$3.583M. Although the City was successful in 2013 in increasing its TCAs, an on-going challenge for the City will be to continue to annually generate enough revenue to fund capital reserve contributions needed to offset the future amortization of TCAs. This is a national issue as all municipalities across Canada struggle with funding to replace aging infrastructure.

The City's accumulated surplus is equivalent to the private sector's equity section on the balance sheet. Due to significant investment in TCAs, the City, like other local governments, has a large accumulated surplus. The City's healthy \$181.118M accumulated surplus in 2013 is up by \$2.154M over 2012.

## *Statement of Operations*

The City raised \$30.437M in revenues in 2013, used \$28.283M of those revenues to provide services and infrastructure, generating a \$2.154M surplus. This is derived from a \$14,000 General Fund operating surplus; a \$226,000 Water Fund operating surplus; a \$133,000 Sewer & Drainage Fund operating surplus; \$321,000 net increased contributions to reserves and a net increase in TCA's of \$1.460M.

## *Statement of Changes in Net Financial Assets (Net Debt)*

The City raised \$30.437M in revenues from external sources and developer contributions. This amount was reduced by \$23.473M in goods and services consumed (\$28.283M in operating expenses less \$4.810M in TCA amortization expenses) for a net operating increase in financial assets of \$6.964M. The City sold and wrote down assets valued at \$69,000 and acquired \$1.514M in prepaid expenses and inventories increasing the net financial assets to \$5.519M. The \$5.519M mostly financed net tangible capital acquisitions of \$6.949M, resulting in a decrease to net financial assets (net debt) of \$1.430M.

## *Statement of Cash Flows*

In 2013, the City generated \$4.581M in cash from operating activities, and utilized \$6.679M to finance net capital acquisitions, invested \$54,000 in interest bearing instruments, and received \$2.143M in new debt proceeds and development cost charges less debt repayments for a net \$9,700 decrease to cash. The \$9,700 decrease means that the City has similar quantity of cash or ready sources of cash to meet emergency and short term needs as it did in 2012. The new balance of \$351,000 in cash, cash equivalents and investments is deemed to be sufficient to meet the City's short term cash flow needs.

## *Financial Results*

### *Operating Results*

#### *Revenues*

The City budgeted to collect \$33.106M in total revenues for 2013. The actual amount of revenues collected was \$30.437M, resulting in a \$2.669M variance. Most of the variance is a result of a pending grant application for \$3.300M to finance the replacement of drainage area #4 pump station. The project will not commence until the success of the grant application is known. If the application is unsuccessful, Council will consider other funding options at that time.

The City's primary sustainable revenue source is property taxation budgeted at \$15.655M, and comprises approximately 58% of total operating revenues. Revenues are generated from the six different property classes by multiplying the assessed value of individual properties by the tax rate set for that property class.

Sale of Services is the second highest sustainable source of revenue budgeted at \$11.002M. The actual amount of revenues received was \$10.975M, generating a small budget deficit of \$27,000. The major component of the Sale of Service revenues is derived from utility fees, comprising approximately 31% of total operating revenues. The City budgeted to collect \$8.453M in utility fees from its utilities and received \$8.415M in actual fees, resulting in a small unfavourable variance of \$38,000. The other major component of the Sale of Service revenues is derived from licenses, permits, penalties and fines.

*The breakdown of revenues by department is shown in the segmented reporting Schedule 3.*

### ***Expenses***

Collectively, the City met its \$29.183M 2013 operating budget for expenses, coming in at \$28.283M. The City's largest expense is salaries and wages, including benefits, at \$6.091M, comprising approximately 22% of all expenses, followed by RCMP contractual services of \$4.550M and Recreation contractual services of \$4.455M, each at 16% of all expenses.

The breakdown of expenses by department is shown in the segmented reporting shown in Schedule 3.

### ***Operating Surplus/Deficit***

The General Operating Fund recorded a small surplus in 2013 of \$14,000. The Water Operating Fund recorded a \$226,000 surplus. The Sewer & Drainage Operating Fund recorded a \$133,000 surplus. In accordance with past practice and City policy, the surplus will be used to provide emergency funding, augment revenue shortfall, generate interest revenues, and provide for any unfunded liabilities.

### ***Reserve and Development Levy Fund Balances***

City revenues are strategically set aside by Council in reserves to protect the City against unanticipated events that can trigger budget deficits, to balance programs and activities that tend to fluctuate each year, and to finance long-term capital needs or contingent liabilities. The City has a healthy \$21.727M in reserve and development levy funds to support the planned capital projects and the City's operating commitments. This is an increase of \$1.849M over the 2012 total of \$19.878M.

