
MEETING TYPE: Special Council Meeting
MEETING DATE: Tuesday, May 9, 2023
AUTHOR: Trevor James, CFO, Director of Finance & Administration
DEPARTMENT: Finance & Administration
ITEM TITLE: 2022 Financial Statements
DESCRIPTION: Review of the 2022 Financial Statements

QUESTION

Does Council approve the 2022 Financial Statements prior to the issuance of the Auditors' final report?

OPTIONS

- A. THAT the District of Lake Country's 2022 draft Financial Statements be approved.
- B. THAT the District of Lake Country's 2022 draft Financial Statements not be approved.

KEY INFORMATION

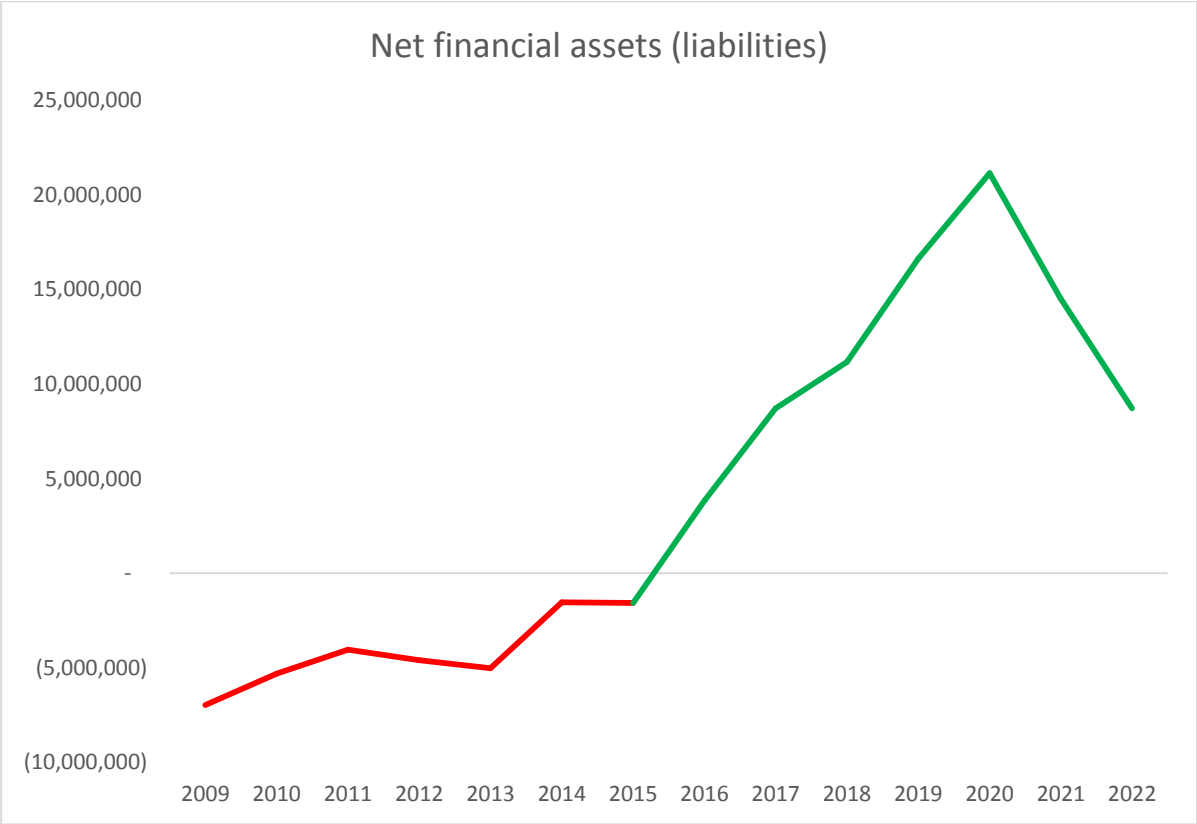
Our auditors, BDO LLP, have audited the 2022 financial statements and provided a preliminary unmodified (clean) audit opinion. The draft financial statements are contained in Attachment 1. The full financial statements will be presented to Council by BDO LLP and by management at the May 9, 2023 Special Council meeting.

