



COUNCIL REPORT

To: Mayor and Council

Date: May 9, 2023

From: Paul Gipps, CAO

Subject: **2022 Financial Statements - Audited**

Report Prepared by: Warren Everton, Director of Finance / CFO and Lisa Siavashi / Financial Services Manager / Deputy CFO

RECOMMENDATION to Consider and Resolve:

THAT Council accept the 2022 Financial Statements for the City of West Kelowna.

STRATEGIC AREA(S) OF FOCUS

Economic and Growth and Prosperity

LEGISLATIVE REQUIREMENTS:

Section 167 of the *Community Charter* describes the financial reporting requirements for local governments. Municipal financial statements for a fiscal year must be prepared by the Financial Officer and presented to Council for its acceptance. The 2022 financial statements are to be submitted to the Inspector of Municipalities by May 15th of the year following the end of the fiscal year.

These financial statements have been prepared in accordance with generally accepted accounting principles for local governments following recommendations and guidance provided by Public Sector Accounting Standards (PSAS). Our auditors, BDO Canada LPP, have audited the statements and provided a clean audit opinion.

BACKGROUND

This report presents the City of West Kelowna's Financial Statements for the year ended December 31, 2022, and provides highlights of the City's financial performance during 2022 and financial condition as of December 31, 2022.

The Financial Statements are intended to provide Council and the public an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Financial Statements and all other information included in the financial report are the responsibility of management.

The 2022 Financial Statements have been audited by BDO Canada LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion (in Attachment 1) is to provide comfort to third parties that the financial statements can be relied upon by all stakeholders.

The Financial Statements include the following individual statements:

Statement of Financial Position

The Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities.

Listed under liabilities are funds the City has received for specific purposes under legislation, regulation and agreements. The recognition of these funds as revenues have been deferred until related expenses occur in the future. For example, development charges and certain Federal and Provincial grant funding, are not recognized as revenues until such time as the projects are constructed. An importance example pertains to the \$13 million received upfront from the Province for the water treatment plant in 2017. As of December 31, 2021, there was \$8,604,823 remaining in deferred revenue, which has now all been recognized as revenue in 2022.

During 2020, the City started using short-term financing from the Municipal Finance Authority for equipment financing which continued through 2021 and 2022. In 2021, temporary short-term financing was also utilized to bridge construction phase funding for the Rose Valley Water Treatment Plant. Temporary borrowing increased in 2022 due to additional construction funding needed for the treatment plant as well for the construction of City Hall. These amounts are shown under Equipment Debt in the Liabilities section and detailed in Note 8. Once these projects are completed, the short-term financing for each of them will be converted to long-term debt.

The detailed breakdown of the accumulated surplus, including all its components, are reflected in Schedule 2 to the Financial Statements

Statement of Operations and Accumulated Surplus

The Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The statement provides a summary of the revenues, expenses, and surplus for the reporting period and outlines the change in accumulated surplus.

The 2022 budget values presented in this statement have been adjusted to reflect the differences between amounts budgeted on a “modified cash requirements” basis and amounts recorded in the financial statements on an accrual basis. Note 17 outlines the adjustments to the approved budget, particularly the exclusion of principal payments, and tangible capital asset purchases, as well as the inclusion of estimated amortization expense. These adjustments to budgeted figures were required to provide comparative values based on the accrual basis of accounting.

Statement of Change in Net Financial Assets

The Statement of Net Financial Assets is unique to governments and focuses on the City’s debt, adjusting for the tangible capital assets impact on the annual surplus. This involves deducting the costs to acquire assets, and adding back amortization charged during the year.

Net financial assets or net debt are terms defined by the Public Sector Accounting Standards (PSAS) and represent the difference between financial assets and liabilities (both shorter- and longer-term). Financial assets are defined as anything that could be used to cover existing liabilities or finance future operations. Net debt may be materially different than the amount of the City's outstanding long-term debt on the City's Statement of Financial Position, details of which are provided in Note 9 of the Financial Statements.

The notes to the statements provide further detail about the City’s financial results and are an integral part of the statements.

2022 FINANCIAL HIGHLIGHTS

For 2022, the City had revenues of \$107.7M, expenses of \$73.5M, and a resulting annual accounting surplus of \$34M. It is important to note that this “accounting surplus” is presented on an accrual accounting basis which includes water, sewer, operating and capital functions.

Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City’s many revenue sources. Other major revenue sources are:

Sales of Service and Other Revenue

- Sewer Service user fees, actual \$6M, budget \$6M (includes RDCO charge).
- Water Service user fees, actual \$13.7M, budget \$12.4M. The increase is due to growth and increased user fees in anticipation of debt servicing costs and capital needs.

- Solid Waste Collection user fees actual revenue was \$2.26M Budget was \$2.27M. Materials Management BC (recycling) funds received \$445K, budget was \$400K.
- Transit user fee, actual \$884K, budget \$655K.
- Building permits actual \$2.8M, budget \$1.6M. The budget for building permits is left at a conservative amount each year due to the volatility of the market.
- Fire Servicing Agreement with WFN \$2.46M, budget \$2.58M
- Recreation and Facility revenue \$1.87M, budget \$1.53M. Budgeted revenues remained at a conservative amount post COVID and expenses were allocated accordingly. Actual revenues were greater than expected.
- Interest Revenue, actual \$1.3M, budget \$600K. Budget was conservative due to low interest rates in the past two years, but actual amounts were much higher due to interest rates rising substantially during 2022.