Significant transactions affecting the increase include: \$385,000 Road Use Levies; \$750,000 Alouette Estates drainage contribution; \$320,000 other third party contributions; \$1.429M in levies collected from developers; \$365,000 in interest earnings; \$2.706M to fund roads, vehicles & equipment, lifecycle and other capital reserves; \$394,000 strategic capital reserve; and \$1.926M utility capital reserves;. The reserve and development levy increases were offset by \$6.426M used to fund capital projects.

While the reserve fund balances would appear to be significant, it should be noted that the majority of these funds have been designated for specific future projects and activities by City Council.

### ***Debt***

#### ***Borrowing Capacity***

The Community Charter restricts the City to the amount of long term liabilities it can commit to, as well as the process it must undertake to incur debt (including capital lease commitments). The legislation

limits the borrowings to a percentage of annual sustainable revenues that can be allocated to the servicing of debt. The City is restricted to allocating 25% of its annual sustainable revenues to the servicing of debt and capital leases with the approval of the electorate, and 5% with Council approval.

### *Current Borrowings*

Financing capital improvements through debt is an important consideration and a standard funding practice utilized by all municipalities, especially as cities become built out and the more traditional methods of financing through land sales and developer contributions are not as prevalent. Pitt Meadows continued to carry a low debt-per-capita ratio in 2013. The debt-per-capita ratio increased from \$399 in 2012 to \$432 in 2013, based on the Province of BC Statistics population estimate of 18,600. The \$432 debt per capita ratio is well within the City's financial capacity.

The 2013 Financial Plan included repayments to the three outstanding debt issues the City carries with the Municipal Finance Authority for the expansion and renovation of the Civic Centre, the Arena acquisition and construction as well as the construction of the South Bonson Community Centre.

The particulars of these three borrowings can be viewed in Note 7 to the Financial Statements.

### *Investment Portfolio*

The City of Pitt Meadows invests its excess operating and capital funds in accordance with its Investment Policy and the statutory requirements of the Community Charter. The investment decisions and strategies strive to maximize the return on investments while minimizing portfolio risk, and ensuring that daily and future cash flow requirements are aligned and met. Generating high returns on investments held in the City's investment portfolio presented a challenge again in 2013, partly due to continued lower short term rates and the restrictive nature of the City's investment policy to protect public funds. In 2013, the City's \$22.226M total investment and cash portfolio increased by \$45,000 from the 2012 total of \$22.181M. Average annual yield to the portfolio in 2013 was 2.55% versus 2.60% in 2012. The investment portfolio generated \$584,000 in interest revenue in 2013, a 4.8% increase over the \$557,000 in 2012 due to increased investments from higher reserve contributions.

### *Tangible Capital Assets*

The City of Pitt Meadows owns and maintains a significant amount of physical assets comprised of roads, bridges, traffic signal controls, sewer and water systems (reservoirs, pipes, pumps, etc.) equipment, vehicles, parks, facilities, and other amenities. Tangible capital assets represent a significant portion of municipal government assets, and are crucial to the delivery of programs and services, operations and life safety. The collective worth of the City's assets at the end of 2013 is estimated to be nearly \$173M, calculated at historical cost as required by accounting guidelines (PSAB).

*The breakdown of the tangible capital assets is shown in Schedule 1.*

Although the historical cost is significant, the replacement cost of the assets would be substantially more. The City utilizes these assets to deliver the services and programs the community relies on, preparing annual five year capital plans that are mostly comprised of the cost of maintaining, replacing or upgrading this large and diverse inventory to keep them in a state of good repair. Some of the

infrastructure has been used for some time, and some has been recently upgraded or replaced through capital budget programs.

The City's actual tangible capital expenditures were approximately \$6.695M in 2013, funded from taxation, reserves, debt, development levies and grants. Significant projects continuing, completed or started in 2013 included Old Dewdney Trunk Road refurbishing, RCMP CPO Expansion, Recreation Centre Renovation and McKechnie Drainage Area improvements.

In order to maintain services, it is important the City, at a minimum, replace its assets at a rate equal to the rate assets are being amortized (used up) keeping in mind that amortization is based on historical costs rather than replacement costs, which can be significantly different. On this basis, the City's 2013 amortization of \$4.810M should be measured against the City's 2013 actual capital expenditures of \$6.695M, recognizing that the differences from year to year should be analyzed over a 50 to 100 year infrastructure plan to determine trends, potential gaps and funding shortfalls.

### *Utilities (Water, Sewer, Solid Waste, Storm Drainage)*

The City operates four self-balancing utility services to its residents and businesses, three of which are funded entirely by user fees (water, sewer, solid waste) and the fourth by taxation on assessed property value (storm drainage).