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).

A net financial position indicates the extent that net financial resources are available to fund future operations and expenditures. In 2022 the District moved to a net financial position of \$8,716,578 compared to \$14,519,118 in 2021. While this is a significant drop from the prior year, it is largely as a result of planned significant capital expenditures and we consider the net financial position to be quite healthy for funding future operations and expenditures.

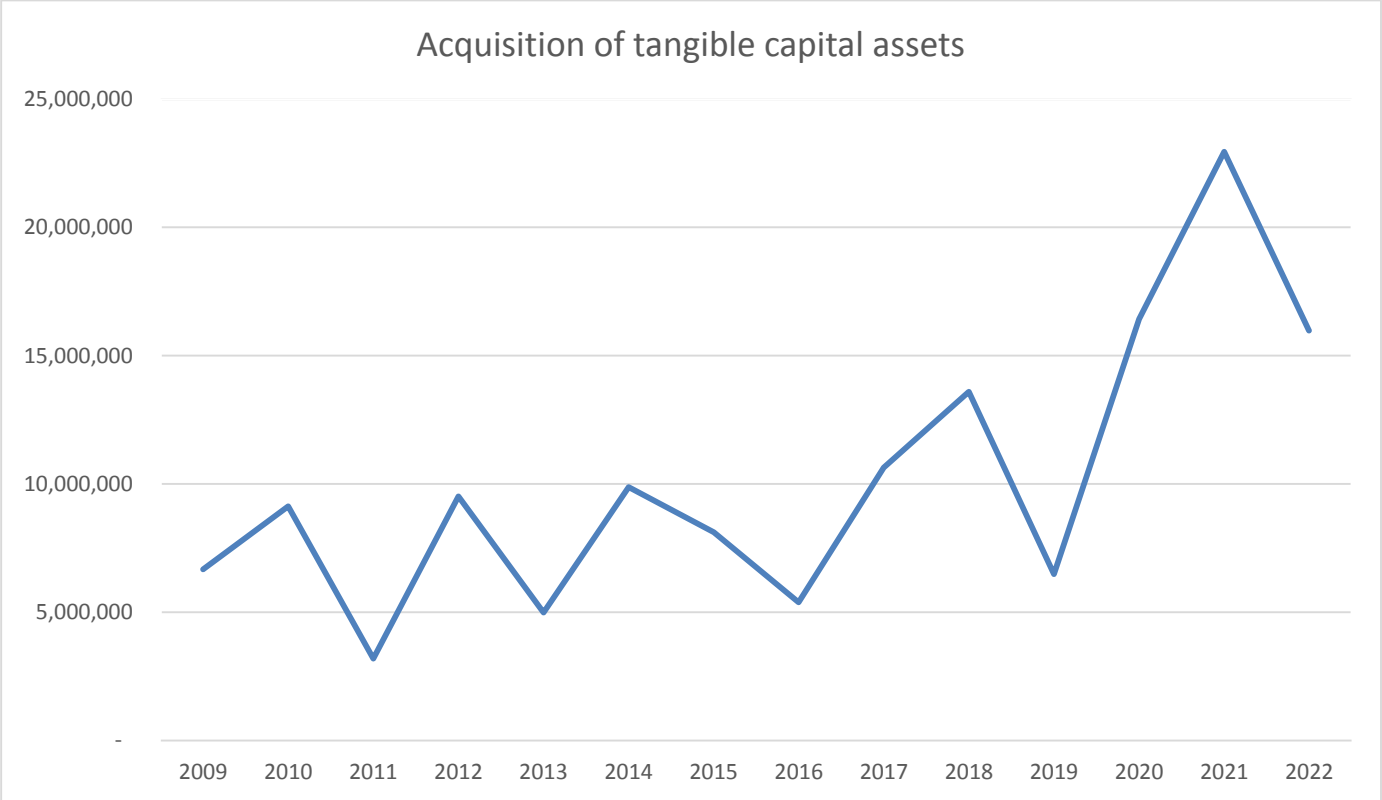
Figure 1 shows the trend of net financial assets over the years:

