

**To:** Chief Administrative Officer **Date:** May 1, 2023  
**From:** Scott Ross, Manager of Accounting Services  
**Subject:** **Draft 2022 Financial Statements**

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### **Recommendation(s)**

That the City of Mission's draft 2022 financial statements, attached as Attachment A to the Manager of Accounting Services' report dated May 1, 2023 entitled "City of Mission Draft 2022 Financial Statements", be approved.

### **Purpose**

The purpose of this report is to present the City's draft 2022 financial statements, including the draft audit opinion for Council's consideration and approval.

### **Background**

The City of Mission's draft 2022 financial statements, including the draft audit opinion, are attached as Attachment A. In accordance with Canadian audit standards, Council is required to approve the financial statements before the auditors issue their final audit report. In accordance with Section 167 of the *Community Charter*, audited financial statements that have been prepared by the City's Financial Officer, and presented to Council for its acceptance, are required to be submitted to the Inspector of Municipalities.

### **Discussion and Analysis**

The City's annual surplus for 2022 as shown on the Statement of Operations and Accumulated Surplus was \$38.4 million (\$47.8 million in 2021). The general operating fund (services that are primarily funded by property taxation) surplus for the year was \$3.8 million (\$4.1 million in 2021) and was included in tonight's Council Agenda in greater detail by the Deputy Collector/Treasurer's report entitled "Year-end Financial Reporting – December 31, 2022". The operating surpluses for each of the self-funding City utilities (water, sewer, drainage and solid waste management) and the municipal forest, are transferred to their respective reserves.

In addition to the general operating fund surplus and the surplus from the self-funding operations, the total annual surplus also includes other items such as the change in the City's equity in investment in Tangible Capital Assets, most notably impacted by the developer contributions of in-kind capital assets, as well as transfers in and out of reserves.

A summary of the City's draft 2022 financial statements follows.

### **Audit Opinion**

The City's external auditors have concluded their audit testing and have issued what is considered to be a "clean audit"; in other words, in the Auditor's independent opinion, the City's draft 2022 financial statements are presented fairly, in all material respects.

### **Statement of Financial Position**

The statement of financial position, which is similar to a balance sheet, summarizes the City's assets and liabilities, the net of which results in accumulated surplus. The components of

accumulated surplus as detailed in Note 14 to the financial statements, include the operating surplus', the reserve fund balances, and the amount invested in capital assets (i.e. infrastructure, facilities, equipment and land). Assets on the statement of financial position are broken down into two categories:

- Financial assets: assets which are available to discharge existing liabilities. Examples include cash, accounts receivable, and investments.
- Non-financial assets: assets that are held for use in the provision of services and have useful lives extending beyond one year. The majority of non-financial assets are tangible capital assets, such as roads, drainage, water and sewer infrastructure, and municipal facilities, which are used to provide ongoing municipal services.

At the end of 2022, the City had net financial assets of approximately \$90.5 million (\$94.2 million in 2021), which means financial assets were greater than liabilities. This represents a \$3.7 million decrease in net financial assets over the prior year. Further details of the change in net financial assets can be found in the Statement of Change in Net Financial Assets.

The City had non-financial assets of about \$572.0 million at the end of 2022 (\$529.9 million in 2021), the majority of which represents the historical acquisition cost of tangible capital assets, less accumulated amortization. This represents an increase in non-financial assets of approximately \$42.1 million over the prior year as a result of tangible capital assets acquired, both purchased and developer contributed, during the year, less amortization and any disposals. The City's net financial assets, together with its non-financial assets, contributed to its overall accumulated surplus position of approximately \$662.5 million as at the end of 2022 (\$624.1 million in 2021) representing an increase of \$38.4 million over the prior year.

### **Statement of Operations and Accumulated Surplus**

This statement, which is similar to an income statement, summarizes the City's operating and capital revenues and expenses for the year, the net of which results in the annual surplus. The annual surplus is added to the prior year's accumulated surplus, to arrive at the ending accumulated surplus balance for the year. Based on total revenues of approximately \$124.9 million (\$125.8 million in 2021) and expenses of approximately \$86.5 million (\$78.0 million in 2021) during the year, the annual surplus, as shown on the Statement of Operations and Accumulated Surplus is approximately \$38.4 million (\$47.8 million in 2021).

The ending accumulated surplus position reflected in this statement of approximately \$662.5 million corresponds with the accumulated surplus shown on the Statement of Financial Position.

### **Statement of Change in Net Financial Assets**

This statement takes the annual surplus figure, adjusts for the changes in tangible capital assets, inventories of supplies and land, and prepaid expenses, to arrive at the change in net financial assets. The net increase in financial assets is then added to the net financial assets at the beginning of the year to arrive at the year-end balance for net financial assets. The City's net financial assets at the end of 2022 were approximately \$90.5 million (\$94.2 million in 2021), which corresponds with the net financial assets figure in the Statement of Financial Position.

