



## COUNCIL REPORT

To: Paul Gipps, CAO

Date: May 11, 2021

From: Warren Everton, Director of Finance, CFO  
Lisa Siavashi, Financial Services Manager

Subject: **2020 Draft Consolidated Financial Statements - Audited**

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### RECOMMENDATION

**THAT** Council accept the 2020 Draft Consolidated Financial Statements for the City of West Kelowna as attached in "Attachment 1".

### STRATEGIC AREA(S) OF FOCUS

Economic and financial well-being of the City of 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 2020 financial statements are to be submitted to the Inspector of Municipalities by May 15<sup>th</sup> 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, KPMG LPP, have audited the statements and provided a clean audit opinion.

### BACKGROUND

This report presents the City of West Kelowna's Draft Consolidated Financial Statements for the year ended December 31, 2020 and provides highlights of the City's financial performance during 2020 and financial condition as of December 31, 2020.

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 2020 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 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;

and are 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 grant funding, are not recognized as revenues until such time as the projects are constructed. An example of material importance is the upfront funds received from the Province in the amount of \$13 million for the water treatment plant in 2017. In 2020 \$2,297,953 of these funds were recognized as revenue for costs incurred from 2018 – 2020 for the water treatment plant. The remainder of the funds are held as a liability as deferred revenue to be recognized as the funds are spent.

### **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 statement provides a summary of the revenues, expenses, and surplus throughout the reporting period and outline the change in accumulated surplus.

The 2020 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 an accrual basis. Note 17 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 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 may be materially different than the amount of the City's consolidated outstanding long-term debt on the City's Consolidated Statement of Financial Position, details of which are provided in Note 9 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.

### **2020 FINANCIAL HIGHLIGHTS**

For 2020, the City had consolidated revenues of \$78.6M, consolidated expenses of \$67.2M, and a resulting annual accounting surplus of \$11.4M. It is important to note that this “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 \$5.37M, budget \$5.89M (includes RDCO charge).
- Water Service user fees, actual \$11.4M, budget \$10.5M. The increase is due to growth and an increase in user fees which is offset by an increase in expenses and transfers to reserves.

- Solid Waste Collection user fees actual revenue was \$2.39M Budget was \$2.27M. Materials Management BC (recycling) funds received \$422K, budget was \$380K.
- EOC Flood Recovery \$700K
- Transit user fee, actual \$568K, budget \$740K. COVID Restart grant funds forwarded from BC Transit were used to offset reduced collection of fees.
- Building permits actual \$1.13M, budget \$1.6M. COVID Restart grant funds were used to offset reduced collection of fees.
- Fire Servicing Agreement with WFN \$2.2M, budget \$2.1M
- Recreation and Facility revenue \$1.6M, budget \$2M. COVID Restart grant funds were used to offset reduced collection of fees.
- Interest Revenue, actual \$507K, budget \$970K. Interest rates drastically dropped during 2020.

### **Consolidated Expenditures**

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

- Policing contract, over budget by \$950K (due to retro pay expected for the RCMP contract from 2017-2020 and accrued RCMP retirement adjustments). Prisoner costs also \$50K over budget.
- Fire Expenses over budget by \$240K (due to wages for shift coverage).
- EOC Flood Recovery (2017 & 2018) \$883K (approximately 80% reimbursed from Province)
- Transit expenses under budget by \$246K (due to reduced contract expenses from BC Transit)
- Solid Waste under budget by \$360K (due to reduced contract and tipping expenses)
- Sewer expenses, under budget by \$230K (lower than expected contract services)

### **Further financial highlights from information presented in financial statements:**

#### **1. Acquisitions of Tangible Capital Assets comparison by year:**

	2020	2019	2018
General Fund	9,049,269	7,594,954	24,048,809
Water Fund	378,187	2,563,995	3,103,366
Sewer Fund	39,462	171,619	542,148
	\$ 9,466,918	\$ 10,330,568	\$ 27,694,323

Capital acquisitions for 2020 included \$3.2M in vehicles and equipment, \$4.6M in road infrastructure, and \$700K in information services projects and replacements.

## 2. Reserve and DCCs available to fund Capital Projects:

	2020 Year End Balance
<b>Reserves</b>	
Capital - General	4,859,856
Capital - Water	4,737,553
Capital - Sewer	569,800
Community projects (Gas Tax)	3,243,577
Equipment Replacement	2,513,825
Future expenses	1,551,949
Municipal Facilities	6,274,317
Other	15,442,869
Policing	560,922
Property Acquisition	134,093
Recreation	288,532
Road Maintenance & Snow Clearing	652,042
Storm Drainage	137,763
<b>Total reserves</b>	<b>\$ 40,967,098</b>
<b>Total DCCs Available</b>	<b>19,425,058</b>
<b>Available to fund capital projects</b>	<b>\$ 60,392,156</b>

## 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 and how they are budgeted to be used over the next four year.

<b>Safe Restart Grant \$4,600,000</b>	<b>2020 (actual)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Grant Total Carryforward	4,600,000	3,350,000	1,750,000	1,000,000
Usage Areas:				
COVID-19 expenses	411,000	100,000	100,000	100,000
Facilities and Recreation revenue shortfall	400,000	500,000	350,000	200,000
Postponed FTEs approved previous year		350,000	200,000	100,000
Other reduced revenues	439,000	150,000	100,000	100,000
<b>Total usage in operating budget</b>	<b>1,250,000</b>	<b>1,100,000</b>	<b>750,000</b>	<b>500,000</b>
Capital Budget (sewer line to Shelter Project)		500000		
<b>Balance of Grant (available for future years)</b>	<b>3,350,000</b>	<b>1,750,000</b>	<b>1,000,000</b>	<b>500,000</b>

## 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 2020 the consolidated annual surplus breaks down as follows:

<b>2020 Annual Surplus</b>	<b>\$ 11,116,519</b>
<b>Non cash/non general fund:</b>	
DCCs Recognized to fund capital	(312,123)
Grant revenue recognized to fund capital	(5,779,699)
Actuarial Adjustments	(494,881)
<b>Unappropriated General Fund Surplus</b>	<b>\$ 4,529,816</b>
<b>2020 General Surplus comprised of:</b>	
COVID Grant (net of funds transferred to reserves)	4,602,000
COVID Grant forward from BC Transit	263,549
Net Loss from operating	(335,733)
	<b>\$ 4,529,816</b>

## CONCLUSION

During the 2020 budget deliberations, changes were made in light of the COVID-19 pandemic to reduce the 2020 tax increase and put a hold on some of the 2020 budgeted expenses. A decision was made 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, however in the fall of 2020 the Province rolled out the Safe Restart grant to assist the municipalities with lost revenues and increased expenses caused by the pandemic. This allowed \$1.25M of the grant to be allocated to offset COVID effects for 2020 and to carry forward the balance to allocate as needed toward 2021-2023.

**Alternate Motion:**

THAT Council NOT accept the 2020 Draft Consolidated Financial Statements for the City of West Kelowna as attached in "Attachment 1".

**REVIEWED BY**

Warren Everton, Director of Finance/CFO

Shelley Schnitzler, Legislative Services Manager/Corporate Officer

**APPROVED FOR THE AGENDA BY**

Paul Gipps, CAO

PowerPoint: Yes  No

**Attachments:**

Attachment 1 – DRAFT 2020 Consolidated Financial Statements