



The Corporation of the City of Courtenay

# Staff Report

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**To:** Council

**File No.:** 1870-02 [2023]

**From:** City Manager (CAO)

**Date:** May 8, 2024

**Subject:** 2023 Audited Financial Statements

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## **PURPOSE:**

The purpose of this report is to request approval of the audited financial statements for the year ended December 31, 2023.

## **BACKGROUND:**

Section 171 of the *Community Charter* requires that the municipal auditor report to Council on the annual financial statements.

The firm of MNP LLP was appointed by Council to undertake the independent audit for the 2023 year. Under the terms of their engagement, the interim audit work was performed in October 2023, and final audit work undertaken in March 2024. Presentation of the financial statements and auditor's report will take place on May 8, 2024.

We are pleased to report that MNP LLP will be providing an unqualified opinion on the 2023 consolidated financial statements.

The auditor's responsibility is to report on whether the annual consolidated statements present fairly, in all material respects, the financial position, results of operations, change in net financial assets and cash flows of the City in accordance with Canadian Public Sector Accounting Standards. In addition, their role is to provide reasonable, but not absolute, assurance of detecting misstatements, fraud or non-compliance with laws and regulations having a material effect on the consolidated financial statements as a whole.

Council is responsible for the review and approval of the annual financial statements.

## **DISCUSSION:**

At the May 8, 2024 Council meeting, MNP will provide Council with their 2023 Audit Findings Report, as well as present an overview of the City's financial position. The analysis below provides further detail to the financial statements.

### **The Consolidated Statement of Operations – Statement B**

The consolidated statement of operations details revenue and operating expenses to arrive at the annual surplus or deficit for the year. The surplus or deficit figure does not include capital purchases or transfers to reserves (further details are found in the Consolidated Statement of Change in Net Financial Assets – Statement C).

<b>REVENUE</b>	<u>2023 Budget (Note 16)</u>	<u>2023</u>
Taxes for Municipal Purposes	35,603,400	35,481,555
Sale of Services	17,706,400	19,216,157
Revenue From Own Sources	4,823,100	4,730,657
Federal Transfers	1,133,800	1,240,152
Provincial Transfers	5,099,000	10,503,606
Other Local Government Transfers	659,700	800,749
Contributions	109,000	3,806,801
DCC Revenue	-	-
Investment Income and Taxation Penalties	1,102,600	4,364,286
Other	787,900	991,168
Gain on Sale of Tangible Capital Assets	-	2,622
<b>TOTAL REVENUE</b>	<u>67,024,900</u>	<u>81,137,753</u>
 <b>EXPENSES</b>		
General Government Services	6,150,027	5,675,508
Protective Services	12,209,583	10,898,248
Transportation Services	14,702,995	9,229,936
Sewer and Water Facilities	17,818,410	18,738,968
Environmental Health Services	3,163,669	3,119,883
Public Health and Welfare Services	473,082	477,899
Environmental Development Services	2,994,000	2,724,023
Recreational and Cultural Services	7,489,934	10,743,336
<b>TOTAL EXPENSES</b>	<u>65,001,700</u>	<u>61,607,801</u>
 <b>ANNUAL SURPLUS (Schedule 1)</b>	 2,023,200	 19,529,952
 <b>ACCUMULATED SURPLUS AT BEGINNING OF YEAR</b>	 216,324,657	 216,324,657
 <b>ACCUMULATED SURPLUS AT END OF YEAR</b>	 <u>\$ 218,347,857</u>	 <u>\$ 235,854,609</u>

For 2023, the City realized an annual surplus of \$19,529,952 which is an increase over prior year and can be attributed to the following:

**Revenue Variance**

The City received an additional \$14,112,853 in revenue for the 2023 fiscal period over the budgeted revenue of \$67,024,900 (Actual \$81,137,753).

The largest source of this revenue was the unbudgeted grant of \$7.655 million of Growing Communities Funds from the Province of BC. However, the city also did not receive some budgeted capital grants and this resulted in overall grant revenue being \$5.1 million over budget. Additionally, the City received \$3.26 million in contributed assets (non-cash) from Developers as well as close to \$500,000 in amenity and development related reserve contributions.

Interest earned on investments was also above budget by \$3.3 million, of which \$1.4million was earned and retained within the reserve funds. Additionally, sale of services was over budget this year by \$1.5million; the majority related to metered water usage which was offset by the purchase of bulk water from the Comox Valley Regional District (CVRD).

