



# Regional Board Report

## Request for Decision

**To:** Regional Board

**From:** Director of Financial Services

**Date:** May 4, 2023

**Subject:** 2022 Financial Statements

**Voting Entitlement:** *All Directors – Weighted Corporate Vote – Majority (LGA s.210)*

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**Purpose:** To report annual financial information to the Board and comply with legislative requirements for filing Financial Statements by May 15th

### Executive Summary:

The Regional District of Central Okanagan's (RDCO) 2022 consolidated financial statements are submitted for the approval of the Board as required by legislation—Section 167 of the *Community Charter*.

In the opinion of the auditors, BDO, the financial statements present fairly, in all material respects, the financial position of the RDCO, as of December 31, 2022, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

### Recommendation(s):

**THAT** the Regional Board receive the report, on the draft Regional District of Central Okanagan 2022 Financial Statements, from the Director of Financial Services.

**AND THAT** the Regional District of Central Okanagan's Financial Statements, for the year ended December 31, 2022, be approved.

**AND FURTHER THAT** the Chair and Director of Financial Services be authorized to sign the Regional District of Central Okanagan's 2022 Financial Statements.

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Approved by:

A handwritten signature in black ink, appearing to read "T. McCabe", is written over a horizontal dashed line.

Tania McCabe, CPA, CA, Director of Financial Services

**Attachment(s):**

1. RDCO - 2022 - Financial Statements
2. RDCO – 2022 – Final Report to the Board of Directors

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**Strategic Plan Alignment:**

Priorities: Sustainable Communities

Values: Good Governance, Transparency

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**Background:**

The auditors have completed their audit of the financial statements for the year ended December 31, 2022. They have provided a preliminary, unqualified, audit opinion. In accordance with audit standards, the Regional Board is required to approve the financial statements before the auditors can issue their final audit report.

In accordance with Canadian Audit Standard 560, the date of BDO's audit report is required to be the same date that those charged with governance (the Board) formally approve the draft financial statements. The auditors must receive the approval and perform "subsequent events" work up to this date (procedures relating to subsequent events while financial statements are being presented for approval if audit staff have left the premises prior to the date of the report), prior to releasing the final financial statements.

When there is a Management Letter it is brought forward to an In Camera meeting. The letter is a confidential communication between the auditors and the Board to flag any potential discussion items and potential improvements. For 2022 there were no items identified.

If the Board ever has any concerns with the audit, including fraud or financial matters, they are invited to submit their concerns to the Chair or BDO.

The audited financial statements have been prepared in accordance with Public Sector Accounting Standards (PSAS). The unaudited, supplementary financial information has been presented in the traditional fund accounting format.

**Audit Opinion**

The RDCO's external auditors have concluded, in their audit opinion, that the RDCO's 2022 financial statements are presented fairly, in all material respects.

**Statement of Financial Position**

The statement of financial position (also known as a balance sheet) summarizes the RDCO's assets and liabilities, the net of which results in accumulated surplus. Accumulated surplus is comprised of unrestricted cash surpluses, reserve funds and the RDCO's investment in tangible capital assets.

The assets in the statement of financial position are broken down into two categories as follows:

- Financial assets - includes assets which are available to discharge existing liabilities and excludes assets that are held for use in the provision of services. Examples include cash, receivables, and investments.

- Non-financial assets - includes assets that are held for use in the provision of services and generally have useful lives that extend beyond one year. An example is tangible capital assets, such as parks, water, and sewer infrastructure, that are used to provide regional district services.

The liabilities include accounts payable and accrued liabilities, deferred revenue, restricted revenue (e.g. development cost charges (DCCs)) and long-term debt). DCCs are included as a liability on the Statement of Financial Position, as these funds have specific restricted uses under the Local Government Act. Note 6 of the Notes to the Financial Statements includes details of the RDCO's restricted revenues.

At the end of 2022, the RDCO had net financial assets of \$43.7M, which means that the RDCO's liabilities were less than its financial assets. The RDCO also had non-financial assets of \$116.7M at the end of 2022. The majority of this is the historical cost of tangible capital assets less accumulated amortization and outstanding debt.

The RDCO's net financial assets together with its non-financial assets contributed to its overall accumulated surplus position of \$160.3M at the end of 2022 (see Note 10 of the financial statements for a detailed breakdown of the accumulated surplus). Because the largest portion of the accumulated surplus consists of the RDCO's investment in its tangible capital assets, it's important to note that the accumulated surplus does not represent cash available for the RDCO to spend.

