

Memo



Date: April 30, 2024
To: Audit Committee
From: Divisional Director, Financial Services
Subject: Audit Committee Review of December 31, 2023 Consolidated Financial Statements
Report Prepared by: 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 Remeasurement Gains and Losses
- Consolidated Statement of Changes in Net Financial Assets (Debt)
- Consolidated Statement of Cash Flows, and;
- Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

This statement presents the Net Financial Assets, Non-Financial Assets and Accumulated Surplus as at December 31, 2023 and December 31, 2022 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 and accrued liabilities, performance deposits, deferred revenue, deferred development cost charges, long-term debt and asset retirement obligations.

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 \$ 1.05BM exceeded its liabilities of \$532.8M at December 31, 2023. As a result, the City's net financial assets increased by \$75.5M from \$441.1M at December 31, 2022 to \$516.6M at December 31, 2023 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 \$169.6M increase in portfolio investments, offset by an increase of \$65.5M in deferred development cost charges and an increase of \$32.6M in accounts payable and accrued liabilities. 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 \$205.0M from \$844.4M at December 31, 2022 to \$1.05B at December 31, 2023.

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 \$16.7M for the year ended December 31, 2023. Further details on this movement have been included below under the discussion of the Statement of Cash Flows.

B. Accounts Receivable

The 2023 balance of \$76.8M is an increase of \$21.7M over the prior year. This is primarily due to a \$18.9M increase in development cost charges receivable from development applications received late in the year.

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 \$169.6M in 2023 from \$676.3M in 2022 to \$845.9M. The mandated adoption of the new PSAB standard on reporting for financial instruments created an unrealized write-up in investment values of \$32.6M. The remaining increase resulting from cash flows from operating activities of \$345.9M being more than adequate to fund capital expenditures of \$159.8M and net debt repayments of \$7.8M. Also, the City received \$3.0M from sale of other assets.

D. Assets Held For Sale

Assets held for sale decreased by \$8.1M in 2023 from \$12.5M in 2022. In 2023, the agreement to support the District of Lake Country (DLC) in the acquisition of the CN lands for the rail trail was completed with the sale of \$2.5M in land to DLC. Another \$5.5M in various land parcels were transferred to non-financial assets resulting from a reassessment of their potential uses.

Liabilities

A. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased by \$32.6M to \$83.5M in 2023 from \$50.9M at the end of 2022. The change in balance results from the timing of trade accruals of \$23.1M and an \$8.2M accrual for the RCMP retroactive increase.

B. Performance Deposits

At the end of 2023, performance deposits totaled \$48.2M, an increase of \$4.9M over 2022 due to new projects outpacing project completions from 2022. New projects with significant performance deposits for 2023 include \$2.2M for Frost Road developments and \$1.1M for the Killdeer Rd subdivision.

C. Deferred Revenue

Deferred revenues increased from \$57.6M at December 31, 2022 to \$81.6M at December 31, 2023, an increase of \$24.0M. The increase included deferred grant revenue for \$10.0M for the PRC and Mission and Glenmore Activity Centres, \$8.0M for the Housing Accelerator Fund, \$3.0M for the Turtle Lake Dam grant, and \$1.3M relating to the Next Generation 911 Grant.

D. Deferred Development Cost Charges (DCC)

Deferred DCCs increased by \$65.5M to \$213.7M at December 31, 2023 from \$148.1M at December 31 2022 with an increase in applications in 2023 due to the final grandfathering from the process changed by the 2022 DCC bylaw updated. 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. Further details on the notable project expenditures from DCC revenue is included under the discussion of the Statement of Operations and Accumulated Surplus.

E. Asset Retirement Obligation

The asset retirement obligation is a new line item in the City's 2023 financial statements arising from the adoption of the new PSAB standard to address the reporting of legal obligations associated with the retirement of certain tangible capital assets. The standard was adopted retrospectively which means the balances for the year end balances for December 31, 2022 were also restated to comply with the new standard. Year-over-year the estimated asset retirement obligation liability increased by \$7.7M which was largely attributable to the variance in rates used in calculating the estimate.

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 increased to a total of \$1.99B in 2023 from \$1.89B in 2022 driven largely by the acquisition of work in progress and tangible capital assets.