**Expense Variance**

The overall expense variance for the City in 2023 was relatively low at \$3,393,899 under the budgeted expense of \$65,001,700 (actual \$61,607,801).

The RCMP's 2023 operating budget was \$7.4 million, however, invoices for 2023 only amounted to \$5.1 resulting in a \$2.3million variance. Contributing also was \$2.1 million in costing saving for unfilled employee positions which range throughout the general, water, and sewer funds. Other variances did occur, but they are immaterial compared to the above-mentioned contributors.

The surplus for 2023 consists of many factors including revenue based, expense based and non-cash items. Moving through the financial statements to Schedule 2 – The Consolidated Schedule of Accumulated Surplus & Reserves, this schedule provides detail on the distribution of the annual surplus.

**Change in Surplus Summary**

Surplus is summarized in Schedule 2 of the Financial Statements. It details the change in Tangible capital assets, operation surpluses and reserve funds. Detail has been added to Schedule 2 in the form of the column “Surplus Change” to make the change in surplus clear as the surplus of \$19,529,949 is reflected in the sum of the changes from 2022 balances to 2023.

	2023	2022	Surplus Change	Notes
<b>SURPLUS</b>				
Invested in Tangible Capital Assets	\$ 174,018,658	\$ 170,008,982	4,009,676	Note 1
General Operating Fund	19,318,820	13,399,070	5,919,750	Note 2
General Capital Fund	733,665	733,665	-	Note 2
Water Utility Operating Fund	5,830,424	5,920,905	(90,481)	Note 2
Water Utility Capital Fund	108,869	108,869	-	Note 2
Sewer Utility Operating Fund	3,461,915	3,197,321	264,594	Note 2
Sewer Utility Capital Fund	21,706	21,706	-	Note 2
Gaming Fund	2,142,538	1,951,345	191,193	Note 2
			-	
<b>Total Surplus</b>	<b>205,636,595</b>	<b>195,341,863</b>	<b>10,294,732</b>	Note 2
<b>RESERVES</b>				
General Fund Reserves:				
Machinery and Equipment	1,739,055	1,767,915	(28,860)	
Land Sale	827,696	793,955	33,741	
New Works and Equipment	4,849,625	4,428,655	420,970	
New Works - Community Gas Tax Funds (Note 5)	2,265,143	2,069,886	195,257	
General Asset Management Reserve	1,186,695	786,262	400,433	
Risk Reserve	111,582	106,544	5,038	
Public Parking	291,648	126,991	164,657	
Parkland Acquisition	358,647	342,452	16,195	
Police Contingency Reserve	1,284,719	792,286	492,433	
Assessment Appeal	480,677	435,878	44,799	
Housing Amenity	1,196,760	1,258,566	(61,806)	
Tree Reserve	148,354	118,555	29,799	
Amenity	685,590	680,776	4,814	
Growing Communities Reserve (Note 7)	7,763,486		7,763,486	
	<b>23,189,677</b>	<b>13,708,721</b>	<b>9,480,956</b>	Note 3
Water Utility Reserves:				
Water Utility	1,860,360	1,795,546	64,814	
Water Asset Management Reserve	486,274	1,341,848	(855,574)	
Machinery and Equipment	394,913	347,794	47,119	
	<b>2,741,547</b>	<b>3,485,188</b>	<b>(743,641)</b>	Note 3
Sewer Utility Reserves:				
Sewer Utility	1,137,957	1,091,521	46,436	
Sewer Asset Management Reserve	2,282,368	1,886,448	395,920	
Machinery and Equipment	866,462	810,916	55,546	
	<b>4,286,787</b>	<b>3,788,885</b>	<b>497,902</b>	Note 3
<b>Total Reserves</b>	<b>30,218,011</b>	<b>20,982,794</b>	<b>9,235,217</b>	Note 3
<b>ACCUMULATED SURPLUS (Statement A)</b>	<b>235,854,606</b>	<b>216,324,657</b>	<b>19,529,949</b>	

### **Note 1**

\$4,009,676 of the surplus is attributed to the change in the value of the City's tangible capital assets. The amount invested in tangible capital assets represents the equity in all physical assets owned by the City. This figure is arrived at by taking the book value of assets, less accumulated amortization, and less outstanding debt. Please reference Schedule 3 of the Financial Statements for book value and accumulated amortization amounts per asset category. Surplus invested in tangible capital assets is a non-cash item as it represents the equity held in tangible capital assets.

