



COUNCIL REPORT

To: Paul Gipps, CAO

Date: May 10, 2022

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

Subject: **2021 Financial Statements - Audited**

RECOMMENDATION

THAT Council accept the 2021 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 2021 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, 2021, and provides highlights of the City's financial performance during 2021 and financial condition as of December 31, 2021.

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 2021 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.

The detailed breakdown of the accumulated surplus, including all 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 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. In 2021, \$5,379,467 was recognized for costs incurred within the year for treatment plant. The remainder of the funds are held as a liability as deferred revenue to be recognized as the funds are spent.

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 throughout the reporting period and outline the change in accumulated surplus.

The 2021 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.

Statement of Change in Net Financial Assets

The 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 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.

2021 FINANCIAL HIGHLIGHTS

For 2021, the City had revenues of \$83.7M, expenses of \$68.8M, and a resulting annual accounting surplus of \$15M. 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 \$5.65M, budget \$5.9M (includes RDCO charge).
- Water Service user fees, actual \$13.56M, budget \$11.15M. The increase is due to substantial growth, increased user fees in anticipation of debt servicing costs, and an increase in other revenue (latecomer payments and capital recoveries).
- Solid Waste Collection user fees actual revenue was \$2.44M Budget was \$2.27M. Materials Management BC (recycling) funds received \$427K, budget was \$380K.
- Transit user fee, actual \$532K, budget \$740K. COVID Restart grant funds of \$200K were used again in 2021 to offset reduced collection of fees.

- Building permits actual \$2.3M, budget \$1.6M.
- Fire Servicing Agreement with WFN \$2.25M, budget \$2.18M
- Recreation and Facility revenue \$1.79M, budget \$1.59M. Budgeted revenues were adjusted to a conservative amount due to new COVID regulations for 2021 and expenses were allocated accordingly. Actual revenues were greater than expected.
- Interest Revenue, actual \$445K, budget \$650K. Allocation of interest to DCC's higher than past years. Interest rates drastically dropped during 2020.

Expenditures

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

- Fire Expenses over budget by \$431K (due to increase from new negotiated contract and underestimated retro payments for prior years).
- EOC Fire Response \$500K (mostly reimbursed from Province – Mt. Law Fire \$302K not fully reimbursable)
- COVID Operating Expenses \$223K (funded from COVID Restart grant reserve)
- Transit expenses under budget by \$291K (due to reduced contract expenses from BC Transit)
- Solid Waste under budget by \$287K (due to reduced contract and tipping expenses and this surplus was transferred to pay down the internal solid waste cart loan)
- Water expenses under budget by \$484K (surpluses transferred to reserves in water fund)
- Sewer expenses under budget by \$273K (lower than expected contract services)

Further financial highlights from information presented in financial statements:

1. Acquisitions of Tangible Capital Assets comparison by year:

	2021	2020	2019
General Fund	11,931,214	9,049,269	7,594,954
Water Fund	805,127	378,187	2,563,995
Sewer Fund	162,476	39,462	171,619
	\$ 12,898,817	\$ 9,466,918	\$ 10,330,568

Capital acquisitions for 2021 included \$2.2M in machinery and equipment, \$8.5M in roads, sidewalks and infrastructure, and \$866K in storm drainage projects.

2. Reserve and DCCs available to fund Capital Projects:

	2021 Year End Balance
<u>Reserves</u>	
Capital - General	6,743,203
Capital - Water	7,740,902
Capital - Sewer	1,030,371
Community projects (Gas Tax)	5,058,818
Equipment Replacement	3,623,718
Future expenses	1,830,727
Municipal Facilities	7,062,421
Other	18,966,263
Policing	714,875
Property Acquisition	482,115
Recreation	400,198
Road Maintenance & Snow Clearing	816,745
Storm Drainage	139,595
Total reserves	\$ 54,609,952
Total DCCs Available	19,989,460
Available to fund capital projects	\$ 74,599,412

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 2021, and how they are budgeted to be used over the next two years.

Safe Restart Grant (as of December 31, 2021)	2020 (actual)	2021 (actual)	2022	2023
Grant Total Carryforward	\$ 4,602,000	\$ 3,352,000	\$ 2,829,150	\$ 1,079,150
Usage Areas:	-	-	-	-
COVID-19 Expenses	411,000	65,971	100,000	100,000
Facilities and Recreation revenue shortfall	400,000	-	350,000	200,000
Paperless and ERP Projects Operating Side	-	139,979	200,000	100,000
Other reduced revenues	439,000	200,000	100,000	100,000
Operating Budget	\$ 1,250,000	\$ 405,950	\$ 750,000	500,000
Capital Budget / Projects	-	116,900	1,000,000	500,000
Balance of Grant (available for future years)	\$ 3,352,000	\$ 2,829,150	\$ 1,079,150	\$ 79,150

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 2021 the annual surplus breaks down as follows:

2021 Annual Surplus	\$ 14,960,139
Non cash/non general fund:	
DCC's Recongized to fund capital	(3,241,505)
Graant revenue recongized to fund captial	(5,975,607)
Gas Tax Grant Funds to reserves	(2,925,383)
Actuarial Adjustments	(681,281)
Unappropriated General Fund Surplus	\$ 2,136,363

CONCLUSION

Due to the pandemic, budgets for 2021 were created in a conservative manner. As regulations lifted, revenues in some areas were greater than anticipated and contributed to the unappropriated surplus. In particular growth in development over the year provided the City with higher than expected building permit revenues (these often fluctuate from year to year and in recent years had fallen short of budget). Expenses were also closely monitored due to the uncertainty over the City's cash flows and as a result the City has completed the year in a fiscally strong position and increased the accumulated surplus.

REVIEWED BY

Warren Everton, Director of Finance/CFO

APPROVED FOR THE AGENDA BY

Paul Gipps, CAO

PowerPoint: Yes ☒ No ☐

Attachments:

Attachment 1 – CWK 2021 Year End - Financial Statements