

2023 Audited Financial Statements Report

RECOMMENDATION:

That Committee of Council adopt the 2023 Audited Consolidated Financial Statements.

REPORT SUMMARY

This report provides a review and analysis of the 2023 consolidated financial statements audited by the City's external auditors, KPMG LLP. This report presents the overall financial results of the City for 2023, including the impacts of operating and capital revenue and expense transactions. This report focuses on the annual impact of the revenues and expenses on the City's accumulated surplus and the 2023 ending position of City's various reserves and funds.

In 2023, the City recorded an annual surplus of \$29.9 million consisting of both cash and non-cash items including restricted and non-restricted reserves and equity in tangible capital assets. The \$29.9 million surplus is derived from a \$15.4 million increase in capital equity, a \$171 thousand decrease in inventories and prepaid expenses and a \$564 thousand decrease in unrestricted fund equity offset by a \$15.3 million increase in restricted reserves.

BACKGROUND

The consolidated financial statements (Attachment 1) are intended to report on the City's financial condition as at December 31, 2023, and consist of four required statements (consolidated statement of financial position, consolidated statement of operations, consolidated statement of change in net financial assets, and consolidated statement of cash flows) as well as additional notes and supporting schedules. KPMG LLP have audited the 2023 consolidated financial statements and have provided an independent auditors report and audit findings report (Attachments 1 and 2).

The Public Sector Accounting Board standards require the City's audited consolidated financial statements to include a comparison of the annual actual financial results to the approved original budget which is presented in the consolidated statement of operations. The City approved the 2023-2027 Financial Plan Bylaw on May 9, 2023, which established the City's expense authority for the year. It should be noted that Committee of Council approved a number of financial plan amendments throughout the year, but as per accounting standards these are not included in the financial statement original budget.

The following summary information provides insight and discussion on the 2023 consolidated financial statements revenues and expenses, as well as the City's accumulated surplus for 2023.

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DISCUSSION

Revenues and Expenses

Actual revenues were greater compared to budget due to several factors. Investment income was significantly higher than budget due to increased rates of return on the City's investments as the Bank of Canada raised interest rates throughout 2022, and held through 2023. A higher investment rate of return also increases interest allocated to reserve and DCC funds. Penalties and fines revenue were higher than budget as bylaw services increased enforcement and revenue services collected several large late payment penalties for property taxes and utilities. The City also received a Growing Communities Fund grant from the Province of BC (\$9.4 million) and developer contributions which increased contributions revenue more than anticipated. Actual expenses were higher than budget due to several land and building purchases as part of the City's downtown revitalization, as well as higher than anticipated costs in Engineering and Public Works, Fire and Emergency Services and Recreation.

Table 1 presents the overall revenue and expenses compared to budget for 2023.

Table 1 - 2023 Consolidated Revenues and Expenses

	2023 Budget	2023 Actual Results	Annual Budget Variance	Variance as % of Budget	2022 Actual Results
Revenues	\$140,701,900	\$154,007,785	\$13,305,885	9.46%	\$126,466,662
Expenses	117,185,500	124,071,979	(6,886,479)	(5.88%)	112,714,547
Difference between revenue and expenses	\$23,516,400	\$29,935,806	\$6,419,406	27.30%	\$13,752,115

Additional detailed analysis of the 2023 ongoing operating revenues and expenses can be found within the 2023 Year-end Operating Variance Report (Attachment 3).

Annual Surplus

Of the \$29.9 million in annual surplus, one of the largest components relates to the 2023 addition of capital assets (\$15.4 million increase). There was a decrease in unrestricted fund equity (\$564 thousand) due to transfers to reserves and project funding and an increase of \$15.3 million in restricted reserves set aside to fund future City projects and initiatives. A major contributor to this was the Growing Communities Fund grant from the Province of BC.

Table 2 presents the components of the annual surplus.

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Table 2 - 2023 Components of Annual Surplus

	2023 Budget	2023 Actuals	Difference	Financial Statement Reference
Capital Equity	\$61,732,700	\$15,185,230	(\$46,547,470)	Note 17
Reserve Funds	(27,279,200)	15,290,724	42,569,924	Note 16
General Fund	(10,814,700)	(564,002)	10,250,698	Note 15
Water Fund	(73,700)	188,240	261,940	Note 15
Sewer Fund	(48,700)	(164,386)	(115,686)	Note 15
Annual Surplus	\$23,516,400	\$29,935,806	\$6,419,406	

Accumulated Surplus

Accumulated surplus is the cumulative amount of annual surpluses from all prior years up to the current year. The City's accumulated surplus increased to \$874.7 million of which \$759.8 million is Equity in Tangible Capital Assets (Attachment 1, Note 17).