Water, sewer and solid waste services are directly delivered to each individual property, and therefore, each user is directly billed for the provision of these services. The City collects both metered and flat user fees from approximately 5,700 households and commercial enterprises for these services. The user fees collected pay for City operational and capital infrastructure costs, and also are used to pay Metro Vancouver for the supply of regional services. The fees paid to Metro Vancouver comprise a significant portion of these user fees; 60% of the total cost of \$2.132M for sewer collection and treatment; 58% of a total cost of \$3.672M for water purchases and supply; and 12% of the total cost of \$1.208M for solid waste services.

The storm drainage utility is a service that is not delivered to any one particular property but is provided throughout the City as a community service, and therefore, is allocated like other public services through taxation on an assessed value basis to fund and operate a network of drainage pipelines and water courses to collect storm water.

## *Financial Sustainability*

The City recognizes that it must strive to be financially sustainable, and along with the regional and two senior levels of government, develop long term sustainable funding and service models that address service and infrastructure models.

### *Asset Management*

In 2013, the City managed over 21,000 City asset components, encompassing land, buildings, infrastructure, equipment and vehicles, collectively valued at \$173M. One of the most crucial aspects of financial sustainability is the stewardship over the City's assets. Without the ongoing replacement

and proper maintenance of these assets the City could not continue to deliver the services to the same level the community enjoys today.

The City of Pitt Meadows follows and supports the recommendations of accounting oversight bodies and government agencies to implement sound accounting, management and reporting practices over tangible capital assets. The City fully appreciates the long term financial benefits of deploying financial stewardship policies, as well as the positive impact they have on overall sustainability.

In 2013, the City reaffirmed its strategy to build sustainable asset funding into its base budget by setting aside \$4.7M in reserve funding. In addition, the City continues to deploy reporting asset management systems, including a Cartegraph Software System to systematically track and analyze assets and related expenditures so sound repair or replacement decisions are made, as well as measure the infrastructure funding gap. The City also operates a Graphical Interface System to track physical asset locations.

### *Strategic and Financial Planning and Reporting*

The City of Pitt Meadows has developed a comprehensive and consultative strategic planning process that sets out the goals and objectives of Council for its three year term in a public Strategic Plan document. In 2012, the newly elected City Council revised the 2011 Strategic Plan to ensure the goals of the previous Council were consistent with evolving trends and community interests and needs. The high-level Strategic Plan is linked with the Corporate Business Plans that assigns projects to departments to meet Council's goals and objectives. Individual departments develop more detailed work plans that dovetail with the City's budget process and the City's 5 Year Operating and Capital plans to ensure adequate funding and resources are provided.

The linking of shorter term plans and budgets gives current and future Councils and staff, as well as residents, businesses and other agencies, confidence that decisions are well thought out, providing the City with long term planning continuity and sustainability. To ensure results of the long term planning are both tracked and monitored, the City deploys a suite of computerized accounting, planning and resource management systems. Council communicates with the community through interactive budget meetings to allow public input and to gauge public response to financial and business plans. The City also engages the community through a variety of forums, exchanges and surveys utilizing a variety of social media tools including the City's website, facebook and twitter.

### *Fiscal Capacity*

City Council recognizes that a sustainable community must balance the services and level of services it delivers with the ability of its residents and businesses to sustain the funding of the services. The City has a number of taxation policies that have been well established over time that establish tax allocations to property classes, acceptable proportions of taxation versus user fees and permissive exemptions.

Some services need to be sustained and financed by the community at large through taxation. This provides equal access by all citizens to ensure the health, safety and well-being of the Community. Other services need to be delivered on a user fee basis to ensure the demand is matched to the willingness to pay, and that a certain portion of the cost is recovered from the users demanding the service. City Council has also tried not to shift taxes to any one tax class, choosing instead to

consistently apply the tax increase burden across all tax classes equitably recognizing that each of the tax classes has its own financial challenges.

As well, Council is focused on building the commercial tax base in order to alleviate taxation burden on existing property owners. Provincial tax capping has been legislatively applied in contravention to this Council policy, which is out of the control of the City. City Council recognizes that a sustainable community must include certain religious, philanthropic, cultural and historical institutions, and therefore, uses its legislative powers to grant tax exemptions to applicants of this nature to assist these important community stakeholders with their financing.

In closing, I would like to thank City Council for providing their direction and leadership, the Chief Administrative Officer, Directors and their respective departments for their cooperation and input throughout the year, as well as staff in Financial Services for their continuing dedicated service and professionalism.

Mark Roberts  
Director of Finance & Facilities  
Chief Financial Officer