



COUNCIL REPORT

To: Paul Gipps, CAO

Date: June 9, 2020

From: Warren Everton, Chief Financial Officer
Lisa Siavashi, Financial Services Manager

Subject: **2019 Draft Consolidated Financial Statements – Audited**

RECOMMENDATION

THAT Council accept the 2019 Draft Consolidated Financial Statements for the City of West Kelowna as attached in “ Attachment 1”.

STRATEGIC AREA(S) OF FOCUS

The integrity and objectivity of the 2019 year-end and audit results align well with Council's Economic Growth and Prosperity Pillar in the 2020-2022 Strategic Priorities as well as conform to fiscal reporting regulations at the provincial level. Well developed procedures, controls and estimates fiscally strengthen the corporate structure and promote the overall prosperity of the City.

All municipalities are normally required to submit audited financial statements to the Inspector of Municipalities by May 15th of the year following the end of the fiscal year. This year due to the COVID-19 outbreak the Province has extended the date to August 31, 2020.

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, KPMG LPP, have audited the statements and provided a clean audit opinion.

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 2019 financial statements are to be submitted to the Inspector of Municipalities by August 31, 2020 as instructed by Ministerial Order 0159.

BACKGROUND

This report presents the City of West Kelowna's Draft Consolidated Financial Statements for the year ended December 31, 2019 and provides highlights of the City's financial performance during 2019 and financial condition as of December 31, 2019.

The Draft Consolidated 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 Draft Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

The Draft 2019 Consolidated Financial Statements have been audited by KPMG 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 Consolidated Financial Statements include the following individual statements:

Consolidated Statement of Financial Position

The Consolidated 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. The difference between the liabilities and financial assets is the City's Net Asset, which represents the net liabilities that must be financed from future budgets.

The detailed breakdown of the accumulated surplus, including all of its components:

- amount invested in capital assets; and,
- operating fund, capital fund, reserve and reserve fund balances;

is reflected in Schedule 2 to the Consolidated Financial Statements.

The City has received funds for specific purposes under legislation, regulation or 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 funding, are not recognized as revenues until such time as the projects are constructed. Another example of material importance is the upfront funds received in the amount of \$13 million for the water treatment plant, received in 2017. These funds are not in the accumulated surplus.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated 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 Consolidated Statement of Operations and Accumulated Surplus provide a summary of the revenues, expenses, and surplus throughout the reporting period and outline the change in accumulated surplus.

The 2019 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 16 outlines the adjustments to the approved budget, particularly exclusion of principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted

values were required to provide comparative budget values based on the full accrual basis of accounting.

Consolidated Statement of Change in Net Financial Assets (Debt)

The Consolidated Statement of Net Financial Assets is unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly 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) representing the difference between financial assets and all liabilities (both shorter and longer term liabilities). Financial assets are anything that could be used to cover existing liabilities or finance future operations. Net Debt (also referred to as net liabilities) may be materially different than the amount of the City's consolidated outstanding debt captured as "Net long-term debt" on the City's Consolidated Statement of Financial Position, details of which are provided in Note 4 of the Consolidated Statements.

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

2019 FINANCIAL HIGHLIGHTS

For 2019, the City had consolidated revenues of \$69.7M, consolidated expenses of \$65.65M, and a resulting annual accounting surplus of \$4.1M. It is important to note that this is "accounting surplus" is presented on an accrual accounting basis which includes water, sewer, operating and capital functions.