The audited consolidated financial statements provide an outline (Attachment 1, Note 15) of additional supplemental information on the composition of the accumulated surplus balance. The 2023 accumulated surplus consists of unrestricted reserves or Funds (General, Water, and Sewer), restricted reserves, equity in tangible capital assets as well as equity in inventory and prepaid expenses and the Port Coquitlam Community Foundation (Table 3).

Table 3 presents the 2023 opening and ending accumulated surplus balances.

Table 3 - 2023 Accumulated Surplus Details

	2023 Opening	Change in Accumulated Surplus	2023 Closing	Notes
Unrestricted General Reserve	\$16,994,939	(\$647,477)	\$16,347,462	Unrestricted
Unrestricted Water Reserve	427,939	188,240	616,179	Unrestricted
Unrestricted Sewer Reserve	2,631,573	(164,386)	2,467,187	Unrestricted
Subtotal- Unrestricted Reserves	\$20,054,451	(\$623,623)	\$19,430,828	
Restricted Reserves	78,345,904	15,290,724	93,636,628	Restricted
Equity in Tangible Capital Assets	744,490,840	15,356,225	759,847,065	Non-cash
Equity in Inventory and Prepaids	1,109,698	(170,995)	938,703	Non-cash
Equity in Port Coquitlam Community Foundation	723,950	83,475	807,425	Foundation
Total Accumulated Surplus	\$844,724,843	\$29,935,806	\$874,660,649	

Of the \$29.9 million of total annual surplus at year end and considering the minimum balance requirements, future commitments and transfers, there is no remaining balance in the general fund or water fund and \$1.2 million in the sewer fund. Equity in Tangible Capital Assets increased by \$15.4 million largely as a result of capital projects such as the downtown revitalization, fleet

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upgrades, and capital work on neighborhood rehabilitation projects. Restricted Reserves increased by \$15.3 million after accounting for annual contributions, grants and transfers of \$30.7 million, project allocations of \$19.4 million and an annual interest allocation of \$4.1 million (Attachment 1, Note 16).

Table 4 outlines the minimum balances for the general, water and sewer funds, as well as the amounts available to fund future projects.

Table 4 - 2023 General, Water and Sewer Fund Accumulated Surplus Balances

	General Fund	Water Fund	Sewer Fund
2023 ending balance	\$16,347,462	\$616,179	\$2,467,187
Less 2023 Carry Forward	5,211,712	72,830	48,379
Balance after Commitments and Transfers	\$11,135,750	\$543,349	\$2,418,808
Minimum Balance Required	(9,214,131)	(1,694,673)	(1,223,378)
Balance Remaining	\$1,921,619	(\$1,151,324)	\$1,195,430
Less 2024 Financial Plan	1,337,850	-	-
Balance	\$583,769	(\$1,151,324)	\$1,195,430

The Annual Surplus Allocation Policy sets out the guidelines for the fiduciary management of any year-end operating surplus in the general fund. Based on the policy, accumulated surplus should be maintained at a minimum of 12% of the prior year's general property taxation revenue. Once the minimum balance is achieved, a minimum of 50% of the remaining current annual general fund surplus will be transferred to the Long-Term Replacement Infrastructure Reserve ("LTR"). While not specifically mentioned in the policy, water and sewer funds have historically been treated in the same manner.

General Fund: After accounting for the 2023 carry forwards (\$5.2 million) and 2023 Financial Plan Commitments (\$1.3 million), the minimum balance has been met. Staff will be providing recommendations on balance transfers in a future report.

Water Fund: 2023: Carry forwards are reported at \$73 thousand. As the minimum balance has not yet been achieved, there are no funds available for future projects or transfer to LTR.

Sewer Fund: 2023: Carry forwards are reported at \$48 thousand. The minimum balance has been met and staff will be providing recommendations on balance transfers in a future report.


CONCLUSION

The 2023 consolidated financial statements result in an annual surplus of \$29.9 million and an ending accumulated surplus of \$874.7 million. The accumulated surplus is made up of a number of different unrestricted and restricted funds. The capital fund continues to increase as a result of ongoing capital

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expenditures in the City. Restricted funds balances have increased as transfers have been made in order to fund future City projects and initiatives.

OPTIONS (✓ = Staff Recommendation)

	#	Description
	1	That Committee of Council adopt the 2023 consolidated financial statements.
	2	That Committee of Council provide further direction to staff.

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Attachment 1 - 2023 Consolidated Financial Statements and Draft Independent Auditors Report
Attachment 2 - KPMG 2023 Audit Findings Report
Attachment 3 - 2023 Financial Operating Variance Report