### **Note 2**

\$6,285,056 of the surplus is attributed to the change in General, Water, Sewer and Gaming operating and capital funds. \$6,285,056 is the summation of \$5,919,750 + (\$90,481) + \$264,594 + \$191,193. The change in operating surplus is the result of annual operating surplus or deficits realized by operating results. Looking specifically at the general operating fund surplus in 2023 it increased by \$5,919,750. This increase is attributed to:

- Lower RCMP expenses
- Lower wage expenses
- Increased interest revenue (less interest attributed to reserves)
- Increase in Reserve for Future Expenditure (Current year taxation funds earmarked towards capital projects not completed at yearend)
- The culmination of all small budget variances (revenue and expense over and under budget)

Per the 2024-2028 Consolidated Financial Plan, the City is set to use \$3,874,800 of operating surplus (unappropriated surplus) to fund various projects and initiatives to draw down the current surplus and to avoid increasing taxation.

### **Note 3**

\$9,235,217 of the surplus is attributed to the cumulative change in reserve funds. These reserve funds represent the sum of all City established and statutory reserves. Contributions and draws to these reserves are through the annual budgeting process or money received for specific purposes (ex. Affordable housing amenity contributions from developers or payments towards projects).

For 2023, reserves increased by \$9,235,217. A major contributing factor was the Growing Communities funds of \$7,655,000 received from the Province. Furthermore, some 2023 slated capital projects budgeted to be funded by reserves in were delayed; this resulted in a reduced draw from the reserves. Capital projects delayed included the 6<sup>th</sup> Street Bridge and McPhee Meadows Phase 1 (2023 Budgeted Reserve Funding - \$3,333,400). These funds remain available for when the projects commence.

### **Conclusion**

As per the financial statement presentation, the City is in a reasonably good financial position and will continue to work on addressing appropriate use of surplus through the 2025-2029 Financial Planning process. The City's total available cash reserves and surplus balance for 2023 is \$61,835,948 this may seem like a vast amount of money; however, consideration must be given our total historical value of capital assets at \$306 million, which will need replacing, plus our 2024 budgeted annual operating expenses at \$68.6 million (excluding amortization) plus the 2024 capital plan of \$34.4 million. All of these items considered, the City's total reserves and surplus starts to pale in comparison to the City's on-going needs.

### **POLICY ANALYSIS:**

Section 171 of the *Community Charter* requires that the municipal auditor report to Council on the annual financial statements. Council is responsible for the review and approval of the financial statements. This is

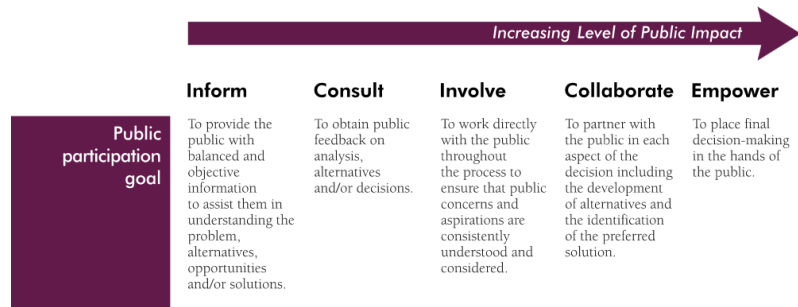
one of the key roles that Council fulfils to ensure that the City's financial and organizational resources are sound.

**ADMINISTRATIVE IMPLICATIONS:**

On Council review and approval of the financial statements, staff will compile and distribute the statements as required to various authorities. In addition, the financial statements will be made publicly available via the City's website.

**PUBLIC ENGAGEMENT:**

The public will be informed of the outcome of Council's consideration of the 2023 Audited Financial Statements.



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**OPTIONS:**

1. THAT Council approve the Audited Financial Statements for the year-end December 31, 2023
2. THAT Council provide other direction to staff.

**ATTACHMENTS:**

1. City of Courtenay Draft Audit Report 2023
2. City of Courtenay Audit Findings 2023
3. City of Courtenay 2023 Consolidated Financial Statements

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