2021-22 Financial Statement Discussion

The following financial statement discussion should be read with our 2021-22 audited consolidated financial statements and their accompanying notes and schedules. Our financial statements are prepared in accordance with public sector accounting standards (PSAS) for governments which are established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

Financial Reporting Model

The objective of financial statements is to describe to the user the organization's financial position, the results of its operations and how the various activities derived and consumed these economic resources. The statements provide information about the economic resources, obligations and accumulated surplus of the municipality.

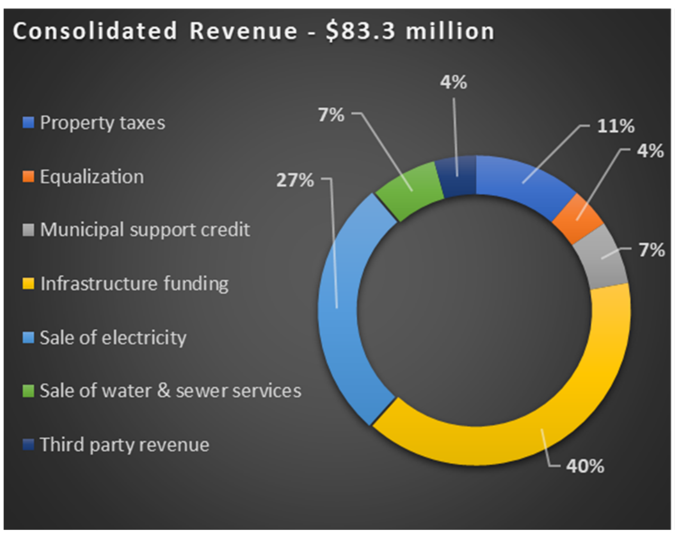
The following discusses the financial reporting model and the results of the 2021-22 fiscal year:

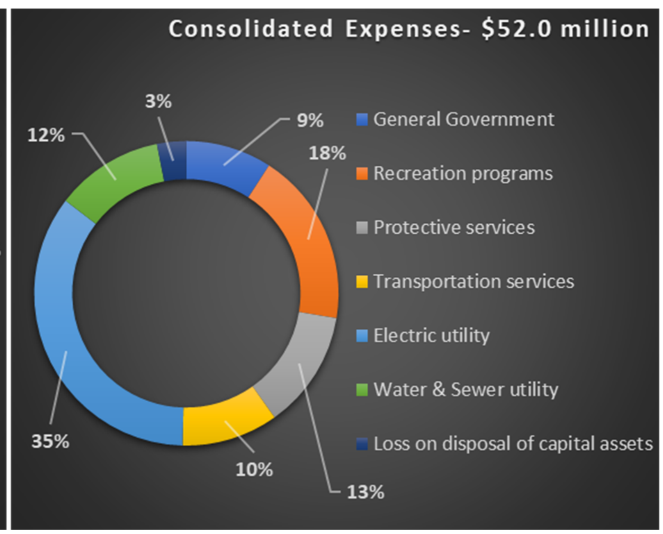
- The **Consolidated Statement of Operations** reports the City's revenue sources and the nature and purpose of its expenditures. The net of revenue over expenditures is the annual surplus.

Consolidated Statement of Operations ($ millions)

	2022 Budget	2022 Actuals	2021 Actuals	Budget Variance	Year Over Year Change
Revenue	78.7	83.3	50.2	(4.6)	33.1
Expenses	47.9	52.0	45.0	(4.1)	7.0
Annual Surplus	30.8	31.3	5.2	(0.5)	26.1

Consolidated revenue and expenses by source for 2021-22 are:





Revenue was $4.6 million over the budget as presented in our consolidated financial statements. This overage relates to higher than anticipated federal and provincial infrastructure funding for capital expenditures and third-party revenue (e.g., budget was prepared on a conservative basis, due to the COVID pandemic, for revenue from programs and services). In addition, higher property tax revenue was received due to assessment growth and greater electric sales due to growth and increased customer consumption. Higher infrastructure funding from the other levels of government accounts for much of the year over year variance of $33.1 million. This infrastructure funding, $27.1 million, relates to the solar storage project and multi-purpose dome facility.

The balance of the year over year increase in revenue was realized from higher electric sales and revenue from programs and services (impact from COVID pandemic was less during 2021-22).

During 2021-22 expenses were $4.1 million over the budget as presented on our Statement of Operations. A significant factor in this overage is due to the provision for the remediation project at the former Holland College building on Granville Street. A reasonable estimate of the costs for this remediation could be determined and a liability of $2.15 million was recorded in 2021-22. This project was approved subsequent to the budget being adopted. A loss on disposal of capital assets of $1.6 million was not budgeted as was not known when the budget was approved. These same factors in addition to expected increases explain the year over year variance of $7 million.

The annual surplus of $31.3 million, as reported on our consolidated statement of operations, is largely due to the infrastructure funding received for capital projects. We expect to report a significant annual surplus for the 2022-23 too due to infrastructure funding expected for the solar storage project and water and sewer infrastructure rehabilitation.

