

To: Chief Administrative Officer **Date:** May 2, 2022
From: Scott Ross, Manager of Accounting Services
Subject: **Draft 2021 Financial Statements**

Recommendation(s)

That the City of Mission's draft 2021 financial statements, attached as Attachment A to the Manager of Accounting Services' report dated May 2, 2022 entitled "City of Mission Draft 2021 Financial Statements, be approved.

Purpose

The purpose of this report is to present the City's draft 2021 financial statements, including the draft audit opinion for Council's consideration and approval.

Background

The City of Mission's draft 2021 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 2021 as per the financial statements was \$47,799,468 (\$16,709,281 in 2020). The general operating fund (services that are primarily funded by property taxation) surplus for the year was \$4,092,502 (\$3,126,106 in 2020). 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 City's equity in investment in Tangible Capital Assets and transfers in and out of reserves.

A summary of the City's draft 2021 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 2021 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 are detailed in Note 13 to the financial statements which includes operating surplus and 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: includes assets which are available to discharge existing liabilities. Examples include cash, accounts receivable, and investments.
- Non-financial assets: includes 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 2021, the City had net financial assets of approximately \$94.2 million (\$79.1 million in 2020), which means financial assets were greater than liabilities. This represents a \$15.1 million increase 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 \$529.9 million at the end of 2021 (\$497.1 million in 2020), 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 \$32.8 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 \$624.1 million as at the end of 2021 (\$576.3 million in 2020) representing an increase of \$47.8 million over the prior year.

Statement of Operations and Accumulated Surplus

This statement, which is similar to an income statement, summarizes the City's revenues and expenses for the year, the net of which results in the accrual-basis 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 \$125.8 million (\$89.2 million in 2020) and expenses of approximately \$78.0 million (\$72.4 million in 2020) during the year, the annual surplus, per the accrual-basis of accounting, of approximately \$47.8 million (\$16.7 million in 2020) is shown in this statement. The ending accumulated surplus position reflected in this statement of approximately \$624.1 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 2021 were approximately \$94.2 million (\$79.1 million in 2020), 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. 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 2021 was approximately \$67.0 million (\$69.6 million in 2020), 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 pandemic, up until December 31, 2021, continued to negatively impact market returns resulting in a narrow spread between short and long-term investments.

Notes to the Financial Statements

The Notes to the Financial Statements reflect 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 tangible capital assets and the changes in the balance of these assets as a result of additions, disposals and amortization expense. The City had approximately \$712.4 million (\$670.9 million in 2020) of historical cost of tangible capital assets at the end of 2021, with accumulated amortization of about \$183.9 million (\$175.2 million in 2020), for a net book value of tangible capital assets of about \$528.5 million (\$495.7 million in 2020). Total additions to tangible capital assets were \$44.1 million (\$21.4 million in 2020), of which \$26.3 million (\$6.3 million in 2020) 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 of \$2.5 million at December 31, 2021 (\$4.3 million as at 2020), is entirely related to borrowing for Development Cost Charge (DCC) projects. In other words, other reserves have been used to fund certain DCC projects, because insufficient DCC funds were collected prior to acquisition or construction of those DCC projects. As DCC funds are collected from future development, these collections are used to pay back the lending reserve funds.

Paying for growth related DCC projects prior to actual growth occurring is an ongoing challenge, as DCCs are intended to be a "cost-recovery" tool, while infrastructure required to service development is typically required to be constructed prior to DCCs being collected. It is important to adhere to a solid pay back plan if and when funds are advanced for DCC projects. Difficulties with payback arise when DCC collections are slow and when the funding of current DCC projects takes precedence over the payback of existing internal loans.

In 2020 an additional internal loan was needed from General Operating Surplus (lender) for the land sale reserve (borrower) for strategic property purchases that occurred during 2020. In 2021, the City was able to sell various parcels of land so this loan, with an opening balance of \$1.8 million, was fully repaid by the end of the year.

In addition to the loan repayment of \$1.8 million by the land sale reserve during 2021, the City also repaid approximately \$44,000 (\$141,000 in 2020) of internal loans from DCCs collected during the year.

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. 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.

Financial Implications

There are no financial implications directly associated with this report.

Communication

The City's audited 2021 financial statements will be forwarded to the Inspector of Municipalities as legislated. These financial statements will also form part of the City's 2021 Annual Report, which will be included on a public Council meeting agenda prior to the June 30, 2022 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 2021 financial results and financial position is included in this report.

The City's annual surplus for 2021 as per the financial statements was \$47,799,468 (\$16,709,281 in 2020). The general operating fund (the general operating fund includes municipal services that are primarily funded by property taxation) surplus for the year was \$4,092,502 (\$3,126,106 in 2020). 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 includes other items such as the City's equity in investment in Tangible Capital Assets and transfers in and out of reserves that the general operating fund surplus doesn't show.

The City's audited 2021 financial statements will be forwarded to the Inspector of Municipalities as legislated. These financial statements will also form part of the City's 2021 Annual Report, which will be included on a public Council meeting agenda prior to the June 30, 2022 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 2021 Financial Statements