Figure 1



The dip in 2021 and 2022 is largely attributable to the significant capital expenditures. The district spent \$22,954,802 on tangible capital assets in 2021 and \$15,973,412 in 2022. Figure 2 shows the trend of acquisition of tangible capital assets over the years:

Figure 2



2022 revenues were below budget by \$15,719,622 with the actual amount being \$36,912,102 and the 2022 budgeted amount being \$52,631,724. The majority of this difference is due to Government Transfers revenue coming in at \$1,795,768 compared to budget of \$17,528,923 for a difference of \$15,733,155. \$14,116,025 was budgeted for Wastewater Treatment Plant Phase 5 to be grant funded which has not yet been received (still undetermined if this will eventually be received). Also contributing to this difference in Government Transfers revenue is \$989,956 of deferred revenue relating to the Woodsdale Cultural Centre grant which will be recognized in 2023/24 as the project proceeds.

2022 revenues were \$4,466,284 less than in 2021 (\$36,912,102 in 2022 vs. \$41,378,386 in 2021) primarily due to:

- Government transfers were \$2,594,328 less, largely due to 2021 having \$2.9 million of government grants recognized for the Multi-Generational Activity Centre (MAC).
- Developer contributions were \$3,837,284 less, 2021 had some more significant Development Cost Charge (DCC) funded projects such as \$2.5 million for the Wastewater Treatment Plant Effluent Disposal project funded by sewer DCCs and \$1.4 million for Rail Trail land acquisition funded through parks DCCs.
- These were partially offset by increased tax revenue due to the 2022 tax increase, higher utility revenues due to increase in rates and additional users, higher interest on investments due to higher rates and higher investment balances.

2022 total expenses of \$31,041,642 were \$433,407 less than budget of \$31,475,049, a 1.38% variance from the total budgeted expenses. Please see table “2022 Expenses Budget to Actual” for a breakdown by department.

2022 total expenses came in \$2,049,527 higher than the \$28,992,115 or 7.07% in 2021 which was expected due to significant cost increases largely driven by inflation. BC inflation was 6.9% for 2022. Please see table “Expenses – 2022 Actual to 2021 Actual” for breakdown by department.

DESIRED BENEFIT

Council review of the financial performance of the prior year. Compliance with legislation.

STRATEGIC RELEVANCE AND COMMUNITY SUSTAINABILITY

A strong financial position with adequate reserves will allow the District to work towards its strategic priorities and ensure ongoing financial viability. It is essential that local governments maintain adequate levels of reserve balances to mitigate current and future risks, ensure stable tax rates and demonstrate financial commitment to long range infrastructure and master plans.

REQUISITES

Council has a statutory requirement to approve the 2022 Financial Statements.

UNINTENDED OUTCOMES

Acceptance of the Financial Statements ensures the ongoing financial viability of the District. As the Province requires that the Councils and Boards of local governments approve annual financial statements, should the statements not be approved it will impact the District’s ability to borrow, receive grant funding and there may be legal liability as the District will be in contravention of the legislation.

BACKGROUND/HISTORY

In compliance with Public Sector Accounting Standards (PSAS), the following financial statements (Attachment 1) are presented for Council’s review.

DISCUSSION/ANALYSIS

Statement of Financial Position

Some items that are unique to PSAS financial reporting as follows:

- **Separation of financial assets and non-financial assets** – in typical financial statements of a business, a balance sheet is separated into three main categories – assets, liabilities, and shareholders' equity. In public sector financial statements, total assets are not specifically presented. Assets are separated between "financial" assets and "non-financial" assets:
 - Financial Assets are assets that generate cash flow and can be used to repay liabilities. Financial Assets include cash and cash equivalents and accounts receivables.
 - Non-Financial Assets generally do not provide cash flow and include tangible capital assets and other assets that are utilized on a continuing basis for public purposes having a useful life beyond one year. These assets are reflected at net book value (initial cost less amortization to date) and not intended to be sold in the normal course of operations.
- **Net Debt or Net Financial Assets** – With this separation of financial assets and non-financial assets, a performance measure unique to public sector financial statements results. The difference between financial assets and liabilities either reflects a "net debt" or "net financial asset" position.
 - Net Debt – A net debt position indicates the extent that debt and other liabilities have been taken on by the municipality to fund the delivery of services, investments in tangible capital assets and other transactions. Future revenue streams need to contemplate the requirement to repay debt obligations as they come due based on established repayment terms.
 - Net Financial Assets – A net financial asset position indicates the extent that net financial resources are available to fund future operations and spending.
 - The net debt and net financial assets will fluctuate from year to year depending on how much is spent on capital and how much surplus is recognized. However, the District should continue to see a net financial asset position as the reserves are held in line with the Reserve Policy adopted by Council.
- **Accumulated Surplus or Deficit** – the accumulated sum of non-financial assets and net financial assets. The District is in a "surplus" position. The surplus position reflects that net financial and physical resources are available to provide future services. If an entity was in a net deficit position, this would reflect that future revenues are required to finance historical operations.