#### Statement of Operations and Accumulated Surplus

This statement (also known as the income statement) summarizes the RDCO's revenues and expenses for the year. These are reported on the same basis as the private sector. The net result is a surplus for the year of \$7.2M. Revenues totalled \$58.3M in 2022 while expenses totalled \$51.1M, the difference being the annual surplus. Adding the annual surplus to the prior year's accumulated surplus, results in the ending accumulated surplus for the year. The ending accumulated surplus position reflected in this statement of \$160.3M corresponds with the accumulated surplus shown on the Statement of Financial Position.

The surplus, for 2022, was used to fund net transfers to reserves of \$5.9M (transfers in of \$8.3M less transfers out to purchase tangible capital assets of \$2.4M). These reserves are available to fund future expenditures in accordance with the purpose of each reserve.

#### Statement of Changes in Net Financial Assets

This statement adjusts the annual surplus for transactions involving non-financial assets, to arrive at the increase in net financial assets for the year. The increase in net financial assets is added to the net financial assets at the beginning of the year to arrive at the year-end balance for net financial assets. The RDCO's net financial assets at the end of 2022 were \$43.7M, which corresponds with the net financial asset figure in the Statement of Financial Position.

#### Statement of Cash Flows

This statement summarizes the sources and uses of cash over the year, under the operating, capital, and financing categories. The final cash position reflects the change in cash and cash equivalents shown, which reconciles with the cash and cash equivalents balance shown on the Statement of Financial Position. The RDCO's cash and cash equivalents balance at the end of 2022 was \$59.5M.

## Notes to the Financial Statements

The Notes to the Financial Statements explain significant accounting policies and the details of certain amounts shown in the Statement of Financial Position and in the Statement of Operations. The notes that correspond to specific line items in the Statement of Financial Position and in the Statement of Operations, are cross-referenced on those statements. For example, a detailed breakdown of the deferred revenue balance shown in the Statement of Financial Position is shown in Note 6.

### *Note 7 – Long Term Debt:*

Note 7 reflects the principal amount of long-term debt owing as well as the annual debt servicing requirements for the next five years. The RDCO had \$119.6M of external long-term debt outstanding at the end of 2022. Most of this, \$115.7M, is on behalf of the four partner municipalities (Kelowna, Peachland, Lake Country and West Kelowna) and the Okanagan Regional Library. The remainder, \$3.9M, relates to the Regional District's services.

### *Note 9 – Tangible Capital Asset:*

Note 9 reflects the historical cost of tangible capital assets and the change in the balance of these assets, from additions, disposals, and amortization expense. In 2022, the RDCO acquired \$3.0M in capital assets, and recorded amortization of \$4.2M. At the end of 2022, the RDCO had \$173.0M (historical cost) of tangible capital assets with accumulated amortization of \$56.8M, for a net book value of tangible capital assets of about \$116.2M. This note also shows the comparative 2021 tangible capital asset numbers.

### *Note 10 – Accumulated Surplus:*

Note 10 details the composition of accumulated surplus which includes the general, water and sewer surpluses (Current Funds), the investment in tangible capital assets for the general, water and sewer funds (Capital Funds) as well as reserves that the RDCO holds for specific purposes. The total accumulated surplus shown in the schedule is \$160.3M. This corresponds with the accumulated surplus shown on the Statement of Financial Position. Most of this (\$112.0M) is invested in tangible capital assets (net book value of \$116.2M less outstanding long-term debt of \$3.9M and unrealized actuarial gains of \$0.3M).

### *Note 16 – Budget*

Note 16 provides a reconciliation of the budgeted accumulated surplus per the 2022-2026 Financial Plan to the budgeted surplus per the Statement of Operations. The difference is those items treated as revenues and expenses for the purposes of preparing the financial plan (prepared in accordance with Provincial legislation) that are not considered revenues and expenses when preparing the Statement of Operations in accordance with PSAB.

### *Note 17 – Segmented Disclosure:*

Note 17 shows revenues and expenses for the year broken down into departmental/functional areas. The net revenues and expenses for all the departmental/functional areas balance to the Statement of Operations and the annual surplus. Descriptions of the services/functions included in each segment are in Note 17.

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**Considerations:**

## Organizational/External:

Once approved, the Financial Statements will be submitted to the province and posted on the RDCO website.

## Financial:

Financial considerations are outlined in this report and auditor presentation.

## Legal/Statutory Authority:

Section 167 of the *Community Charter*.

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**Approved for Agenda**

A handwritten signature in black ink, appearing to read "Brian Reardon".

**Brian Reardon, CAO**