



The *Natural* Place

City of Pitt Meadows

April 28th, 2010

HIS WORSHIP MAYOR MACLEAN 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, 2009.

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. New for 2009 is the Consolidated Statement of Change in Net Financial Assets, and Schedule 1, this is the Consolidated Schedule of Tangible Capital Assets and Accumulated Amortization. This schedule supports compliance of PSAB recommendation 3150 and reports the historical costs and amortization of the City's assets including land, infrastructure, buildings, vehicles and equipment. This is the result of almost three years of work by staff inventorying assets, determining a historical value, assessing economic useful life and calculating accumulated and annual amortization on those assets.

BDO Dunwoody LLP, the Council appointed auditing firm, has audited the consolidated statements and has given 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

With this being the first year for preparation of the financial statements on a full accrual basis with the reporting of capitalization and amortization of tangible capital assets, there are considerable differences from how the financial statements have been prepared in the past. As well, there is a significant amount of reconciliation and explanation necessary for users of the financial statements to understand how the reported financial results compare to the balanced budget as set by Council. For comparative purposes, the 2008 results have been restated to conform to the 2009 presentation format.

Financial Position

The Consolidated Statement of Financial Position, commonly referred to as the balance sheet, reflects the City's assets, liabilities, and accumulated surplus as at December 31st, 2009. Changes from the 2008 financial position include:

- At December 31st the cost of the investments held by the City was \$14.8 million with a market value of just under \$15 million. The balance of the investments is lower than that for 2008 (\$16.5 million) due to the use of significant reserve funds for 2009 capital projects.
- A reduction in Development Cost Charges (DCC's) as a significant portion of the construction of Airport Way was funded through DCC's over the past two years.
- An increase in Temporary Borrowing as the City had two loan authorization bylaws outstanding for a total authorized borrowing of \$4.775 million. At year end \$3.775 million (2008 - \$1.1 million) had been drawn from the Municipal Finance Authority's Interim Financing Program. The interest rate on this outstanding amount at December 31st was 1.1%. These were for the Arena acquisition and the Civic Centre Parkade.

However, the most significant change on the Consolidated Statement of Financial Position is that of Tangible Capital Assets which is now reported at historical cost net of amortization. This amount, which totals over \$144.9 million for 2009, comprises the City's land, infrastructure, buildings, vehicles and equipment and forms part of the Accumulated Surplus reported on the Consolidated Statement of Financial Position. **Although this amount is included in Accumulated Surplus for reporting purposes, it represents the City's asset holdings and is not available for funding use or distribution to reserves.** Tangible Capital Assets are detailed in Schedule 1 of the financial statements.

The increase in Tangible Capital Assets over 2008 is \$8.6 million and is largely due to significant capital additions of over \$12 million during the year including the Pitt Meadows Arena, the completion of Airport Way, the rebuild of Pumpstation #1, and the work in progress on the Civic Centre Parkade.

Accumulated Surplus also includes City reserves, which totaled \$14.4 million for both operating and capital reserves. This compares to a total of \$14.9 million for 2008. Even though the City transferred \$5.75 million in contributions and interest to its reserves in 2009, the reduction is due to the use of the reserves for capital projects and tax rate stabilization.

Operating Results

On the Consolidated Statement of Operations, the City is reporting an annual surplus of \$5.4 million on total revenues of \$28.4 million as compared to a \$6.7 million budget surplus on \$28.9 million in revenues.

Items of note on the Consolidated Statement of Operations compared to 2008 include:

Revenues

- Return on investments for 2009 was down slightly compared to the previous year due to the reduced prime rate and lower yields on short term instruments and a lower overall investment balance. The overall average rate of return for accounting purposes for 2009 was 4.45%. The rate of return from a market perspective for 2009 was 3.56% as much of the short term investments held by the City yielded a much lower rate than in prior years due to far lower returns in the money market.
- There is a significant increase in the reported Drainage revenue due to the implementation of the Drainage utility which included revenue sources from an area based levy and an assessment based mill rate.
- There is a substantial increase in Solid Waste revenue due to the rate increase that was necessary to accommodate the increased contract costs for garbage and recycling pick up in the community.
- Reported grant revenues are much higher in 2009 due to the Province front ending the Traffic Fine Revenue Sharing and the Small Community Grants as an economic stimulus. As well, the City received confirmation of significant capital grants for some of its largest projects. Capital grant claims included in 2009 revenue include that for the Spirit Square, the new pedestrian bridge, and Pumpstation #1.

Expenses

With the new financial reporting methodology, the comparability of expenses on the financial statements from year to year is challenging due to the fluctuation of capital project expenditures that are not capitalized as Tangible Capital Assets and are expensed in the year. Examples of these include studies or significant maintenance of an asset which is not a betterment e.g. decking repairs to the Kennedy Road bridge. The magnitude of these items will vary from year to year and will make the explanation of spending patterns in any functional area more complex.

Some more significant expenditure variances from the prior year reflected in the Consolidated Statement of Operations are as follows:

- A significant increase in Protective Services expenses largely composed of increased RCMP contract costs.
- In the water utility, purchases of water from the GVWD increased approximately \$369,000 over 2008. This is due to both a rate increase and increased consumption of over 9%.
- The new drainage utility yielded increased ditch cleaning and maintenance activities and therefore increased expenditures.
- Increased Solid Waste expenses due to significant increases in the new garbage and recycling contract.

As the City is required by the Community Charter to set a balanced budget, it was 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 \$6.7 million is reconciled to the balanced budget per the financial plan bylaw as follows:

Budget Surplus, as per Consolidated Statement of Operations	\$ 6,782,673
Add: Amortization Expense (unbudgeted)	3,257,831
Loss on Disposal of Tangible Capital Assets (unbudgeted)	214,608
Budgeted Transfer from Own Reserves	8,335,300
Budgeted Proceeds from Borrowing	4,910,800
	<u>16,718,539</u>
Less: Budgeted Capital Expenditures	
General Government Services	3,696,000
Protective Services	590,500
Transportation Services	4,662,000
Water Services	802,000
Sewer Services	848,300
Drainage Services	1,850,000
Recreation and Cultural Services	5,526,500
Budgeted Reduction in Debt Principle	50,000
Budgeted Transfer to Own Reserves	5,475,912
	<u>23,501,212</u>
Surplus as per Financial Plan Bylaw No. 2403, 2009	<u>\$ -</u>

For comparability to the balanced budget, it is necessary to reconcile the annual surplus on the Consolidated Statement of Operations of \$5.4 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	\$ 5,399,999
Add: Amortization Expense	3,257,831
Loss on Disposal of Tangible Capital Assets	214,608
Transfers from Reserves for non Capital Funding	2,388,825
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	5,861,264
Less: Transfers to Own Reserves	6,009,312
Third Party Funding for Tangible Capital Assets	3,211,772
Contributed Assets	1,132,157
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	10,353,241
Current Fund Surplus (per Note 11)	908,022
Prior Year Surplus due to Inventory Adjustments	(134,374)
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Annual Surplus for Comparison to Balanced Budget	\$ 773,648

The annual surplus noted above of \$773,648 is the amount which would have historically appeared on the statement of current fund operations in the previous financial statement format. This 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 and their assistance with the Tangible Capital Assets project. 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,



Dean Rear
Director of Finance