

# Memo

**Date:** April 28, 2022  
**To:** Audit Committee  
**From:** Divisional Director, Financial Services  
**Subject:** Audit Committee Review of December 31, 2021  
Consolidated Financial Statements  
  
Report Prepared by: Corporate Finance Manager

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## **Purpose of Public Sector Financial Statements**

Public sector statements differ from business enterprise statements in that the public sector exists to provide services to the public rather than to generate profit. The result is a set of statements that provide an overview of resources used and resources available to provide services. The statement formats are a reporting requirement of the Public Sector Accounting Standards (PSAS) under standards and guidance established by the Public Sector Accounting Board (PSAB).

## **Consolidated Financial Statements**

Consolidated statements include the financial results for each of the General, Airport, Wastewater, and Water funds and provide an aggregated view of the financial position of the City which assists in measuring the overall financial well-being of the organization.

The consolidated financial statements that the City prepares consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations and Accumulated Surplus
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows; and
- Notes to the Financial Statements

## **Consolidated Statement of Financial Position**

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2021 and December 31, 2020 and represents the cumulative impact of past transactions and events on future revenue requirements and service capacity.

The City's net financial assets are equal to its financial assets less its financial liabilities. The City's financial assets consist of cash and cash equivalents, accounts receivable, accrued interest, portfolio investments, long term investments in other entities and assets held for resale. These are the financial resources available to

discharge the existing liabilities as well as finance future operations. The City's liabilities consist of accounts payable, performance deposits, deferred revenue, deferred development cost charges and long-term debt.

The City's non-financial assets consist of prepaid expenses, inventory, work in progress and tangible capital assets and are employed to provide future services without the need to be financed from current revenues.

The City's accumulated surplus is the total that the City's historical revenues have exceeded its historical expenses. The accumulated surplus is equal to the sum of the net financial assets and non-financial assets representing resources (both financial and non-financial) that may be used to provide future services.

### Net Financial Assets

The City's financial assets of \$753.6M exceeded its liabilities of \$342.1M at December 31, 2021. As a result, the City's net financial assets increased by \$68.8M from \$342.7M at December 31, 2020 to \$411.5M at December 31, 2021 indicating the City has sufficient financial assets to settle its existing liabilities. The increase in Net Financial Assets in the year is mainly attributable to a \$27.3M increase in cash and cash equivalents, a \$32.9M increase in portfolio investments, and a \$40.8M increase in deferred development cost charges; offset by a \$29.7M decrease in accounts payable, and an \$11.0M decrease in long-term debt. The extent to which the City's assets exceed liabilities represents liquidity and is a positive indicator of the City's financial strength.

### Financial Assets

The City's financial assets increased by \$81.3M from \$672.3M at December 31, 2020 to \$753.6M at December 31, 2021.

#### A. Cash and cash equivalents

Cash and cash equivalents represent funds held in the City either as cash or short-term investments with maturities of 90 days or less from the date of acquisition. The City's cash and cash equivalents increased \$27.3M for the year ended December 31, 2021, as interest rates on potential investment options were below the rate received from the bank. Therefore, the investment strategy included holding more money in the bank rather than locking into low interest rates.

#### B. Accounts Receivable

The 2021 balance of \$47.5M is an increase of \$17.7M over the prior year. This is primarily due to significant increases development cost charges. Developers have the option of paying their development cost charges in thirds, with the first third payable immediately. The remaining two thirds are set up as Accounts Receivable and secured by a Letter of Credit. Federal grant funds for the Airport as part of the Regional Airport Transportation Initiative (RATI) also contributed to the increase.

## C. Assets Held for Resale

Under PSAS requirements, assets held for sale must be disclosed separately as the intention is not to use these assets to provide future services.

In 2021, assets held for resale totalled \$13.3M in cost. Assets held for resale may include land, buildings, and machinery and equipment. The \$3.1M increase for 2021 is due to additional costs for the McDonalds property, land additions for Cross Rd and Snowsell St, as well as five properties on Dougall Rd. The City continues to hold a portion of the CN Rail Corridor acquisition in Assets Held for Resale to accommodate the Lake Country Agreement.

In 2020 land additions included 380 Harvey Ave and 1746 Water St and the sale of machinery and equipment for waste management curbside vehicles.

## Liabilities

### A. Accounts Payable

Accounts payable at the end of 2021 totaled \$50.8M, a decrease of \$29.7M in the year mainly due to a large accrual of \$26.7M for school tax in 2020 not required in 2021 along with reductions in various holdbacks of \$2.3M.