Expenditures

Expense variance explanations by major program area, are as follows:

- Fire Expenses over budget by \$735K (mostly due to overtime).
- COVID Operating Expenses \$311K (funded from COVID Restart grant reserve)
- Roads over budget \$179K (due to increased fuel and vehicle costs, supplies and overtime)
- Transit expenses over budget by \$291K (increased usage and revenues, therefore increased contract expenses from BC Transit)
- Solid Waste under budget by \$220K (due to reduced contract and tipping expenses and this surplus was transferred to pay down the internal solid waste cart loan)
- Recreation over budget \$241K (due to higher facility costs and includes \$100K for master plan funded by reserves)
- Water expenses under budget by \$140K
- Sewer expenses under budget by \$261K (lower than expected contract services)

Additional Financial Highlights

1. Acquisitions of Tangible Capital Assets comparison by year:

	2022	2021	2020
General Fund	15,744,121	11,931,214	9,049,269
Water Fund	4,578,934	805,127	378,187
Sewer Fund	656,751	162,476	39,462
	\$ 20,979,806	\$ 12,898,817	\$ 9,466,918

Capital acquisitions for 2022 included \$2.2M in buildings, \$1.7M in machinery and equipment, \$11.5M in roads, sidewalks, and infrastructure, and \$4.3M in water infrastructure.

2. Reserves and DCCs:

December 31, 2022 Reserve Balances and DCCs	
	2022 Year End Balance
Reserves	
Capital - General	7,383,158
Capital - Water	8,423,096
Capital - Sewer	1,055,070
Community projects (Gas Tax)	5,500,757
Equipment Replacement	4,517,967
Fire	258,458
Future expenses	1,819,666
Infrastructure	263,667
Municipal Facilities	8,253,593
Other	39,453,654
Policing	1,031,123
Property Acquisition	495,132
Recreation	403,463
Road Maintenance & Snow Clearing	838,797
Storm Drainage	143,364
Total reserves	\$ 79,840,966
Total DCCs Available	15,782,777
Total Reserves and DCCs	\$ 95,623,743

3. COVID Restart Grant

Due to the COVID pandemic in 2020, the Province initiated the Safe Restart program to assist the municipalities with revenue shortfalls and increase expenses related to the pandemic. In the fall of 2020, the City received \$4,600,000. The schedule below details how the funds were used in 2020 - 2022, and how they are budgeted to be used over the next year.

Safe Restart Grant (as of December 31, 2021)	<u>2020 (actual)</u>	<u>2021 (actual)</u>	<u>2022 (actual)</u>	<u>2023</u>
Grant Total Carryforward	\$ 4,602,000	\$ 3,352,000	\$ 2,829,150	\$ 2,002,033
Usage Areas:	-	-	-	-
COVID-19 Expenses	411,000	65,971	47,006	50,000
Facilities and Recreation revenue shortfall	400,000	-	101,851	100,000
Paperless and ERP Projects Operating Side	-	139,979	423,885	350,000
Other reduced revenues	439,000	200,000	154,375	100,000
Operating Budget	<u>\$ 1,250,000</u>	<u>\$ 405,950</u>	<u>\$ 727,117</u>	<u>600,000</u>
Capital Budget / Projects	-	116,900	100,000	1,400,000
Balance of Grant (available for future years)	<u>\$ 3,352,000</u>	<u>\$ 2,829,150</u>	<u>\$ 2,002,033</u>	<u>\$ 2,033</u>

FINANCIAL IMPLICATIONS

The annual surplus each year can be comprised of both cash and non-cash transactions. Examples of non-cash transactions can be the recognition of development cost charges to fund capital, donations of infrastructure from developers, and actuarial adjustments on the MFA debt.

For 2022 the annual surplus breaks down as follows:

2022 Annual Surplus	\$ 34,156,651
<u>Non cash/non general fund:</u>	
DCC's Recognized to fund capital	(6,333,499.00)
Grant Revenue recognized to fund capital	(22,911,423.00)
Gas Tax Grant Funds to reserves	(1,505,265.52)
Actuarial Adjustments	(613,774.00)
Unappropriated General Fund Surplus	\$ 2,792,689

CONCLUSION

In 2022 budgets continued to be created in a conservative manner as operations continued to return to pre-pandemic levels. During this recovery, revenues in some areas were greater than anticipated and contributed to the unappropriated surplus. Development over the year continued to provide the City with higher than expected building permit revenues. Expenses were also closely monitored and as a result the City has completed the year in a fiscally strong position and increased the accumulated surplus.

REVIEWED BY

Corinne Boback, Legislative Services Manager / Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes No

Attachments:

Attachment 1 – CWK 2022 Year End - Financial Statements