

Memo



Date: April 25, 2023
To: Audit Committee
From: Finance Director, Financial Services
Subject: Audit Committee Review of December 31, 2022 Consolidated Financial Statements
Report Prepared by: Acting Controller

Purpose of Public Sector Financial Statements

Public sector financial statements differ from business enterprise statements in that the public sector exists to provide services 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 financial 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, 2022 and December 31, 2021 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 investment, 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 \$ 844.4M exceeded its liabilities of \$375.5M at December 31, 2022. As a result, the City's net financial assets increased by \$57.4M from \$411.5M at December 31, 2021 to \$468.9M at December 31, 2022 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 \$95.6M increase in portfolio investments, offset by an increase of \$23.6M in deferred development cost charges and an increase of \$11.9M in performance deposits. 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 \$90.8M from \$753.6M at December 31, 2021 to \$844.4M at December 31, 2022.

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 decreased (\$12.2M) for the year ended December 31, 2022. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

B. Accounts Receivable

The 2022 balance of \$55.1M is an increase of \$7.7M over the prior year. This is primarily due to increased accruals for federal grant programs of \$1.0M for the Strengthening Communities grant, \$2.7M for the Biosecurity grant and \$3.3M for the Runway End Safety Area (RESA) grant.

C. Portfolio Investments

The City's portfolio investments represent funds which are not required in the day-to-day operation of the City or to satisfy short-term obligations. Portfolio investments increased by \$95.6M in 2022 from \$580.7M to \$676.3M as a result of cash flow from operating activities of \$194.3M being more than adequate to fund capital expenditures of \$104.9M and net debt repayments of \$8.8M. Also, the City received \$2.3M from sale of other assets.

Liabilities

A. Performance Deposits

At the end of 2022, performance deposits totaled \$43.4M, an increase of 11.9M over 2021 due to new projects outpacing project completions from 2021. New projects with significant performance deposits for 2022 include \$4.0M for Mission Creek Landing Senior Home, \$1.5M for Appaloosa Road works, \$1.2M for Canyon Falls multi-family development, and \$0.5M for Sutton Place Hotel - Airport

B. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$23.6M to \$148.1M at December 31, 2022 from \$124.6M at December 31 2021 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. Notable projects that increased DCCs in 2022 include \$5.0M for Dehart park, \$4.0M for Wastewater Treatment plant, \$3.6M for Pandosy Waterfront park, \$3.0M for Mission Creek Baseball Diamond, \$2.0M for Rose Ave Bike Lane, and \$1.0M for Houghton Rail Trail project.

In 2021 notable projects included \$4.3M for 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 Valley Rd, \$1.1M for 630 Black Mountain Dr and \$1.1M for 660 Cawston Ave.

C. Long Term Debt

Long term debt decreased from \$81.6M at December 31, 2021 to \$70.9M at December 31, 2022, a decrease of (\$10.7M) due to payments and very little new debt. Payments decreasing debt include \$4.5M for the General fund, \$1.2M for the Wastewater fund, and \$2.2M for Airport.

Non-financial Assets

Non-financial assets are comprised of prepaid expenses, inventory, work in progress, and tangible capital assets that the City has available and will use to provide future service rather than to settle liabilities. The City's non-financial assets did not change significantly with a total of \$1.89B in 2022 and \$1.86B in 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 pre-payment for community use time at the Multi-purpose facility (RG Arenas). The City's prepaid expenses decreased (\$3.2M) primarily due to the draw down for the BC Transit prepaid reserve balance and the multi-purpose facility (RG Arenas).

B. Work in Progress

The City's work in progress (WIP) represents expenditures on incomplete projects that are not in use and therefore not eligible to be capitalized to tangible capital assets or subject to amortization. WIP increased \$16.6M to a balance of \$43.5M. The change in WIP is the result of:

- An increase of \$51.4M that includes \$4.8M for the Mill Creek Diversion, \$3.4M for ATB Expansion Construction, \$2.9M for City Hall Improvements, \$2.8M for Houghton 1 DCC (Nickel – Rails with Trails) ATC, \$2.4M for Pandosy Waterfront Park DCC, City-wide Park Development Phase 1, \$2.0M for Abbott (Rose Ave – Cedar Ave) Protected Bike Lane, \$1.7M for City Park Promenade Design and Construction Phase 2, \$1.5M for Hwy 97/Leckie Rd Intersection Improvements, \$1.4M for Manhattan Dr – Sanitary Replacement, \$1.3M for Old Vernon Rd – Mill Creek Crossing, \$1.3M for Airport Child Care Facility, \$1.1M for Ballou Park DCC, \$1.1M for Landfill Site Preparation, \$1.1M for Stockpiles and Reprocessing Areas Relocation, \$1.1M Knox Mountain Geotechnical Engineering, and \$1.0M for Kelowna Family Y – Mechanical & Electrical Renewal.
- A decrease of \$34.8M for projects completed and capitalized in 2022 that includes \$4.7M for Mill Creek Diversion, \$3.3M for Houghton 1 DCC (Nickel – Rails with Trails) ATC, \$2.2M for Abbot (Rose Ave – Cedar Ave) Protected Bike Lane, \$2.1M for City Park Promenade Design and Construction – Phase 2, \$1.7M for Water Street DCC Force Main, \$1.5M for Old Vernon Rd – Mill Creek Crossing, \$1.5M for Hwy 97/Leckie Rd Intersection Improvements, \$1.5M for Manhattan Dr – Sanitary Replacement, \$1.2M for Guy St Lift Station Renewal DCC, and \$1.0M for Leachate and Landfill Gas Collector - 2018

Accumulated Surplus

The City's net financial assets of \$468.9M plus the non-financial assets balance of \$1.89B totals \$2.36B 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 Consolidated 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, 2022 and December 31, 2021. 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 2022, 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 Changes in Net Financial Assets discussion.

Revenue

A. Taxation

The City collected a total of \$184.6M in taxes in 2022 compared to \$171.4M in 2021 for an increase of \$13.3M. This increase is the result of increases in the tax levy from 2021 to 2022 and the Local Area Service for the Southeast Kelowna Water project annual payment and one-time cash commute.

B. 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 \$19.6M (approximately 14%) to \$161.8M in 2022 and is mainly attributable to the Airport due to the increase in passenger levels which resulted in increases to terminal fees and AIF revenue. Additionally, a change in the parking contract at the Airport resulted in increased revenues.

C. Interest Earned

The City earns interest from a variety of sources including interest from portfolio investments, dividends from Fortis preferred shares, interest on daily bank balances and interest on past due accounts receivable. Interest earned increased by \$4.8M to \$16.3M in 2022 primarily due to the significant increase in interest rates from 2021 to 2022 with an average rate 0.45% in 2021 and 2.12% in 2022.

D. 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 increased by \$5.1M to \$16.8M in 2022 primarily due to completion of more DCC funded projects in 2022 than 2021. The value of Parks DCC funded projects increased \$7.0M and was offset by a decrease in the value of infrastructure DCC funded projects of \$1.8M.

In 2022 a total of \$16.8M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$8.2M for Parkland Acquisition – Fitzpatrick Rd 511, 559, Findlay Rd 1119
- \$1.2M for Parkland Acquisition – Cawston Ave 571
- \$1.2M for Park Development – Pandosy Waterfront Park, DCC City-wide Park Development Phase
- \$1.0M for Park Development – Ballou Park (DCC)
- \$0.6M for Guy St Lift Station Renewal DCC

The \$16.8M in DCC funds used in 2022 was less than the DCC levies received of \$37.8M and interest earned on these funds of \$2.6M.

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 2022 total expenses increased by \$23.8M.

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 \$7.6M in spending to \$49.0M in 2022 over 2021. The increase is attributed to cost escalations, inflation and fluctuations in foreign currency exchange for major building maintenance and information technology projects (\$1.8M); increases in the hotel tax that flow through to Tourism Kelowna (\$1.4M); a full year utilization of the Strengthening Communities grant received in mid-2021 (\$1.1M); increased insurance premiums and reducing interdepartmental charges for security contacts;

and the introduction of a new cost center for Occupational Health and Safety and eliminating interdepartmental cost recoveries.

B. Protective Services

There was an increase of \$3.6M to \$77.5M over 2021 primarily due to RCMP contract increases and retro pay along with staffing increases and associated costs for uniforms, training, and operating materials.

C. Airport

Airport expenses include terminal, groundside, airside, and administration costs as well as interest and amortization. There was an increase in expense of \$4.5M to \$26.5M in 2022 over the prior year. Increases are primarily attributed to resumption of full operations and recovery of passenger levels following impacts due to COVID-19. Areas of notable increases included salaries and benefits, fuel expense, facility maintenance and security contracts as well as increased amortization due to increased capital expenditures.

D. Wastewater

There was an increase of \$2.2M in 2022 compared to 2021. This increase is the result of a reporting change for the Biosolids program. This program was included in "Other Services" in 2021.

Annual Surplus

The annual surplus increased by \$21.9M to \$90.4M in 2022 as revenues increased by 12% while expenses only increased by 7.7% over 2021.