The budget as presented on our financial statements differs from the operating and capital budgets that are approved annually. Here are the reasons for these differences:

- PSAS requires governments to:
    - capitalize long-term assets and to record amortization expense at historic costs over their useful lives (e.g., 10, 20 or even 40 years)
    - record infrastructure funding received for capital projects to be recorded as a grant and not amortized over the useful life of the asset

The City's Budget is prepared on a "cash" basis for two separate funds (General Fund and the utilities), unlike the annual financial statements which are prepared on an "accrual" basis and combine the results of the General Fund and the utilities, for presentation as a single set of statements. This is a common practice in Canadian municipalities.

The main differences between the amount of surplus reporting on our financial statements compared to the surplus of $11,199 on our operating statements (budget) is:

Capital Expenditures	For 2021-22 $5.1 million was paid out of current year operations and are not considered in the expense totals on our financial statements but are recorded as an expense in the budget. On our financial statements capital expenditures are amortized over the useful life of the asset and annually (over the useful life of the asset) brought into our statement of operations as amortization.
Amortization expense	Totaled $9.0 million during 2021-22 and is included as an expense on our financial statements and is not considered in our budget.
Debt Principal Payments	Included as an expense in our budget but not on our financial statements. This expense amounted to $7.0 million during 2021-22.
Government Transfers for capital expenditures	Totaled $29.9 million during 2021-22. This revenue is reported on the capital fund as it relates to a contribution for the purchase of capital assets and therefore is not included in our operating budget but is included as revenue on our financial statements.

2021-22 Financial Statement Discussion

- The **Consolidated Statement of Financial Position** reports on the City's financial and non-financial assets, liabilities and accumulated surplus at March 31, 2022 and can be used to analyze the City's ability to fulfill past commitments and finance future activities.

Financial position ($ millions)	2022	2021
Financial assets	22.8	9.9
Liabilities	109.7	80.9
Net financial position	(86.9)	(71.0)
Non-financial assets	274.2	227.2
Accumulated surplus	187.3	156.2

The four key indicators in the Consolidated Statement of Financial Position are cash resources, net financial position, non-financial assets and accumulated surplus.

- Financial assets, which includes cash and cash equivalents and investments, has increased by $12.9 million mainly due to a receivable recorded for infrastructure funding due from the other levels of government.
- The net financial position, which has decreased by $15.9 million, is the difference between financial assets and liabilities. Future revenues of $86.9 million are required to pay for past transaction or events. This increase in the net financial liability position is primarily due to increased acquisitions of capital assets ($58.7 million in 2021-22 compared to $17.2 million in 2020-21) and is not unexpected as the City undertook the significant solar project. The City is still within acceptable debt limits however debt servicing costs are increasing which means a greater percentage of revenue is required to pay these debt servicing costs and this may require a reduction in other spending.
- Non-financial assets increased by $47 million and are assets normally for use in delivery of programs and services. Tangible capital assets are the most significant component with inventories and prepaid expenses making up the balance. The net book value of our tangible capital asset is $271.6 million, the total historical costs are $396.9 million and accumulated amortization is $125.3 million which could imply that 31.6 percent of the estimated useful life of the tangible capital assets have been used in the delivery of programs and services. The City continues to invest in infrastructure and during 2021-22 increased acquisition of capital assets by $58.7 million (compared to $17.2 million in 2020-21) with much of the increase being for the solar storage project. The acquisition of tangible capital assets is authorized through the approved capital budget.
- The accumulated surplus represents the net assets of the City and the yearly change is equal to the annual surplus (revenue over expenses for the year). This figure, which is $187.3 million at March 31, 2022, is primarily the City's investment in tangible capital assets which is an important aspect of the municipality's service delivery and is not intended or readily accessible for use in funding ongoing operations. The City's accumulated surplus has grown by $31.1 million which indicates the strong ability of the city to continue to deliver services in the future.

- The **Consolidated Statement of Cash Flows** reports the sources and uses of cash and cash equivalents during the fiscal year. During the 2021-22 fiscal year the municipality generated $34.1 million in operating activities, sourced $23.3 million in long term and interim financing (for the solar storage project) and used $57.4 million for the purchase of capital assets.

- The final statement in this financial reporting model is the **Consolidated Statement of Changes in Net Financial Liabilities** (Net Financial Debt). This statement explains the extent to which expenditures made in the year are met by the revenues recognized in the current year. The City's net financial debt mainly increased during the fiscal year due to the significant purchase and associated financing of capitals assets for the solar storage project. This significant project will provide long term recurring revenue which will more than offset the debt servicing costs required to fund these capital expenditures.

The City continues to meet the needs of the municipality without reducing any programs and/or services while making strategic investments. The impact of these strategic investments has been a common theme during this discussion on our 2021-22 financial statements. While certain indicators like net financial debt have increased, this was not unexpected when decisions were made to make significant capital expenditures. It is the belief of council that the debt necessary to complete these capital projects will generate future economic benefits that will outweigh the costs for year to come.