A. 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 \$29.6M to a balance of \$73.1M. The change in WIP is the result of:

- An increase of \$90.2 for projects started but not completed include:
 - \$9.7M for the Airport Terminal (ATB) Expansion
 - \$8.8M for the South Perimeter 1 Rd.
 - \$6.1M for the Stockpiles and Reprocessing Areas Relocation
 - \$4.9M for the Rutland Centre Sewer Connection
 - \$4.6M for the Mill Creek Diversion
 - \$3.7M for the ATC - Hollywood Rd. to Rutland Rd.
 - \$3.6M for the ATC – Casorso Rd.
 - \$3.6M for the Knox Mountain Geotechnical Engineering
 - Various other projects totaling less than \$3M each

- A decrease of \$60.6M for projects completed and capitalized in 2023 include:
 - \$9.3M for the South Perimeter 1 Rd.
 - \$6.1M for the Mill Creek Diversion
 - \$5.4M for City Hall improvements
 - \$4.3M for the Airport Childcare Facility
 - \$4.1M for the ATC – Hollywood Rd. to Rutland Rd.
 - \$3.6M for the ATC Casorso Rd.
 - \$3.5M for the Pandosy Waterfront Park, Phase 1
 - \$3.0M for the Kelowna Family Y – Mechanical & Electrical Renewal
 - Various other projects totaling less than \$3M each

Accumulated Surplus

The City's net financial assets of \$516.6M and non-financial assets of \$1.99B total \$2.51B, 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, 2023 and December 31, 2022. 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 April 2023, 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 (Debt) 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 \$19.6M to \$181.4M in 2023 and is mainly attributable to some high value building permits and an increase in passenger levels at the Airport which resulted in increases to terminal fees and AIF revenue.

B. 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. With the increase of cashflows, our treasury branch was able to continue their investment strategy which increased our investment portfolio in order to maximize our return on cash. Interest earned increased by \$11.6M to \$28.0M in 2023 primarily due to the implementation of this investment strategy and significant increases in interest rates from 2022 to 2023 with average rates of 1.99% in 2022 and 3.4% in 2023.

C. DCC Contributions

This revenue represents the amount drawn from previously assessed and collected development cost charges (DCC) to fund current year expenditures for parkland acquisition and development, and infrastructure spending. Contributions drawn to fund current year expenditures increased by \$20.8M to \$37.6M in 2023 primarily due to the completion of more DCC funded projects in 2023 than 2022. The value of Parks DCC funded projects increased \$14.0M and Transportation DCC funded projects increased by \$10.1M. The DCC funding was offset by a reallocation of funding from DCC for the Cedar Creek Pump Station of \$3.2M.

In 2023 a total of \$37.6M in DCC funds were drawn from deferred revenue and allocated to the following projects:

- \$15.0M for Parkland Acquisition – 3896 Truswell Rd.
- \$6.3M for Parkland Acquisition – Barlee Rd.
- \$5.9M for South Perimeter 1 Rd. (Gordon Dr. to Stewart 1)
- \$3.8M for Sutherland 3 (Mill Creek to Spall)
- \$1.1M for ATC - Hollywood Rd. to Rutland Rd.
- \$1.1M for ATC – Casorso Rd.
- \$1.0M for Parkland Acquisition – 1450 Steele Rd.
- \$1.0M for Mission Recreation Softball Diamonds
- \$1.0M for Pandosy Waterfront Park, Phase 1

The \$37.6M in DCC funds used in 2023 was less than the DCC levies received of \$97.4M and interest earned on these funds of \$5.7M.

D. Government transfers

These contributions include funding for both operating and capital undertakings. There was an increase in 2023 of \$26.8M to \$65.5M primarily due to the receipt of \$26M for the Growing Communities Grant and the increase in funding realized in 2023 due to further completion of wastewater multiyear projects.

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 2023 total expenses increased by \$36.6M.

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 \$10.9M in spending to \$60.1M in 2023 over 2022. The increase is attributed to a \$1.6M increase in interest costs with the escalation in prime rate, the reallocation of the Social Development branch expenses from the Recreation & Cultural segment of \$1.6M, \$1.3M in expenses for cyber security and service-based budgeting, \$1.2M in price escalations in supplies and maintenance and \$1.0M in additional insurance premiums and security related costs.

B. Protective Services

There was an increase of \$18.1M to \$95.6M over 2022 primarily due to RCMP contract increases and retroactive pay along with staffing.

C. Airport

Airport expenses include terminal, groundside, airside, and administration costs as well as interest and amortization. There was an increase in expense of \$3.9M to \$30.4M in 2023 over the prior year. Increases are primarily attributed to \$1.3M in price escalations and maintenance, \$0.9M from increased purchased services and a new process of recording parking management and \$0.7M in additional amortization.

Annual Surplus

The annual surplus increased by \$47.9M to \$137.0M in 2023 as revenues increased by 20% while expenses only increased by 11% over 2022.

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 \$137.0M, the accumulated surplus increased from \$2.34B to \$2.47B. 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 Remeasurement Gains and Losses

New for the year ended 2023, under the direction of PSAB, requirements for reporting financial instruments gave rise to the presentation of their gains and losses on the Statement of Remeasurement Gains and Losses. This statement demonstrates the City's unrealized changes in the fair value of its investments/instruments and foreign exchange, when applicable. The Statement is implemented from 2023 onward. At the end of 2023 the City recorded \$5.3M in unrealized, year-over-year, gains in the market value of its portfolio investments increasing the 2023 balance of accumulated remeasurement gains to \$32.6M.

