



COUNCIL REPORT

To: Mayor and Council

Date: May 14, 2024

From: Ron Mattiussi, Interim CAO

Subject: **2023 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 2023 Financial Statements for the City of West Kelowna as attached in “Schedule 1” of the report dated May 14, 2024, from the Director of Finance.

STRATEGIC AREA(S) OF FOCUS

Invest in Infrastructure – We will invest in building, improving and maintaining infrastructure to meet the needs of, and to provide a high quality of life for, current and future generations.

Pursue Economic Growth and Prosperity – We will work with stakeholders throughout the region to advocate for and support efforts aimed at helping West Kelowna businesses prosper. With a focus on the future, we will advance opportunities to expand our economy, increase employment, and develop the community in ways that contribute towards prosperity for all.

Strengthen Our Community – We will provide opportunities for the residents of West Kelowna to build connections, celebrate successes, embrace the community's strengths and diversity, address shared needs, and contribute to shaping the community's future.

Foster Safety and Well-Being – We will pursue through direct action, advocacy, and collaboration with local and regional service providers, investments in community health, needs-based housing, emergency preparedness, policing, and other services that foster safety and well-being in West Kelowna.

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 2023 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, 2023, and provides highlights of the City's financial performance during 2023 and financial condition as of December 31, 2023.

The Financial Statements are intended to provide Council and the public an overview of the City's financial status at the end of the fiscal year and layout 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 2023 Financial Statements have been audited by BDO Canada LLP whose role was 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 Schedule 1) is to provide assurance 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 of West Kelowna'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.

Temporary borrowing increased in 2023 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 9. Once these projects are completed, the short-term financing for each of them will be converted to long-term debt.

New for 2023 is the requirement by the Public Sector Accounting Standards to include PS3280 Asset Retirement Obligation (ARO). This standard requires municipalities to recognize the liability related to the retirement or removal of a tangible capital asset when certain factors are present. For the City this includes removal of building and sewer pipes containing asbestos. Note 11 details the ARO calculation of \$1,710,122 appearing for the first time on the statements for 2023.

The detailed breakdown of the accumulated surplus, including all its components, are reflected in Schedule 2 of 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 2023 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 20 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 10 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.

DISCUSSION

2023 FINANCIAL HIGHLIGHTS

For 2023, the City had revenues of \$114.2M, expenses of \$84.3M, and a resulting annual accounting surplus of \$29.9M. 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 \$14.9M, budget was \$14.4M. The increase is due to user growth and increased fees in anticipation of debt servicing costs and capital needs.
- Solid Waste Collection user fees actual revenue was \$2.27M and budget was \$2M. Materials Management BC (recycling) funds received \$433K, budget was \$400K and is now included with Government Transfers.
- Transit user fee, actual result \$830K, with budget at \$660K.
- Building permits actual \$1.57M, and budget at \$2M. The budget for building permits is projected conservatively each year due to the volatility of the market but was overestimated in 2023 based on the three-year history.
- Fire Servicing Agreement with Westbank First Nation earned \$2.67M, with budget matching.
- Recreation and Facility revenue was \$1.4M, compared to budget at \$1.16M.
- Interest Revenue: actual earnings were \$2.98M, and the budget was \$600K. Budgeted figures are normally quite conservative due to interest rate fluctuations. Substantially higher interest rates were seen again in 2023 as inflation continued to be an issue.

Expenditures

Expenditure variance comments by major program area, are as follows:

- Fire Services core expenses over budget by \$825K (mostly due to retroactive remuneration).
- EOC (Emergency Operations Centre) expenses contained in Fire Services for fires and flood recovery projects \$2.7M (majority reimbursed by Emergency Management BC in 2024 to date)
- Public Works over budget \$350K (due to increased contract costs, fuel and vehicle costs, supplies and overtime)
- Transit expenses over budget by \$275K (increased usage and revenues, therefore increased contract expenses from BC Transit)
- Solid Waste over budget by \$132K (due to contract and tipping expenses)
- Parks, Recreation and Facilities over budget \$360K (due to higher utility, instructor and contract costs)
- Water fund expenditures varied by \$3.75M in 2023. That reduces by \$2M when accounting for non-cash entries for amortization. Another \$996K is for interest on temporary borrowing for the Rose Valley water treatment plant. \$500K in unforeseen spending was for an emergency watermain break with \$700K in increased contract and supply expenses. As surplus/deficits are normally transferred to reserve in both the water and sewer funds staff are planning to follow the same practice for the 2023 shortfall.
- The financial statements show the sewer fund as over budget however this is primarily due to non-cash items including \$1.1M for amortization, \$150K for new asset retirement obligations, and \$275K for actuarial adjustments.

Additional Financial Highlights

1. Acquisitions of Tangible Capital Assets comparison by year:

	2023	2022	2021
General Fund	10,717,695	15,744,120.85	11,931,214
Water Fund	61,755,433	4,578,934.12	805,127
Sewer Fund	-	656,750.88	162,476
	\$ 72,473,127	\$ 20,979,806	\$ 12,898,817

Capital acquisitions for 2023 included \$3.2M in machinery and equipment, \$5.9M in roads, sidewalks, and infrastructure, and \$61.1M in water infrastructure.

1. Reserves and DCCs:

December 31, 2023 Reserve Balances and DCCs	
	2022 Year End Balance
Reserves	
Capital - General	8,468,328
Capital - Water	9,835,707
Capital - Sewer	1,591,758
Community projects (Gas Tax)	3,653,127
Growing Communities	10,484,660
Equipment Replacement	5,587,619
Fire	272,260
Future expenses	1,933,825
Infrastructure	247,639
Municipal Facilities	9,503,877
Other	2,072,385
Policing	1,208,813
Property Acquisition	521,572
Recreation	534,984
Road Maintenance & Snow Clearing	883,588
Storm Drainage	151,020
Total reserves	\$ 56,951,162
Total DCCs Available	16,871,380
Total Reserves and DCCs	\$ 73,822,542
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Future City Works (Offset to Accumulated Surplus Acct)	(14,251,421.92)

The Future City Works liability account has been separated out from capital reserves in the "Other" category since it is not a true reserve but a balancing item that recognizes capital funding revenues into accumulated surplus as they are received and then later reduces surplus when capital projects are completed and transferred to TCA (tangible capital asset) listings. In 2023 with the completion of the Rose Valley Water Treatment Plant its full value has been recognized and transferred out of annual surplus thereby reducing the 2022 balance of \$34,156,651 down to (\$14,251,422).

FINANCIAL IMPLICATIONS

The annual surplus each year can be comprised of both cash and non-cash transactions. Cash items include grant, DCC and other revenues and examples of non-cash transactions can be the recognition of gain on sale of assets, donations of infrastructure from developers, and actuarial adjustments on the MFA debt. The reconciliation of the annual surplus from operations includes reductions for committed cash items, removal of the non-cash items and adding back recoverable expenses and debt interest payments to be funded from reserves.

For 2023 the annual surplus breaks down as follows:

2023 Annual Surplus from Operations	\$ 29,650,204
Less Cash Items Appropriated to Reserve	
Grant revenue (Note 14 Government Transfers)	(21,821,619)
DCC revenue (Note 15 Other Revenue)	(5,002,837)
Less Non-cash Items	
Actuarial Adjustment (Note 15)	(546,540)
Gain on Asset Sale (Note 15)	(3,470,911)
Statement of Operations Items Outstanding	
Add back EOC Recoverable (at 80%)	1,097,765
Add back RVWTP debt Interest to be funded from reserve	996,205
2023 Net Annual Surplus	\$ 902,266

REVIEWED BY

Corinne Boback, Legislative Services Manager / Corporate Officer

Trevor Seibel, Deputy CAO

APPROVED FOR THE AGENDA BY

Trevor Seibel, Deputy CAO

PowerPoint: Yes No

Attachments:

Schedule 1 – 2023 City of West Kelowna Financial Statements