### B. Performance Deposits

Performance deposits increased by \$4.1M to \$31.4M at the end of 2021 due to new projects outpacing project completions from 2020. New projects with significant performance deposits for 2021 include \$2.9M for Appaloosa offsite works, \$2.5M for the Costco building and \$1.6M for the Costco gas bar.

### C. Deferred Revenue

The City's deferred revenue consists of cash received for services not yet provided or contributions received in advance to fund project expenditures. They include such items as property tax prepayments, construction, grants, local area service or other deferred revenue. There was an increase of \$8.2M in deferred revenue in 2021 to \$53.7M. The increase is mainly due to higher deferrals for, construction (\$2.0M), and tax prepayments (\$1.6M) along with the Rise Development rent prepayment (\$2.5M) and a payment from the District of Lake Country (\$1.3M).

### D. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$40.8M to \$124.6M at December 31, 2021 from \$83.7M at December 31, 2020 due to increased development throughout the City. When DCCs are initially assessed and collected from developers, they are deferred until eligible expenditures for infrastructure and parkland acquisitions take place, which may span several years.

In 2021 there were five developments with DCC contributions greater than \$2.0M and seven developments with DCC contributions greater than \$1.0M representing contributions of \$22.5M for the following projects:

- \$4.3M for 1940 Underhill St
- \$3.3M for 560-592 Bernard Ave
- \$3.0M for 1450 Cara Glen Court, 1430 & 1440 Cara Glen Court (Bldgs B & D)
- \$2.4M for 1710-1720 Richter St
- \$2.0M for 2175 Benvoulin Rd
- \$2.0M for 3101 Lakeshore Rd
- \$1.7M for 5100 Gordon Ave
- \$1.6M for 728 Valley Rd
- \$1.1M for 630 Black Mountain Dr
- \$1.1M for 660 Cawston Ave

In 2020, there were only three developments with DCC contributions greater than \$1.0M representing contributions of \$ 4.5M for the following projects:

- \$1.8M for 815 Leon Ave
- \$1.6M for 191 Hollywood Rd S
- \$1.1M for S of Upper Mission Dr

#### Non-Financial Assets

Non-Financial Assets are comprised of Tangible Capital Assets (TCA), Work in Process, Inventory, and Prepaid Expenses that the City has available and will use to provide future services rather than to settle liabilities. The City's Non-Financial assets did not change significantly and remains at \$1.86B at December 31, 2021.

#### A. Prepaid Expenses

Prepaid expenses are outlays that are made in the current fiscal year but pertain to the following fiscal year. Examples of prepaid expenses are insurance premiums, cost-sharing payments to BC Transit and prepayment for community use time at the Multi-purpose facility (RG Arenas). The City's prepaid expenses decreased \$1.9M primarily due to the draw down for the BC Transit prepaid reserve balance and the Multi-purpose facility (RG Arenas).

#### Accumulated Surplus

The City's Net Financial Assets of \$411.5M plus the Non-Financial Assets balance of \$1.86B totals \$2.3B which represents the cumulative amount that revenues have exceeded expenses. This excess has been utilized to fund tangible capital asset acquisitions over time. Further details on the City's annual surplus follow in the discussion on the Statement of Operations and Accumulated Surplus.

## Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus details the City's revenues, expenses and annual surplus and accumulated surplus for the years ended December 31, 2021 and December 31, 2020. This statement presents the results of the City's operations excluding capital expenditures. As required by legislation, the annual standard budget for each revenue and expense component is also presented. These are the standard budget amounts approved by Council in May of 2021, excluding any subsequent budget transfers and amendments that were approved through the balance of the year. The revenue section of this statement includes both capital and operating funding sources thereby reflecting all the revenue sources used to cover the cost of services provided.

Capital expenditures are not included in the expenses section of this statement as the cost for capital expenditures consumed is measured by the annual amortization amount for tangible capital assets. The amortization of tangible capital assets is included in each function's expenses. Capital expenditures are reviewed under the Statement of Changes in Net Financial Assets discussion.

### Revenue

#### A. Fees and Charges

The City collects a variety of fees and charges for specific services whose costs are not covered by taxation.

These fees increased by \$24.0M or 20.0% to \$142.2M in 2021 and is mainly attributable to the significant rise in development activity resulting in increases for permits and inspections, the heat dome resulted in additional water sales revenue and the lifting of COVID-19 public health order restrictions and travel advisories resulted in increases for air travel; public transit; use of recreational facilities; and parking. The City also received significantly more funding from the Community Works Fund than in 2020.