Consolidated 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 \$5.24M, budget \$5.18M (includes RDCO charge). The increase is due to growth. No increase in user fees will be required in 2020.
- Water Service user fees, actual \$10M, budget \$9.8M. The increase is due to growth and an increase in user fees which is offset by an increased transfers to reserves.
- Solid Waste Collection user fees actual revenue was \$2.36M Budget was \$3M (budget included an anticipation of and increase in fees which was not required). Materials Management BC (recycling) funds received \$416K, budget was \$350K.
- EOC Flood Recovery \$1.36M
- Transit user fee, actual \$799K, budget \$715K,
- Building permits actual \$1.6M , budget \$1.58M.
- Interest Revenue, actual \$970K. budget \$790K

Consolidated Expenditures

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

- Policing contract, over budget by \$270K (due to E Division's reconciliation from 2018 expenses)
- Fire Expenses over budget by \$500K (due to overtime for shift coverage, budget was decrease with added fire fighters in 2019 budget, however they were only added 3rd quarter and required coverage while training.)
- EOC Flood Recovery (2017 & 2018) and 2019 Freshet \$1.7M (approximately 80% reimbursed from Province)
- Transit expenses over budget by \$80K (matched by extra transit revenue)
- Solid Waste under budget by \$800K (\$410K of which was allocated to cover additional costs incurred in between contracts)
- Water expenses under budget by \$221K (combination of small operating items that were not able to be addressed)
- Sewer expenses, under budget by \$696K (lower than expected contract services)

Further financial highlights from information presented in financial statements:

1. Acquisitions of Tangible Capital Assets comparison by year:

	2019	2018	2017
General Fund	7,594,954	24,048,809	3,888,025
Water Fund	2,563,995	3,103,366	678,112
Sewer Fund	171,619	542,148	2,963,218
	\$ 10,330,567	\$ 27,694,323	\$ 7,529,355

Capital acquisitions in 2018 increased dramatically due to the capital projects that were approved for the 2018 budget, namely park acquisitions, water infrastructure upgrades (pipes), and road rehabilitation.

2. Reserve and DCCs available to fund Capital Projects:

December 31, 2019 Reserve Balances and DCCs available to fund capital projects	
	2019 Year End Balance
<u>Reserves</u>	
Capital - General	4,689,694
Capital - Water	3,274,062
Capital - Sewer	215,498
Community projects (Gas Tax)	2,441,608
Equipment Replacement	3,515,592
Future expenses	1,608,615
Municipal Facilities	5,496,558
Other	6,130,553
Policing	553,560
Property Acquisition	132,333
Recreation	255,500
Road Maintenance & Snow Clearing	643,484
Storm Drainage	195,561
Total reserves	\$ 29,152,618
<u>DCCs</u>	
Roads	8,158,718
Water	6,673,224
Parks	1,155,612
Sewer	48,699
Storm Sewer	235
Total DCCs Available	\$ 16,036,488
Available to fund capital projects	\$ 45,189,106

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 2019 the consolidated annual surplus breaks down as follows:

2019 Annual Surplus		\$ 4,107,846
<u>Non cash/non general fund:</u>		
DCCs Recognized to fund capital		(1,155,000)
Actuarial Adjustments		(709,197)
Allocate to Sewer Fund		(756,000)
Allocated to Water Fund		(421,000)
Unappropriated General Fund Surplus		\$ 1,066,649
2019 General Surplus comprised of:		
Interest Revenue		180,000
Interest and penalties		118,284
Additional MMBC recycling credit		66,000
Solid Waste		400,000
Building Permits		20,000
Misc Recoveries		230,000
Other Miscellaneous		52,365
		\$ 1,066,649

CONCLUSION

During the 2020 budget deliberations, Council was advised that the projected 2019 surplus would be \$300,000 and could be allocated to 2020 expenses in order to reduce the property tax increase for 2020. In light of the effects of the COVID-19 pandemic in 2020, staff is recommending that the entire 2019 surplus flow through to the general operating reserve to cover any shortfall due to additional COVID related expenditures or due to the reduction of the 2020 tax increase.

Alternate Motion:

THAT Council NOT accept the 2019 Draft Consolidated Financial Statements for the City of West Kelowna as attached in " Attachment 1".

REVIEWED BY

Tracey Batten, Deputy CAO/Corporate Officer

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

Powerpoint: Yes No

Attachments: City of West Kelowna 2019 Draft Financial Statements