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 \$75.5M from \$441.1M at December 31, 2022 to \$516.6M at December 31, 2023.

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 \$137.0M and adds or subtracts the following:

- Adds back the non-cash amortization of \$69.4M which represents the value of tangible capital assets used in the year to provide services;
- Adds the proceeds for the disposal of tangible capital assets of \$3.0M which is comprised of proceeds from land sales and equipment disposals;
- Subtracts the gain on sale of tangible capital assets which represent the net gain over net book value from land sales and equipment sales of (\$0.3M);
- Adds the write down for impaired assets of \$1.2M;
- Subtracts the acquisition and contribution of tangible capital assets in the current year of (\$161.2M);
- Subtracts the change in asset retirement obligation of (\$6.1M);
- Adds the total unrealized gains on portfolio investments of \$32.6M, and;
- Subtracts the increase of inventory and prepaid expense of (\$0.2M).

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 \$73.1M.

General fund tangible capital asset acquisitions for 2023 totaled \$114.0M and include:

Land of \$33.4M largely comprised of Parkland Acquisitions for \$ 27.7M, and a property acquisition for \$5.7M.

Buildings capital expenditures of \$4.0M which is largely comprised of Parkinson Rec Renewal \$1.1M, Sutherland 3 roadway property acquisition \$0.5M, Firehall boiler replacements \$0.5M and Parkland Building acquisitions for \$0.5M.

Infrastructure capital expenditures were \$9.1M which largely comprised of the following projects: Road resurfacing \$3.0M, Outdoor recreation renewal (various) \$1.6M, Landfill infrastructure renewal \$0.9M, \$0.9M Street Light Renewal \$0.9M, Sidewalk and Safety projects \$0.6M and Active Transportation Corridor \$0.5M.

Machinery & Equipment capital expenditures were \$4.8M which was comprised Fleet additions \$3.3M and Other Equipment \$1.5M.

Work in progress expenditures were \$55.6M comprised of Infrastructure \$44.7M, Buildings \$6.4M, Machinery & Equipment \$3.5M and Land Improvements \$1.0M.

Airport fund capital acquisitions were \$25.9M and include:

Terminal upgrades and replacements \$2.9M, Runway and Groundside projects \$2.8M and work in progress Terminal and Combined Operations buildings \$19.0M.

Wastewater fund capital acquisitions were of \$14.4M:

Work in progress expenditures for the Rutland Centre, Rialto and K.L.O Rd Sewer Connection projects \$6.3M, Land North of Cawston and Coronation project \$2.7M, South Pandosy Main Replacements \$1.1M and Treatment Odour Control Media Replacement \$1.0M.

Water fund capital acquisitions were \$5.5M and included:

Water Network and Facility renewal \$2.3M, Water Meter Replacement – stage 3 of \$1.4M, and work in progress of \$1.3M.

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 2023 of \$108.2M is an increase of \$16.7M. 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 \$345.9M that were used in the acquisition of new tangible capital assets of \$159.8M (net of \$1.4M which were funded through developer contribution). Proceeds from the sale of land and vehicles generated \$3.0M while repayment of debt, net of new debt borrowings was \$2.9M. The balance flowed into portfolio investments which increased by \$169.6M 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 \$345.9M in 2023 up from \$194.4M 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 - \$69.4M
- Write down of tangible capital assets - \$1.2M
- Developer contributed assets – Land: 2018 Kentucky Crescent, 5200 Gordon Drive, 1601 Cara Glen Way (530 Caramillo Court).
- 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 \$54.9M to \$159.8M in 2023 from \$104.9M in 2022. Expenditures occurred in the following funds:

	<u>2023</u>	<u>2022</u>
General fund	\$114.0	\$67.3
Airport fund	25.9	19.6
Wastewater fund	14.4	11.8
Water fund	5.5	6.2

Proceeds on disposal of tangible capital assets increased by \$0.7M to \$3.0M from \$2.3M in 2022.

Proceeds in 2023 were \$2.8M from land sales and \$0.2M from vehicle disposals.

Proceeds in 2022 were \$2.0M from land sales and \$0.3M from vehicle disposals.

Investing:

Portfolio investments increased by \$169.6M in 2023 compared to 2022. The mandated adoption of the new PSAB standard on reporting for financial instruments created an unrealized write-up in investment values of \$32.6M. The remaining increase resulting from cash flows from operating activities being more than adequate to fund capital expenditures and net debt repayments.

Financing:

New debt increased by \$4.9M in 2023 compared to \$0.4M in 2022.

Repayment of debt decreased \$1.0M over 2022.

This concludes the review of the audited consolidated financial statements for the year ended December 31, 2023.