#### B. DCC Contributions

This revenue represents the amount drawn from previously assessed and collected DCCs to fund current year expenditures for parkland acquisition and development, and infrastructure spending. Contributions drawn to fund current year expenditures decreased by \$2.7M to \$11.7M in 2021 primarily due to a reduction in wastewater projects.

In 2021 a total of \$11.7M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$3.8M for Parkland Acquisition – 3684 Lakeshore Rd
- \$1.5M for Lakeshore 1 DCC Bridge at Bellevue Creek
- \$1.0 M for Lakeshore 1 DCC (Dehart – Vintage Terrace), Road
- \$0.7M for Parkland Acquisition – 802 Wilson Ave
- \$0.7M for Water Street DCC Force Main
- \$0.6M for Park Development – Rutland Centennial Park
- \$0.6M for Park Development – Pandosy Waterfront Park

- \$0.6M for Park Development – Ponds Community Park

The \$11.7M in DCC funds used in 2021 was less than the DCC levies received of \$50.8M and interest earned on these funds of \$1.7M.

### C. Gain on Disposal of Tangible Capital Assets

For 2021, gains on disposals were primarily due to Land sales (\$1.6M) and equipment sales (\$0.2M).

### Expenses

In the Statement of Operations, expenses are categorized and reported by the various functions or programs undertaken by the City. In Schedule 2 - Segmented Information expenses are categorized and reported by groupings of expense types. In 2021 total expenses increased by \$23.0M.

#### A. General Government

This category of expenditures includes legislative costs, general administration and other general government areas such as community service grants and rental property operating costs within the municipality. There was an increase of \$7.7M in spending to \$41.4M in 2021 over 2020. The increase is attributed to higher salaries (\$3.1M) as a result of staffing increases, general salary and wage increases, a timing difference for management increases – in 2020 increases were delayed to the fall and increases in 2021 were in the spring – and an internal reorganization shifted some costs from Protective Services, Transportation and Recreation and Culture to General Government. In addition to this, there were increased contract and professional services (\$2.6M) due to reduced restrictions related to COVID-19, along with increased grant expense (\$0.5M), and amortization expense (\$0.8M).

#### B. Protective Services

There was an increase of \$8.8M to \$73.9M over 2020 primarily due to a \$7.0M increase in costs for the RCMP contract due to member salary increases for new the collective agreement and other general cost increases.

### Annual Surplus

The Annual Surplus increased by \$5.7M to \$68.5M in 2021 as revenues increased by 8.2% while expense only increased by 8.0% over 2020.

The annual surplus is a result of operations from all funds and reserves excluding capital expenditures.

## Accumulated Surplus

As a result of this year's Annual Surplus of \$68.5M, the Accumulated Surplus increased from \$2.20B to \$2.27B. This represents the cumulative results of all surpluses the City has incurred in the General, Airport, Wastewater and Water Funds and is available to provide future services and agrees to the balance on the Consolidated Statement of Financial Position.

## Consolidated Statement of Changes in Net Financial Assets

The Statement of Changes in Net Financial Assets provides a detailed analysis of the change in the City's net financial assets from the beginning to the end of the year. The City's net financial assets increased \$68.8M from \$342.7M at December 31, 2020 to \$411.5M at December 31, 2021.

The Statement of Changes in Net Financial Assets reconciles to the Statement of Financial Position's balance of Net Financial Assets and is a key indicator of the City's financial position and a statement of cash flow for capital. It begins with the current year's annual surplus of \$68.5M and adds or subtracts the following:

- Add back the non-cash amortization of \$68.8M which represents the value of tangible capital assets used in the year to provide services;
- Add the proceeds for the disposal of Tangible Capital Assets of \$2.1M which is comprised of proceeds from land sales and equipment disposals;
- Subtract the gain on sale of capital assets which represents the net gain over net book value from land sales and equipment sales \$1.8M;
- Add the write down for impaired assets of \$0.5M;
- Subtract the acquisition and contribution of Tangible Capitals Assets in the current year of \$71.0M;
- Add the increase of inventory and prepaid expenses of \$1.7M.

The variance between actual and budgeted capital asset additions is primarily due to timing and carryovers of projects to be completed next year. The balance of Work in Progress (WIP) at the end of the year was \$26.9M.

General Fund tangible capital acquisitions for 2021 include:

Land of \$10.8M comprised of Parkland Acquisition – \$4.3M for 3684 Lakeshore Rd and Property acquisitions – \$1.6M for 1749 Abbott St and \$2.9M for 1144 Pacific Ave.