### **Statement of Cash Flows**

This statement is probably one of the most important components in the financial statements since it explains the sources and usage of cash throughout the year, in the categories of operating, investing, financing, and capital transactions. One notable item in this year's statement is the City receiving the proceeds from the debt issuance for the secondary sewer crossing of \$12.5 million from the MFABC as shown in the financing category. The change in cash and cash equivalents is reflected in the final cash position shown, which reconciles with the cash and cash equivalents balance shown on the Statement of Financial Position. The City's cash and cash equivalents

balance at the end of 2022 was approximately \$25.0 million (\$67.0 million in 2021), a significant portion of which are held in highly liquid investments earning competitive rates of return; see Note 2 in the financial statements for more details on cash and cash equivalents. The surprising rapid overnight rate increase in 2022, along with growing reserves, resulted in significantly more investment income compared to last fiscal year. While it appears as though the decrease in cash and cash equivalents of \$42.0M is nearly the same as the increase observed in investments when comparing year end balances, this statement shows there is much more happening in terms of cash movement in each of the categories presented.

### **Notes to the Financial Statements**

The Notes to the Financial Statements describe significant accounting policies, the details of certain amounts shown in the Statement of Financial Position and Statement of Operations and Accumulated Surplus, as well as other pertinent information that helps to explain the financial statements to the reader. For example, a breakdown of the investments balance shown in the Statement of Financial Position is included in Note 5, and provides a summary of investment holdings and rates of return. In this note the reader is presented both the carrying (or book) value as well as the fair value of the City's investment holdings. As an aside, the City's intent is to generally hold these investments to maturity; therefore, any difference between market value and carrying value is deemed to be temporary in nature.

### **Schedule 1 – Schedule of Tangible Capital Assets**

Schedule 1 reflects the historical cost of the City's tangible capital assets and the changes in the balance of these assets as a result of additions, disposals and amortization expense. The City's historical cost of its tangible capital assets at the end of 2022 was approximately \$764.3 million (\$712.4 million in 2021). Taking into consideration the accumulated amortization of about \$193.8 million (\$183.9 million in 2021), the net book value of tangible capital assets is about \$570.6 million (\$528.5 million in 2021). Total additions to tangible capital assets were \$52.9 million (\$44.1 million in 2021), of which \$20.2 million (\$26.3 million in 2021) were infrastructure assets received from developers through property development activities during the year.

### **Schedule 2 – Statement of Operations by Segment**

Schedule 2 shows revenues and expenses for the year broken down into functional areas, also referred to as segments. The total revenues and expenses for all of the segments balance to the Statement of Operations and Accumulated Surplus, as does the total annual surplus. Details of the functions included in each segment can be found in Note 18.

### **Schedule 3 – Internal Debt/Transfers Outstanding**

Schedule 3 lists all of the City's outstanding internal debt (i.e. borrowing from reserves) including advances, adjustments and payments. The outstanding internal debt was \$0.1 million at December 31, 2022 (\$2.5 million as at 2021). Management reviewed the overall DCC reserve balances at the end of 2022 and it was determined that all of the internal loans between DCCs and reserves could be fully repaid. This resulted in an accounting entry to recognize restricted revenue by \$2.4M.

In 2022 an internal loan was needed from General Operating Surplus (lender) for the land sale reserve (borrower) for strategic property purchases that occurred during 2022. This loan is expected to be repaid when the City sells various parcels of land in the future.

### **Schedule 4 – COVID-19 Safe Restart Grants for Local Governments**

Schedule 4 presents the City's usage of the original \$4,964,0000 provincial grant received in November 2020. One of the requirements from the province is to provide a disclosure of how these funds were used and the remaining unused portion of funds at the end of the year. At the

end of 2022 these funds had fully been applied to the various eligible expenditures and revenue shortfalls.

### **Financial Implications**

There are no financial implications directly associated with this report.

### **Communication**

The City's audited 2022 financial statements will be forwarded to the Inspector of Municipalities as legislated. These financial statements will also form part of the City's 2022 Annual Report, which will be included on a public Council meeting agenda prior to the June 30, 2023 legislated deadline. The audited financial statements will also be available for viewing on the City's website.

### **Summary and Conclusion**

In accordance with audit standards, Council is required to approve the financial statements (Attachment A) before the auditors issue their final audit report. As per Section 167 of the *Community Charter*, financial statements are required to be approved by Council. A summary of the City's 2022 financial results and financial position is included in this report.

The City's annual surplus for 2022 as per the financial statements was \$38.4 million (\$47.8 million in 2021). The general operating fund (the general operating fund includes municipal services that are primarily funded by property taxation) surplus for the year was \$3.8 million (\$4.1 million in 2021). The operating surpluses related to the self-funding City utilities (water, sewer, drainage and waste management) and the municipal forest are transferred to their respective reserves. Furthermore, the annual surplus account as shown in the attached financial statements includes the change in the City's equity in investment in Tangible Capital Assets and transfers in and out of reserves.

The City's audited 2022 financial statements will be forwarded to the Inspector of Municipalities as legislated. These financial statements will also form part of the City's 2022 Annual Report, which will be included on a public Council meeting agenda prior to the June 30, 2023 legislated deadline.

**Report Prepared by:** Scott Ross, Manager of Accounting Services

**Reviewed by:** Doug Stewart, Director of Finance

**Approved for Inclusion:** Mike Younie, Chief Administrative Officer

### **Attachment(s)**

Attachment A: City of Mission Draft 2022 Financial Statements