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 \$90.4M, the accumulated surplus increased from \$2.27B to \$2.36B. 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 \$57.4M from \$411.5M at December 31, 2021 to \$468.9 at December 31, 2022.

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 \$90.4M. and adds or subtracts the following:

- Add back the non-cash amortization of \$69.3M 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 \$2.3M which is comprised of proceeds from land sales and equipment disposals;
- Subtract the gain on sale of tangible capital assets which represent the net gain over net book value from land sales and equipment sales of (\$1.3M);
- Add the write down for impaired assets of \$0.1M;
- Subtract the acquisition and contribution of tangible capital assets in the current year of (\$106.6M);
- Add the decrease of inventory and prepaid expense of \$3.2M

The variance between actual and budgeted tangible capital asset additions is primarily due to timing and carryovers of projects to completed next year. The balance of work in progress at the end of the year was \$43.5M.

General fund tangible capital asset acquisitions for 2022 totaled \$67.3M and include:

Land of 15.7M largely comprised of Parkland Acquisitions for \$ - \$10.6M, and a property acquisition for \$3.0M

Buildings capital expenditures of 6.8M which is largely comprised of City Hall Improvements Phase IV and V \$2.9M, Kelowna Family Y - Mechanical & Electrical Renewal \$1M, H₂O Centre Heat Recovery Chiller Replacement \$0.5M.

Infrastructure capital expenditures were \$35.6M which largely comprised of the following projects: Mill Creek Diversion \$4.8M, Road resurfacing \$3.4M, Houghton Rd ATC 2.8M, Pandosy Waterfront Park – Phase 1 2.5M, Abbott St Protected Bike Lane Project \$2.0M, City Park Promenade Design and Construction - Phase 2 \$1.7M, Hwy.97/Leckie Road Intersection Improvements 1.5M, Old Vernon Road - Mill Creek Crossing \$1.3M, Ballou Park \$1.3, Landfill Site Preparation \$1.1, Stockpiles and Reprocessing Areas Relocation \$1.1, Knox Mountain Geotechnical Engineering \$1.1.

Machinery & Equipment capital expenditures were \$9.2M which was largely comprised of Landfill Compactor \$1.5M, heavy duty equipment, Other Heavy Duty Equip \$2.5M.

Airport fund capital acquisitions were \$19.6M and include:

Runway End Safety Area of \$6.8M, Biosecurity Testing Facility of \$5.4M, Airport Child Care Facility of \$1.3M and the Roof Replacement project of \$1.1M

Wastewater fund capital acquisitions were of \$11.8M:

Were primarily for sanitary infrastructure upgrades and replacements for \$6.9M, and a property acquisition at 1509 Byrns Rd for \$4.9M.

Water fund capital acquisitions were \$6.2M and included:

Water Meter Replacement – stage 2 of \$1.8M, South End water upgrades of \$1.5M, and Water Network and Facility renewals of \$1.7M

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 2022 of \$91.5M is a decrease of \$12.2M. 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 provide net cash inflows of \$194.4M that were used in the acquisition of new tangible capital assets of \$104.9M (net of \$1.7M which were funded through developer contribution). Proceeds from the sale of land and vehicles generated \$2.3M while repayment of debt, net of new debt borrowings was \$8.4M. The balance flowed into portfolio investments which increased by \$95.6M in the year.

The Statement of Cash Flows includes cash flows from operating, capital, investing and financing that are reviewed as follows:

Operating:

There were cash flows from operations of \$194.4M in 2022 up from \$136.3M 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.

- Amortization - \$69.3M
- Write down of tangible capital assets - \$0.1M
- Developer contributed assets – Land: 984 DeHart Rd (4228 Russo St), 3365 Sexsmith Rd, 796 Kuipers Cres (794 Kuipers Cres), 5100 Gordon Dr (1000 Clarence Ave) and 5533 Mountainside Dr (467 Vision Ct)
- 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.
- 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.

Capital:

Acquisition of tangible capital assets increased by \$35.7M to \$104.9M in 2022 from \$69.2M in 2021. Expenditures occurred in the following funds:

	<u>2022</u>	<u>2021</u>
General fund	\$67.3	\$50.9
Airport fund	19.6	4.6
Wastewater fund	11.8	1.2
Water fund	6.2	12.5

Proceeds on disposal of tangible capital assets increased by \$0.2M to \$2.3M from \$2.1M in 2021. Proceeds in 2022 were \$2.0M from land sales and \$0.3M from vehicle disposals. Proceeds in 2021 were \$1.8M from land sales and \$0.3M from vehicle disposals.

Repayment of debt decreased \$0.2M over 2021.

This concludes the review of the audited consolidated financial statements for the year ended December 31, 2022.