Buildings capital expenditures of \$7.1M included property acquisitions of \$1.1M for Unit 300-1475 Ellis Street, and \$0.9M for 1749 Abbott St; \$0.8M for Water St Firehall #2 repairs; \$0.7M for Kelowna Community Theatre renewal; \$0.5M for Rutland Centennial Park washroom and \$0.5M for Kelowna Library chiller replacement.

Infrastructure capital expenditures were \$26.0M comprised of the following significant projects: Ethel 3 DCC (Rose-Raymer) ATC \$3.0, Glenmore Recreation Park-Phase 2 construction \$2.2M, Landfill Liner design and construction \$1.9M, Lakeshore 1 DCC Bridge at Bellevue Creek \$1.7M, and Glenmore Recreation Park-Phase 3 \$1.4M.

Machinery & Equipment acquisitions were \$7.0M with the most significant being \$1.4M for Landfill heavy equipment, \$0.9M for Engine 3 and \$0.6M for a heavy-duty truck.

Airport Fund acquisitions were \$4.6M with the most significant being \$3.9M for Airport-Pavement Rehabilitation.

The Wastewater Fund capital expenditures of \$1.2M were primarily for Wastewater support facilities \$0.5M and pipe replacement \$0.3M.

The Water Fund capital expenditures of \$12.5M were primarily for SEKID Separation \$1.9M; Water Meter Replacement-Stage 1 \$1.7M; Adams Reservoir (Phase 2) \$1.5M; Skyline Pump Station DCC-Electrical Building Upgrades \$1.0M; Westridge Transmission (Phase 2) \$0.9M; Clement Ave (Ellis to Richter) \$0.7M; Watermain Renewals-Cadder Ave \$0.6M; Ethel 3C ATC Water Main Replacement \$0.6M; and Raymer Ave (Richter to Gordon) \$0.5M.

The Net Financial Assets at the end of the year of \$411.5M agrees to the Consolidated Statement of Financial Position balance and represents the Net Financial Assets available to finance existing resources.

### **Consolidated Statement of Cash Flows**

The Statement of Cash Flows outlines the cash generated and used by the City's operations, capital activities, investing activities and financing activities. Some of the balances on this statement were discussed previously when reviewing the Statement of Financial Position.

The Cash and cash equivalents balance at the end of 2021 of \$103.8M is an increase of \$27.3M. This balance is comprised of cash and investments that mature within 90 days and is held in banks, credit unions and other municipal, provincial or guaranteed investment instruments.

Operations provided net cash inflows of \$136.3M that were used in the acquisition of new tangible capital assets of \$69.2.0M (net of \$1.8M which were funded through developer contributions). Proceeds from the sale of land and vehicles generated \$2.1M while repayment of debt, net of new debt borrowings was \$9.0M. The balance flowed from Portfolio Investments which decreased by \$32.9M in the year.



The Statement of Cash Flows includes cash flows from Operating, Capital, Investing and Financing that are reviewed as follows:

1. Operating:

There were cash flows from operations of \$136.3M in 2021 down from \$149.8M in the prior year. The amount is determined by taking the Annual Surplus and adding or subtracting adjustments for non-cash items such as amortization, and developer contributions of capital, and adding or subtracting the change in balance year over year for non-cash financial assets and liabilities such as accounts receivable or payable.

- o Amortization – \$68.8M
- o Write Down of Tangible Capital Assets – \$0.5M.
- o Developer Contributed Assets – Land: 1308 Findlay Rd, 613 Carnoustie (630 Black Mountain Dr), and 1280 Wilmot Ave. Other contributed asset: Clement 1.
- o Accounts Receivable and Other assets – Balances increased over the prior year which is a reduction in cash received. Assets held for resale are included here.
- o Other Liabilities and Deferred Development Cost Charges - Balances increased over the prior year which drives an increase in cash received. As development increases, DCCs increase along with performance deposits and revenue from permits and fees tied to development.

2. Capital:

Acquisition of capital assets decreased by \$18.8M to \$69.2M in 2021 from \$88.0M in 2020. Expenditures occurred in the following funds:

	<u>2020</u>	<u>2019</u>
General Fund	\$50.9	\$56.7
Airport	4.6	5.4
Wastewater	1.2	5.2
Water	12.5	20.7

Proceeds on disposal of capital assets decreased by \$3.1M to \$2.1M from \$5.2M in 2020. Proceeds in 2021 were \$1.8M from land sales and \$0.3M from vehicle disposals.

Proceeds in 2020 were \$4.8M from land sales, and \$0.4M from vehicle disposals.

Repayment of debt decreased \$1.9M over 2020.

This concludes the review of the Audited Consolidated Financial Statements for the year ended December 31, 2021.