Statement of Operations and Accumulated Surplus

This statement provides the budgeted and actual revenues and expenses of the District for the fiscal year. Revenues are presented by their sources of funds (i.e. taxation, user fees, government transfers, etc.) Expenses are presented by function or major program (i.e. Protective services, Water, Sewer, etc.) The accumulated surplus represents the accumulated results experienced by the City over the years.

Please see executive summary for summary of most significant changes in budget vs. actual and actual vs. prior year as well as below for additional information:

2022 Expenses Budget to Actual

Expenses	2022 Budget	2022 Actual	Difference in Budget vs. Actual	% Difference in Budget vs. Actual	Comments
General Government Services	4,215,133	4,390,421	175,288	4%	Comparable to budget, slight increase over budget partially due to \$266,011 of actual amortization compared to budget of \$156,613 primarily in the IT infrastructure category.
Protective Services	5,397,917	5,263,175	(134,742)	-2%	Comparable to budget, came in slightly under budget due to requesting 18 RCMP offers but only being billed based on actuals which was closer to 14 for the year.
Transportation Services	6,425,683	5,761,547	(664,136)	-10%	Transit costs came in \$246,000 under budget due to still recovering ridership as well as repayment of BC Transit reserve in the form of reduced bills. Majority of remaining difference due to budgeted operating projects funded from reserves that were carried over into 2023.
Environmental Services	1,784,165	1,645,406	(138,759)	-8%	Comparable to budget, slightly under budget due to final coding of an FTE.
Planning and Development Services	1,710,647	1,596,355	(114,292)	-7%	Comparable to budget, slightly under budget due to some staffing vacancies in the year.
Parks and Recreation Services	4,642,032	5,044,842	402,810	9%	Creekside Theatre performance fees were \$231,313 compared to budget of \$60,000 however please note that programming revenues were \$280,719 compared to budget of \$65,000. Arena operating expenditures were \$64,409 above budget however arena revenue was \$84,985 above budget. Remaining difference attributable to higher than budgeted amortization on tangible capital assets.
Water Services	4,474,813	4,261,642	(213,171)	-5%	Comparable to budget, a number of budgeted operating projects funded from reserves that were carried over into 2023 resulted in the actual for 2023 coming in below budget.
Sewer Services	2,192,350	2,296,878	104,528	5%	Comparable to budget, slight negative variance due to higher material/supply costs due to supply chain/inflationary pressures. Also had higher than budgeted revenues which offset the majority of this variance.
Interest Expense	632,309	781,376	149,067	24%	Interest expense was higher due to timing of new Fire Hall and Wastewater Treatment Plant Phase 4 loans.
Total	31,475,049	31,041,642	(433,407)	-1%	

Expenses - 2022 Actual to 2021 Actual

Expenses	2022 Actual	2021 Actual	Difference in Actual vs. Prior Year	% Difference in Actual vs. Prior Year	Comments
General Government Services	4,390,421	4,314,531	75,890	2%	Comparable to budget, slight expected increase due to inflationary increases
Protective Services	5,263,175	4,436,403	826,772	19%	\$596,000 increase in RCMP costs primarily due to being at approximately 14 officers for the majority of 2022 compared to 10-12 during 2021 as well as the new RCMP collective agreement coming into effect. \$83,000 increase in Bylaw due to bylaw officers being hired part way through 2021 but being in effect for all of 2022. Fire expenses stayed the same however amortization increased by \$117,000 as a result of the new Fire Hall being put into use.
Transportation Services	5,761,547	5,339,919	421,628	8%	Increase was expected as a result of high inflationary costs as well as \$158,000 increase in Road Maintenance Services Contract in 2022.
Environmental Services	1,645,406	1,598,836	46,570	3%	Comparable to prior year, small increase due to inflationary increases as expected.
Planning and Development Services	1,596,355	2,344,731	(748,376)	-32%	2021 had a \$922,068 bad debt expense, when excluding this amount 2022 actual was \$173,692 higher than 2021 which was expected due to adding planning & development staff in 2022.
Parks and Recreation Services	5,044,842	4,244,329	800,513	19%	\$173,000 increase in theatre performance fees (as noted above also a corresponding increase in revenues). Increased costs (and corresponding revenues) across this department as activities returned to pre-pandemic levels as well as impacted by the 6.9% inflation and even higher cost of fuel, materials, supplies etc.
Water Services	4,261,642	3,779,554	482,088	13%	Higher than prior year due to higher material/supply costs due to inflation as well as additional users.
Sewer Services	2,296,878	2,364,663	(67,785)	-3%	2021 had \$248,000 of operating projects (Liquid Waste Management Plan, Sewer Servicing Strategy Update and Okanagan Lake Outfall Assessment) compared to only \$44,000 of these projects in 2022. When excluding these amounts 2022 was higher than 2021 which was expected as a result of higher material/supply costs due to supply chain/inflationary pressures.
Interest Expense	781,376	569,149	212,227	37%	Interest expense was higher due to new Fire Hall and Wastewater Treatment Plant Phase 4 loans.
Total	31,041,642	28,992,115	2,049,527	7%	

Statement of Changes in Net Debt

Explains the changes in net debt, reconciling the opening to the closing balance of net debt reported in the Statement of Financial Position.

Statement of Cash Flows

Explains the changes to cash and cash equivalents, reconciling the opening to the closing balance of cash and cash equivalents reported in the Statement of Financial Position.

Notes to Financial Statements and Schedules

Provides further details on information provided in the financial statements noted above. The full listing of debt including what it is for has been provided in Attachment 2.

Schedule 1 – Schedule of Tangible Capital Assets

Summary of changes to the net book value of all District tangible capital assets and work in progress held by category.

Schedule 2 – Schedule of Accumulated Surplus

Summary of changes to reserves as well as the net investment in tangible capital assets.

Schedule 3 – Schedule of Segment Disclosure

Further details of the use of financial resources (revenue and expenses) by the District by function or segment.

Schedule 4 – Schedule of COVID-19 Restart Grant

This is a schedule required for the acceptance of the COVID-19 Safe Restart Grant received in November 2020 from the Provincial Government. This grant was recorded as revenue for 2020 with the amount not spent in 2020 moved into the stabilization reserve with the amount being drawn down as it gets spent.

APPLICABLE LEGISLATION AND POLICIES

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 financial statements are to be submitted to the Inspector of Municipalities by May 15th of the year following the end of the fiscal year.

IMPACT ON INFRASTRUCTURE OR MUNICIPAL SERVICES

N/A

IMPACT ON STAFF CAPACITY AND FINANCIAL RESOURCES

N/A

COMMENTS FROM EXTERNAL AGENCIES, COMMITTEES AND STAKEHOLDERS

N/A

CONSULTATION AND COMMUNICATION

The financial statements are available publicly on the District's website and at Municipal Hall as well as are included in the annual report that is released in June.

ANALYSIS OF OPTIONS FOR CONSIDERATION

N/A

Respectfully Submitted,
Trevor James, CFO, Director of Finance & Administration

Report Approval Details

Document Title:	2022 Financial Statements.docx
Attachments:	- 2022 DLC FINANCIAL STATEMENTS DRAFT.pdf - Long Term Debt.pdf
Final Approval Date:	May 2, 2023

This report and all of its attachments were approved and signed as outlined below:

Reyna Seabrook, Director of Corporate Services - May 1, 2023 - 4:47 PM

Tanya Garost, Chief Administrative Officer - May 2, 2023 - 7:45 PM